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Editorial

by **Gerald Spindler**

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- 1 This new edition of JIPITEC demonstrates how digitalization has changed our society. The articles cover many different topics, such as insurance law or antitrust issues concerning smart car systems. The first statement by Pavis and Wallace challenges the recommendations of the French Sarr-Savoy report, which suggested that African cultural heritage artefacts should be digitized before they are handed back to African countries; the authors accuse the French government of taking a double morality stance concerning African material heritage in contrast to (French) national heritage. Whereas at first glance it seems to be a narrow focus, the statement sheds light on one of the hot topics in culture law and restitution.
- 2 Two articles are dedicated to the ongoing struggle regarding how to strike the right balance between rightholders and liability of intermediaries. Whereas Angelopoulos and Quintais plead for a reform of the recently adopted DSM Directive by introducing alternative compensation schemes instead of extending accessory liability of platforms, Spoerri deals in his article with the upload filter obligations introduced by Art. 17 DSM, showing how they will negatively affect content sharing platforms in the EU. More fundamentally Haberstumpf analyzes the flaws of the jurisdiction of the European Court of Justice concerning the right to make available to the public – which is also the bottom line for the new and highly criticized Art. 17 DSM directive.
- 3 Another ongoing discussion refers to key elements of the GDPR: Zander/Steinbrück/Birnstill highlight the relationship of the GDPR with antitrust and competition law by using a game theoretical approach, reaching the conclusion that the measurement of privacy risks in an economic way may be much more useful than the notions of “data ownership”. Another aspect of data protection at the crossroads with insurance law is dealt with in the article of Thouvenin/Suter/George/Weber, namely the use of big data in the insurance industry in order to individualize insurance policies, which at first glance seem to contradict the principle of solidarity that traditionally underpins the idea of insurance.
- 4 Another antitrust and competition law aspect is at the center of Kerber/Gill’s article on the recent reform of the Motor Vehicle Type Approve Regulation concerning smart and connected cars. They show how the new design of connected cars could lead to distorted competition on markets, as long as interoperability standards are missing.
- 5 Last but not least, Khuchua deals with patent litigation and the huge differences across European jurisdictions, including the impact on European innovation eco-systems.
- 6 In sum, the new edition of JIPITEC once again reflects the dynamics of digitalization in the legal world. We hope that readers will enjoy this new edition and find it intellectually stimulating.

Gerald Spindler, University of Göttingen

Response to the 2018 Sarr-Savoy Report

Statement on Intellectual Property Rights and Open Access relevant to the digitization and restitution of African Cultural Heritage and associated materials

by **Dr Mathilde Pavis and Dr Andrea Wallace**

25 March 2019

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EXECUTIVE SUMMARY

- 1 This response challenges the recommendations made by the Sarr-Savoy Report to systematically digitize and make available online as “open access” all of the African Cultural Heritage designated for restitution. Instead, we write to acknowledge the complex issues regarding intellectual property rights and open access policies around these materials, and we call on the French Government to dedicate further resources to researching and co-developing digitization solutions with African communities of origin. Accordingly, we advise against adopting the Report’s blanket recommendations on digitization and open access for many reasons:
 - First and foremost, the Report’s recommendations, if followed, risk placing the French Government in a position of returning Africa’s *Material* Cultural Heritage while retaining control over the generation, presentation, and stewardship of Africa’s *Digital* Cultural Heritage for decades to come.
 - Second, and related to this, the validity of intellectual property claims in certain digital materials and the implementation of open access policies are contested and subject to increasing global legal and social controversy. In France, open access to digital heritage collections is almost nonexistent, thus the French Government should refrain from taking any position that creates a double standard by requiring African Cultural Heritage to be digitized and made available when the same demands are not made of its own national institutions.
 - Third, restitution must not be conditioned upon any obligations to allow the digitization of materials held in France and open access commitments. Such decisions around digitization (including the waiver of any rights for open access purposes) are cultural and curatorial prerogatives. Accordingly, they must be made by African communities of origin, as they impact how heritage may be represented, preserved, and remembered. African communities must therefore enjoy full autonomy in devising any access strategies for restituted material *and* digital cultural heritage.
 - Finally, attempts to truly decolonize French institutions of African *Material* Cultural Heritage must carry through to the treatment of archival and digital materials, including those remaining in France. Digital heritage today is as important as material heritage and should be thoughtfully considered and fully integrated within future restitution policies and collections management. The restitution of African *Digital* Cultural Heritage therefore cannot be treated as an afterthought. With this in mind, France should consider the opportunity to aid African communities in this process, both practically and financially, alongside other forms of reparation.
- 2 For these reasons, we urge the French Government to pursue further research and consultation with the key stakeholders around these issues prior to

and during the processes designed for restitution of African Cultural Heritage. The French Government is uniquely positioned to explore equitable practices for how these discussions should proceed and the methodology that follows. The outcomes co-developed through such an opportunity will aid other governments and institutions attempting to tackle similar long-overdue restitution initiatives.

RESPONSE TO THE 2018 SARR-SAVOY REPORT

Statement on Intellectual Property Rights and Open Access relevant to the digitization and restitution of African Cultural Heritage and associated materials¹

25 March 2019

INTRODUCTION

- 3 We write in response to the Sarr-Savoy Report entitled “The Restitution of African Cultural Heritage: Toward a New Relational Ethics”. We note the Report’s sensitive, informed, and nuanced review of the complex restitution process, as well as its acknowledgement of the considerable efforts and cooperation required from all stakeholders involved.
- 4 We seek to bring the French Government’s attention to issues regarding any intellectual property rights and open access policies designed during this restitution process. The Sarr-Savoy Report only briefly addresses this topic. The Report recommends systematically digitizing and making available online all African Cultural Heritage designated for restitution. While it suggests a dialogue with other involved institutions and parties is necessary, the Report advocates in favor of “a radical practice of sharing, including how one rethinks the politics of image rights use” and sets a firm objective for “free access to these materials as well as the free use of the images and documents”.²
- 5 We would advise against adopting a blanket recommendation of free and open access for digital materials. We suggest the same nuanced attention the Report pays to objects of African Cultural Heritage and their histories be paid to the digital reproductions (hereafter “digital surrogates”), documentation, and associated archival materials. We ask the French Government to consider the following context motivating this response:
 - Digital heritage today is as important as material heritage and should be thoughtfully considered and fully integrated within future restitution policies.

1 Mathilde Pavis and Andrea Wallace, ‘Response to the Sarr-Savoy Report: Statement on Intellectual Property Rights and Open Access relevant to the digitization and restitution of African Cultural Heritage and associated materials’ (25 March 2019) CC BY 4.0 (<<https://creativecommons.org/licenses/by/4.0/>>).

2 Sarr-Savoy Report, 67-68 in the English version (58 in the French version).

- The validity of intellectual property claims to digital cultural heritage is contested and subject to increasing global legal and social controversy. Within the EU, national responses to the subsistence of authorship in digital surrogates currently vary.
 - A claim to intellectual property rights in digital surrogates carries the ability to mediate public access, use, and engagement, which is especially relevant for communities of origin. At present it remains unclear whether the Report recommends waiving any intellectual property rights arising or takes the position that such rights fail to arise in digital surrogates of public domain works.
 - The management of intellectual property is a cultural and curatorial prerogative, as is the initial decision about whether and what materials to digitize. These prerogatives should belong to the communities of origin.
 - Open access to digital surrogates of cultural heritage held by French institutions is almost nonexistent.³ The Government should refrain from taking any position that requires restituted cultural materials to be digitized and made available as open access, especially when the same demands are not made of its own national institutions.
 - The current practice of Western governments and heritage institutions campaigning for and leading digitization projects according to Western values and priorities, such as open access, may be appropriate for their own cultural heritage. As applied to non-Western cultural heritage, it carries the potential to sustain the very colonial approaches the Report takes great care to denounce.
- 6 The lack of attention paid to digitization plans and intellectual property rights in the Report makes it difficult to critique these issues with any specificity. Despite this, we argue the current recommendations, if adopted, greatly undermine the Report's core aim to establish "new relational ethics" in the ownership and management of African Cultural Heritage. These same aims must be extended to Africa's archival and digital cultural heritage. It simply is not enough to return the material cultural heritage while retaining any potential right to digitize, commercialize, and control access (even by mandating "open access") to another community's digital cultural heritage.
- 7 For these reasons, the Sarr-Savoy Report's recommendations for the digitization and management of cultural content must be critically examined. We urge the French Government to do so before proceeding with restitution. Further consultation and research with the key stakeholders identified must be pursued prior to and alongside restitution efforts. Attempts to truly decolonize French institutions of African *Material* Cultural Heritage must carry through to the treatment of archival and digital materials. France therefore holds a unique position to explore equitable opportunities for how restitution will proceed and be integrated with the digital realm.
- 8 This response proceeds as follows: Section 1 provides an overview of the legal issues relevant to the discussion; Section 2 addresses the Report's framing of intellectual property rights and open access, while Section 3 speaks to the concerns it raises. Section 4 concludes with recommendations, but these are not exhaustive.
- 1. Overview of Intellectual Property Rights in Digital Cultural Heritage (and Open Access)**
- 9 As an initial matter, it should be stressed that the legal issues implicated by digitization are worthy of their own report. This response does not attempt to accomplish this, but highlights the additional complex legal and social interrogations that are required. These include examinations of international and national legal measures, colonial systems of value, the complex nature of digital content and its production, and cultural attitudes toward the treatment of heritage.
- 10 First, the minimum standards required for copyright protection and related rights are set via national legislation, which is harmonized through international and regional agreements that bind a wide range of countries. Having said that, not all countries are signatory to these agreements. As such, they may not implement the same level of intellectual property rights or associated standards of "open access" recognized by, for example, French law. Any restitution agreement must account for these variations.
- 11 Second, the subsistence of "rights", specifically "intellectual property rights", varies according to the digitization processes involved. Two categories of digital materials are relevant for restitution purposes:
- (a) **Born-digital material** describes digital items of cultural heritage that are records of particular human or technological expressions, especially for intangible cultural heritage expressions. This can include

³ See Douglas McCarthy and Andrea Wallace, 'Survey of GLAM open access policy and practice' <<http://bit.ly/OpenGLAMsurvey>>..

photographic, audio, or audio-visual records of performances, rites, or oral traditions, or the metadata associated with the creation and manipulation of the digital item. For clarity, we will refer to this category as *digital records*.

(b) **Digitized material** describes digital items of cultural heritage, which may or may not still exist, made for archival or reproduction purposes in a digital format. These digital items may range in quality depending on the purpose of digitization or the reproduction technologies at hand, but can include digital photographs or scans of two-dimensional and three-dimensional objects and associated archival materials. For clarity, we will refer to this category as *digital surrogates*.

- 12 An extensive ongoing debate surrounds the intellectual property protection available to digital records and digital surrogates (hereafter “digital heritage collections”). And, internationally, there is a lack of consensus on whether intellectual property rights subsist in such content and, if so, who owns them. This uncertainty cannot be resolved by establishing a blanket “open-access” policy for digitized African Cultural Heritage.
- 13 To further complicate the matter, not only might *layers* of intellectual property rights subsist in these digital heritage collections, but the heritage sector overwhelmingly adopts inconsistent and subjective definitions of “open” when enabling access. These policies are designed according to each institution’s needs and desires, revealing a wide spectrum of “open” and its interpretation among communities of practice.⁴
- 14 With regards to the *layers* of intellectual property rights, two primary layers might subsist in digital heritage collections.⁵ First, the underlying cultural heritage expression or object captured may be protected according to domestic law. By contrast, older and non-qualifying heritage may fall within the public domain when the term of copyright has expired or never applied in the first place. This can depend on a number of factors such as the date of creation, subject-matter, date and place of publication, or nationality of the creator.
- 15 Second, the digital material itself (*e.g.*, a digital photograph or audio-video recording) may attract copyright or a related right independent from the work it captures. Whether this is the case has been subject to much contention between experts, scholars, courts, and heritage communities of practice. Many argue that faithful reproductions of cultural heritage lack the necessary originality to attract copyright protection altogether. Others take the position that rights likely subsist, but encourage the release of digital heritage collections via open licenses, such as a Creative Commons CC0 dedication or CC BY license.⁶ Evidence shows these licenses may be inaccurately applied when they fail to account for the status of the underlying work.⁷
- 16 This doctrinal uncertainty carries significant weight for digitization campaigns to enable the access and dissemination of knowledge, hence the critical nature of the issue for the heritage sector. On the one hand, digital heritage collections are costly to produce, maintain, and make available to the public. Claiming copyright can therefore enable cultural institutions to support digitization efforts by recouping the costs associated,⁸ or at least prevent third-parties (*e.g.*, commercial organizations) from freeriding on their investment.⁹ Other considerations might also impact whether heritage institutions claim or disclaim copyright in digital heritage collections.¹⁰ On the other hand, claiming copyright in digital surrogates of public domain works essentially diminishes the public domain and privatizes its contents,¹¹ which

6 Creative Commons, ‘CC0 “No Rights Reserved”’ <<https://creativecommons.org/share-your-work/public-domain/cc0/>>.

7 Judith Blijden, ‘The Accuracy of Rights Statements on Europeana.eu’ (Kennisland 2018), <<https://www.kl.nl/wp-content/uploads/2018/02/The-Accuracy-of-Rights-Statements.pdf>>.

8 However, research shows the “level of revenue raised by museums through imaging and rights was small relative to the overall revenue earning capacity of the museum from retail, ticket sales, membership and fundraising” with most rights and reproductions services operating at a loss to museums instead of a profit. Simon Tanner, ‘Reproduction charging models & rights policy for digital images in American art museums’ (A Mellon Foundation Study 2004) <<http://msc.mellon.org/msc-files/Reproduction%20charging%20models%20and%20rights%20policy.pdf>>; see also Effie Kapsalis, ‘The Impact of Open Access on Galleries, Libraries, Museums, & Archives’ (Smithsonian Archives 2016) <http://siarchives.si.edu/sites/default/files/pdfs/2016_03_10_OpenCollections_Public.pdf>.

9 It should be stressed this choice should not be a discretionary operational matter if the legal threshold of originality is not satisfied.

10 For example, the donor restrictions might also define how access is extended and digitization proceeds.

11 Guy Pessach, ‘[Networked] Memory Institutions: Social Remembering, Privatization and its Discontents’ [2008] 26 *Cardozo Arts and Entertainment Law Journal* 71. <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1085267>.

4 See Andrea Wallace and Ronan Deazley, *Display At Your Own Risk: An experimental exhibition of digital cultural heritage* (CREATE 2016) <<http://displayatyourownrisk.org/publications>>; see also McCarthy and Wallace (n 3).

5 Often, especially with archival materials, a work may sustain multiple format transfers before it is digitized and access is extended online. See Andrea Wallace, ‘Mona Lisa’ in Claudy Op den Kamp and Daniel Hunter (eds), *A History of Intellectual Property of 50 Objects* (Cambridge University Press 2019).

is of increasing importance today in an information society.

- 17 Heritage institutions, experts, and policymakers can be found on either side of this debate. To satisfy increased expectations to digital access, institutions have adopted “open access” policies ranging from simply making collections visible online to disclaiming copyright altogether and releasing high-resolution digital surrogates to the public domain. Many institutions restrict reuse of digital heritage collections to personal or non-commercial purposes, a premise that is noncompliant with the Open Knowledge International definition of “open” allowing free use of open data and content by anyone for any purpose.¹²
- 18 The situation of copyright in digital surrogates made in the European Union (EU)¹³ or Africa can vary considerably from one country to the next. Rights defined by geographic boundaries will apply according to the location in which digitization occurs. At present, we assume digitization will occur according to processes defined by the institutions of possession. This would implicate French and EU law, with a digital copy generated and retained by the institution and deposited in the open access portal, while the material African Cultural Heritage is returned to the country or community of origin.
- 19 Moral rights must be considered as they may also pose a legal obstacle to digitization. This can manifest in two ways: first, with regards to moral rights in the material cultural heritage located in France, digitization requires consent from authors of the communities of origin; second, where digitization has occurred, moral rights may arise in the digital materials attracting copyright. Under French law, these rights provide authors with legal protection regarding the attribution (or paternity), integrity, disclosure, and withdrawal of the work. In practice, this means that an author or their estate could: object to the digitization or distribution of digital heritage collections; request that a work be attributed, anonymised or pseudonymised; or require the withdrawal of a work (physical or digital)

12 Open Knowledge International, ‘The Open Definition’ <<https://opendefinition.org/>>.

13 This is especially relevant when anticipating necessary accommodations following any copyright reform currently being considered by the European Parliament. Proposal for a Directive of the European Parliament and of the Council on copyright in the Digital Single Market COM/2016/0593 final - 2016/0280 (COD). Other accommodations raised by the European Orphan Works and Public Service Information Directives must also be considered. Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works; Directive 2013/37/EU of the European Parliament and of the Council of 26 June 2013 amending Directive 2003/98/EC on the reuse of public sector information.

from a collection.

- 20 A precondition of moral rights is that copyright must first subsist in the work. It is important to stress that France defines moral rights to be perpetual, inalienable, and imprescriptible. As such, moral rights survive copyright and continue to apply to many heritage collections passing into the public domain.¹⁴ A number of African countries, and, notably, many that were previously colonized or occupied by France, have implemented similar moral rights regimes. This is the case in Mali,¹⁵ Chad,¹⁶ Cameroon¹⁷ and Madagascar,¹⁸ to cite a few examples of the Sarr-Savoy Report. Regardless of a work’s origin, French courts have declared moral rights enforceable during cross-border litigation held in France.¹⁹ Moral rights therefore have strong implications for digitization and open access.
- 21 Finally, other rights may subsist via related or *sui generis* rights due to national or regional legislation. For example, some African countries grant *sui generis* protection in traditional knowledge or traditional cultural expressions.²⁰ These rights will reside with the country or communities of origin and add another layer for consideration.
- 22 Consequently, “open access” policies will be contingent upon the various layers of protection discussed above. The next section examines the Report’s minimal recommendations made in this respect.

14 See Mathilde Pavis, ‘ICH and Safeguarding: Uncovering the Cultural Heritage Discourse of Copyright’ in Charlotte Waelde and others (eds), *Research Handbook on Contemporary Intangible Cultural Heritage Law and Heritage* (Edward Elgar 2018).

15 Loi n° 08-024 du 23 juillet 2008 fixant le régime de la propriété littéraire et artistique en République du Mali, Articles 12 and 16.

16 Loi n° 005/PR/2003 du 2 mai 2003 portant Protection du Droit d’Auteur, des Droits Voisins et des Expressions du Folklore, Articles 3, 22, and 23.

17 Law No. 2000/011 of December 19, 2000, on Copyright and Neighbouring Rights, Article 14.

18 Loi n° 94-036 Portant sur la propriété littéraire et artistique du 9 décembre 1994, Articles 20-22, 24.

19 Cass. 1re civ., 28 May 1991, Huston, n 89-19.725 and n 89-19.522; Bulletin 1991 I N 172, p 113.

20 See World Intellectual Property Organization, *Traditional Knowledge, Traditional Cultural Expressions & Genetic Resources Laws Database* <<https://www.wipo.int/tk/en/databases/tklaws/>>; see also Molly Torsen and Jane Anderson, ‘Intellectual Property and the Safeguarding of Traditional Cultures: Legal Issues and Practical Options for Museums, Libraries and Archives’ (World Intellectual Property Organization 2010) <https://www.wipo.int/edocs/pubdocs/en/tk/1023/wipo_pub_1023.pdf>.

2. Report's Discussion of Intellectual Property Rights in African Cultural Heritage and Open Access

23 As mentioned, the Sarr-Savoy Report takes great care to lay out the history and responsibility of France in relation to exploited African cultures and the challenges that underlie physical restitution and its administrative processes. Thus, a foundation has already been laid for an informed application of the Report's recommendations concerning memory work and reparations around archival materials and digital heritage collections.

24 We argue these interrogations are similarly crucial when examining the management of archival materials and digital heritage collections. The Report does not clarify a number of terms key to undertaking this initiative. The relevant portion has been included and annotated to aid the discussion. On pages 67-68, the Report states:

b. Sharing of Digital Content

A large number of photographic cinematographic, or sound documents concerning African societies once held by former colonial administrations have recently been part of the intensive campaigns for digitization projects (such as the "iconothèque" in the Musée du quai Branly-Jacques Chirac). Within the framework of the project of restitutions, [1] these digitized objects must be made part of a radical practice of sharing, including [2] how one rethinks the politics of image rights use. Given the large number of French institutions concerned and the difficulty that a foreign public has for navigating through these museums, [3] we recommend the creation of a single portal providing access to the precious documentation in the form of a platform that would be open access. After a dialogue with the other institutions and parties involved, [4] a plan for the systematic digitization of documents that have yet to be digitized concerning Africa should be established, including the collections of (Ethiopian, Omarian, etc) manuscripts from the Bibliothèque nationale de France. [5] It goes without saying that questions around the rights for the reproduction of images needs [sic] to be the object of a complete revision regarding requests coming from African countries from which these works originated including any photographs, films, and recordings of these societies. [6] Free access to these materials as well as the free use of the images and documents should be the end goal.

25 Below we have set out the questions raised by these recommendations and taken guidance from the Report in addressing them.

[1] "these digitized objects must be made part of a radical practice of sharing"

26 The Report fails to detail any intentions around this "radical practice of sharing". We assume this recommendation references the OpenGLAM

(Galleries, Libraries, Archives, and Museums)²¹ movement and its desire to make works in the public domain accessible to generate new knowledge and creative reuses. This recommendation is laudable for its commitment to the democratic principles supporting free access and reuse of the public domain.²²

27 With this in mind, it should be acknowledged that intellectual property is a Western construct which carries its own colonial bias.²³ It follows that the public domain and "open access" are components of this colonial thinking. We should therefore resist casually exporting our associated understandings of "sharing" to non-Western heritage. Here, two points are important to make.

28 First, we assume from the Report that digitization is expected to occur in France prior to any physical restitution. As addressed above, this is likely to trigger the application of French and EU intellectual property law. At present, the very decisions made about these digitization processes will and are proceeding under host communities' oversight, precluding alternative African conceptions of how its cultural heritage might be represented and then presented to the public. Accordingly, there is a real risk of digitally imposing Western perspectives of how intellectual property should be exploited (or not) and how access should be extended to Africa's cultural heritage.

29 A claim to intellectual property carries the ability to exclude others from accessing the digital heritage collections' embodied knowledge. It also fortifies the circumstances precipitating an "impeded or blocked memory"²⁴ by awarding the rightsholder with control over access and reuse. Notably, the Report explores the juridical effect of 19th-century courts legitimizing the "right to pillage and plunder what had belonged to the enemy" and "the right to appropriate for oneself what one had taken away from the enemy".²⁵ As applied here, the law and its formalities have the similar ability to legitimize French systems of intellectual property to Africa's *Digital Cultural Heritage*, which appropriate for communities of possession certain rights connected to the very heritage designated for restitution. Instead, we must ensure any intellectual property rights arising during digitization are not subjected to

21 OpenGLAM, 'Home' <<http://openglam.org>>.

22 These principles are currently threatened by dramatic cuts to public funding. But despite the decreases in government funding, a growing number of GLAM institutions are opting to waive any economic benefits secured by copyright to share some or all eligible digital heritage collections for any purposes. McCarthy and Wallace (n 3).

23 See Pavis (n 14).

24 Sarr-Savoy Report, 31.

25 Sarr-Savoy Report, 9.

the same historical annexation and appropriation of cultural heritage that this Report seeks to dismantle.

- 30 Second, intellectual property rights may not be appropriate, legally or culturally, for the digital surrogates of some objects and archival materials. As addressed above, this is a cultural and curatorial prerogative belonging to the community of origin. This initiative presents a novel opportunity to begin viewing certain materials as falling outside of intellectual property (and digitization) frameworks entirely.²⁶ Thus, this “radical practice of sharing” must be defined according to a co-developed understanding and encompass *only* the works deemed appropriate for digitization, unfettered open access, and public reuse, and *only* after the key stakeholders and communities of origin are consulted as to how this should proceed.

[2] “how one rethinks the politics of image rights use”

- 31 The Report fails to detail any intentions around “how one rethinks the politics of image rights use”. We applaud the recommendation and raise the following concerns identified by the Report as central to this inquiry. And, while closely related to the “radical practices of sharing” discussion, it is important to treat the “politics of image rights use” as a separate matter for the following reasons.
- 32 First, the digitization process can expose African Cultural Heritage to a secondary “system of appropriation and alienation” identified by the Report as the crux of the problem.²⁷ Appropriation can occur due to the authorship role recognized by copyright, which carries the ability to symbolically appropriate and control the knowledge, personhood, and objecthood embodied in the material object.²⁸ Alienation can occur due to the reproduction process in two ways: both *symbolically* when concerns around any sensitive treatment of the material object are not transferred to its digital version, and *physically* when the digital surrogate is alienated from the material object upon its physical return to the community of origin and digital deposit with the open access platform. Any cultural preferences by these communities of origin, whether historical or present-day geographical communities, must be accounted for in rethinking the politics embedded in “image rights use”.

26 For example, a community may have permitted the audio or video recording of a secret ritual for specific research purposes, but refused for such recordings to be made more widely available to the public. Such requests by communities of origin must be accounted for, regardless of whether any intellectual property or *sui generis* rights subsist in the content captured.

27 Sarr-Savoy Report, 2.

28 Pavis (n 14).

- 33 But this rethinking might also apply to objects *not* designated for restitution during the digitization of African Cultural Heritage (and the heritage of other communities) legitimately held by French institutions. Heritage institutions pursuing this path of rethinking have developed comprehensive cultural permissions policies in tandem with the communities whose objects remain in their care.²⁹ A real opportunity exists here, as the Report notes, to “invert the colonial hegemonic relationship”³⁰ around the treatment of African Cultural Heritage (and the heritage of other communities), including the heritage remaining *in situ* with French institutions.

- 34 Second, these politics are fraught with their own historiographies. Similar to the restitution process detailed by the Report, any digitization and exploration of image rights “implies much more than a single exploration of the past: above all, it becomes a question of building bridges for future equitable relations”.³¹ We encourage the Government to consider how the digitization policies designed for these materials might also contribute to future equitable relations around cultural heritage and its treatment in light of these politics of the past.

[3] “we recommend the creation of a single portal providing access to the precious documentation in the form of a platform that would be open access”

- 35 The Report lacks any definition or contextual information to clarify the meaning of “open access”. As detailed above, “open” often reveals a variety of subjective interpretations put to practice, but at the very least it includes making content available for viewing online fee-free to extend access to non-local audiences. We assume this recommendation may have been motivated by one or all of the following rationales:

29 For example, initiatives undertaken by the Field Museum in Chicago, USA and the Auckland War Memorial Museum in New Zealand are recentering Indigenous perspectives in collections management. See Alaka Wali, ‘Making Room for Native American Voices’ *Field Museum Blog* (8 November 2018) <<https://www.fieldmuseum.org/blog/making-room-native-american-voices>>; see also Sarah Powell, Adam Moriarty, Michaela O’Donovan, Dave Sanderson, ‘The “Open by Default” Journey of Auckland Museum’s Collections Online’ *SocietyByte* (August 2017) <<https://www.societybyte.swiss/2017/08/21/the-open-by-default-journey-of-auckland-museums-collections-online/>>. Other initiatives have been developed to support cultural permissions labelling and intellectual property rights, like RightsStatements.org and Local Contexts. See ‘RightsStatements.org,’ <<https://rightsstatements.org>>; see also ‘Local Contexts,’ <<http://localcontexts.org>>.

30 Sarr-Savoy Report, 38.

31 Sarr-Savoy Report, 2.

- a) To improve education surrounding: the history and damaging effects of colonization; the power dynamics underlying Western narratives and knowledge generation, the curatorial care, and treatment of African Cultural Heritage; the pressing need for more attention paid to restitution globally; and the important goals driving this initiative;³²
- a) To ensure African countries, communities, or institutions provide access to digital heritage collections of African Cultural Heritage to the same individuals and communities who enjoyed access prior to restitution;
- a) To prevent French institutions in possession of African Cultural Heritage from exercising and enforcing intellectual property rights in the digital surrogates they currently hold and might generate, which would impede the restitution of Africa's *Digital Cultural Heritage*.

36 The spirit and aim of creating the open access portal aligns with OpenGLAM principles to “support the advance of humanity’s knowledge” so users may not only “enjoy the riches of the world’s memory institutions, but also to contribute, participate and share”.³³ Yet it must be challenged whether this decision to digitize and create an open access portal should lie with the communities of possession.

37 In the section titled “A Long Duration of Losses”, the Report criticizes the legal structures in place which enabled African Cultural Heritage’s “economic capitalization (through the art market) as well as the symbolic capitalization (through the museum)” that went “hand in hand with the wars of that same era”.³⁴ As applied to our era, the legal structures in place supporting mandatory systematic digitization and open access policies have the potential to reinforce both economic capitalization (through the exploitation of intellectual property) as well as symbolic capitalization (through the open access portal), marrying the two practices renounced by the Report.

[4] “a plan for the systematic digitization of documents that have yet to be digitized concerning Africa should be established”

38 With regards to the “systematic digitization”, we repeat the concerns previously expressed. We

suggest taking a “slow digitization” approach,³⁵ which involves paying the same attention to the processes of digitization as we pay to the objects themselves, instead of rapidly digitizing African Cultural Heritage to make it available online. This naturally requires an examination of who is best placed to undertake this task and the systems of values informing this answer. On this point, scholars warn:

Paradoxically, there is a risk that an emphasis on digitizing cultural treasures will undermine the claim that digitization opens up and democratizes access to cultural heritage. *If digital libraries merely reiterate and reinforce long-standing cultural narratives and stereotypes, rather than enabling the exploration of forgotten and neglected collections, then they can become agents of cultural exclusion.*³⁶

39 We must critically examine whose needs are served by systematic digitization and explore how more nuanced systems serving the historical and geographical communities of origin might be established through collaborative work. At present, the Report’s focus on systematic digitization and mandatory open access risks “reinforcing existing cultural stereotypes and canonicities”³⁷ imposed on the material objects by the culture in possession.

40 The remaining extracts are only briefly addressed as they build upon previous sentiments.

[5] “It goes without saying that questions around the rights for the reproduction of images needs [sic] to be the object of a complete revision regarding requests coming from African countries from which these works originated including any photographs, films, and recordings of these societies.”

41 With regards to the need for revising “rights for the reproduction of images”, we agree with its spirit and overall aim. But it remains unclear what this statement means or how it might incorporate the concerns expressed above. What is especially unclear is whether the African countries mentioned have any say in this revision or will simply receive digital copies of the works upon request.

[6] “Free access to these materials as well as the free use of the images and documents should be the end goal.”

42 With regards to the final statement, the end goal of securing “free access” via the open access platform and “free use of the images and documents” does not appear to have been set by the African communities

32 This assumption is also informed by the Report’s discussion of the online portal on page 86, discussed *infra*.

33 OpenGLAM, ‘OpenGLAM Principles’ <<https://openglam.org/principles/>>.

34 Sarr-Savoy Report, 11.

35 See Andrew Prescott and Lorna Hughes, ‘Why Do We Digitize? The Case for Slow Digitization’ [2018] *Archive Journal* <<http://www.archivejournal.net/essays/why-do-we-digitize-the-case-for-slow-digitization/>>.

36 *Ibid* (emphasis added).

37 *Ibid*.

involved, but rather by the Report’s authors. It remains unclear how the authors reached this conclusion to make this recommendation, and we would welcome clarification. As discussed further below, this position is problematic as it sets a double standard of imposing open and free access to digital heritage collections of African Cultural Heritage yet similar obligations are not expected of French national institutions.

- 43 Building on this discussion, the next section presents concerns on the Report’s current position and recommendations relevant to the generation and stewardship of digital heritage collections.

3. Concerns on the Report’s Current Position and Recommendations

- 44 This response argues that a critical reflection on the role of intellectual property is necessary to better inform these “new relational ethics”. Our concerns primarily center around the desire to systematically digitize (and what that entails) and any subsequent rights arising in the process. These are summarized below.
- 45 As an initial matter, the same principles of dignity and respect the Report recognizes surrounding the object and its restitution must be extended to the object’s digitization. The Report criticizes the situation in 1960s Europe for defaulting on its obligation to address colonial structures deeply embedded in the ownership and management of African Cultural Heritage. Yet the Report lacks the same “structured reflection devoted to the role [digital heritage collections] could play in the emancipation of formerly colonized African countries”.³⁸ Our concern is that an equally important part of this process is being neglected, and that genuine efforts to reconstitute African Cultural Heritage may therefore succumb to the same mistakes made during (and prior to) the 1960s.
- 46 This is because just as there are “different interpretations or conceptions of cultural heritage”,³⁹ there are different interpretations or conceptions of *digital* cultural heritage. Digital cannot be treated as an afterthought. Any rebalancing of global cultural heritage must anticipate these different interpretations or conceptions and, most importantly, be motivated by the interests of the relevant communities in documenting and sharing their own material heritage. This rebalancing must account for alternative conceptions of objecthood, authorship or personhood, representation and presentation, *and* digital heritage, thereby “releasing oneself from the lone framework of European

thought”.⁴⁰

- 47 As a secondary matter, whether rights subsist in digital heritage collections, and who owns them, is a legal doctrinal question with no certain answer under French law, and one which is unlikely to be settled before restitution begins as outlined by the Report.

- 48 In the absence of any clear legal guidance, the French Government ought to, at least, formulate a politically-sound position in its stead. This position should consider that (a) French institutions claim intellectual property rights in digital heritage collections to the fullest extent, and (b) very few French institutions make some or all collections available under open-compliant policies for any purposes.⁴¹ The Government should therefore avoid adopting any strict open access recommendation that creates a double standard whereby French institutions have no open access obligations regarding their own digital heritage collections, yet African institutions and communities do.

- 49 We understand the recommendations made by the Report regarding the rights vested in African digital heritage collections aim to promote the free circulation of information and knowledge. This is, undeniably, a laudable and defensible pursuit. However, in light of the complex legal loopholes framing digital heritage collections and mediating access today, the Report’s recommendations risk placing the French Government in the position of returning Africa’s *Material* Cultural Heritage while retaining control over the generation, presentation, and stewardship of Africa’s *Digital* Cultural Heritage. This recommendation is therefore untenable in practice.

4. Alternative Recommendations

- 50 In light of the arguments presented, we make the following alternative recommendations, which are by no means exhaustive. Here, we choose to briefly address the preliminary decisions around digitization and access, stress the necessary adjustments to relevant legal frameworks to aid restitution, and highlight some further opportunities posed by open access policies and platforms.

⁴⁰ Sarr-Savoy Report, 33.

⁴¹ Those known to the authors of this response include: (1) Alliance Israelite Universelle; (2) Babord-Num (Université de Bordeaux); (3) Bibliothèque de l’Institut national d’histoire de l’art; (4) Bibliothèque de Rennes Métropole; (5) Bibliothèque municipale de Lyon; (6) Bibliothèque nationale et universitaire, Strasbourg; (7) Centre National de la Danse; (8) Lo CIRDÒC (Occitanica); (9) Musée d’art et d’histoire de Saint-Brieuc; (10) Musée de Bretagne; (11) Musée de Die; (12) Musée des Augustins; (13) Musée Saint-Raymond. McCarthy and Wallace (n 3).

³⁸ Sarr-Savoy Report, 18.

³⁹ Sarr-Savoy Report, 29.

Digitization and African Cultural Heritage

- 51 First and foremost, decisions regarding digitization and open access must rest solely with the country/ies, community/ies, or institution(s) to whom the cultural heritage is returned. **Put simply, restitution must come at no obligation to commit to or guarantee digitization and open access.**
- 52 Digitizing and managing rights in digital heritage collections is a curatorial process with an impact on how heritage is represented, preserved, and remembered. Communities of origin should be trusted to make these decisions about their own restituted heritage. The opportunity for France to aid African communities in this process, both practically and financially, should be considered alongside other forms of reparation.
- 53 Moreover, a curatorial decision to embrace open access is neither neutral nor insignificant. It can involve surrendering control over how heritage is presented, reproduced, and recorded once made available online. For communities seeking to first re-appropriate and reacquaint with their material cultural heritage, this sensitive decision cannot be rushed. This is not to suggest that digitization and/or open access are undesirable outcomes of any restitution agreement,⁴² but that such decisions must be made *solely* by the African country/ies, community/ies, or institution(s) to whom the cultural heritage is returned.

Necessary Adjustments to Relevant Legal Frameworks

- 54 Second, the status and management of digital heritage collections is a paramount issue in today's digital age. These collections hold an increasingly prominent place within our heritage institutions. **For this reason, consultation on the digitization process, including the intellectual property rights to be claimed, recognized, and conferred to African Digital Cultural Heritage is as important as the negotiations involving any property rights in the material objects designated for restitution.**
- 55 Such a consultation must revisit and expand on the necessary adjustments to the relevant legal frameworks. While the Report's final section entitled "Accompanying the returns" sets out the chronological, juridical, methodological, and financial framework for material restitution, it lacks

any general framework for approaching questions of digitization and intellectual property management.⁴³

- 56 As an initial matter, the Report suggests undertaking an inventory of all pieces of African Cultural Heritage conserved in French collections.⁴⁴ We suggest that any inventory process should also explore: (1) whether any intellectual property rights exist in the *material* heritage, especially with regards to documentation or archival materials; (2) whether digitization (even for preservation) is appropriate and, if so, for what purposes; (3) whether access is appropriate and, if so, for what purposes; (4) whether any intellectual property rights, or other *sui generis* rights,⁴⁵ are (a) recognized in digital surrogates or other digital records *already* held in institutional collections, or (b) might arise in digital heritage collections during *future* digitization processes; (5) whether such intellectual property rights are, in fact, appropriate for the digital heritage collections; and, if so, (6) who may be the most appropriate rightsholder (and subsequently whether any assignment of rights can be arranged).
- 57 At the same time, any adjustments of French legal texts to adapt the public property obligations and inalienability posing the principal obstacle to restitutions must also consider intellectual property obligations and the implications of rights recognized in perpetuity.⁴⁶ Such adjustments should be reflected in any bilateral agreements envisioned by the Report.⁴⁷ Doing so will require more than the current cursory considerations of "image rights" and open access. Accordingly, deeper reflection and consultation is imperative before digitization proceeds.

Further Opportunities Posed by Open Access Policies and Platforms

- 58 Finally, we turn to the opportunities posed by open access policies and platforms. Relying on the Report's own recommendations concerning material cultural heritage, **we call on the French Government to undertake a "structured reflection devoted to the role [digital heritage collections] could play in the emancipation of formerly colonized African countries".**⁴⁸ For this structured reflection, we recommend focusing on two areas: the first regards the portal and the second regards the opportunities outlined in pages 85-86 ("Popular Appropriations").

42 The Report highlights Achile Mbembe's framing of how "these societies generated open systems of mutual resource-sharing concerning the forms of knowledge at the heart of participative ecosystems, wherein the world is a reservoir of potentials". This is a meaningful framing of open access, but, importantly, it comes from the community of origin. Sarr-Savoy Report, 34 (quoting Achile Mbembe, *Notes sur les objets sauvages*, forthcoming).

43 Sarr-Savoy Report, 71-86.

44 Sarr-Savoy Report, 41-42, 67.

45 See RightsStatements.org and Local Contexts (n 28).

46 Sarr-Savoy Report, 75-76.

47 Sarr-Savoy Report, 77-78.

48 Sarr-Savoy Report, 18.

- 59 In creating any portal,⁴⁹ the Government might consider looking to existing models of digital heritage collections, cultural data aggregators, and online platforms designed by organisations that have successfully delivered similar portals. The Government could integrate models already developed by Europeana, Wikimedia, or GitHub to structure and host content to avoid the expense of commissioning redundant research. For example, projects, like Europeana, have developed processes by which standardized metadata and digital infrastructures enable the aggregation of content from different institutions of various sizes and structures. And many institutions use Wikimedia Commons and GitHub to host content and share it openly with a plural public.
- 60 The Government should explore to the greatest extent possible how it might collaborate with ongoing African digitization initiatives.⁵⁰ This would facilitate building community-based solutions around digitization, access, and education (especially in native languages). As the Report highlights in “Popular Appropriations”, restitution “also implies working to ensure that the communities concerned as well as the public at large are able to claim ownership of this practice in all its aspects”.⁵¹ The Report’s subsequent discussion in this section provides an opportunity to put this goal into practice. It describes the potential for new collaborative networks in line with reparations leading to the production of new creative works and cultural goods.
- 61 We assume the Report only briefly addresses the portal and any related benefits for practical reasons. We suggest that when that exploration proceeds, these recommendations also be embedded in that process.

49 The Report recommends: “The creation of an online portal around the theme of the circulation of cultural objects that would contain general information about the situation and redistribution of cultural heritage from the African continent outside of Africa, while also proposing detailed narratives of the trajectories of certain pieces (with the help of accompanying texts and multimedia documents) would be a creative and engaging way to create a pathway of discovery.” Sarr-Savoy Report, 86.

50 Examples might include: Cherry Leonardi, Zoe Cormack and Sarah Bevin, ‘New explorations into South Sudanese museum collections in Europe’ <<https://southsudanmuseumnetwork.com>>; Paul Basu, ‘Reanimating Cultural Heritage’ and ‘SierraLeoneHeritage.Org’ <<http://www.sierraleoneheritage.org>>; and ‘Digital Innovation South Africa’ <http://www.disa.ukzn.ac.za/About_Us>.

51 Sarr-Savoy Report, 85.

CONCLUSION

- 62 If pursued, the advantages of this ambitious Report will have long-standing global impact on our understanding of history and culture extending to multiple generations. For this reason, the initiative must anticipate and incorporate issues around digital. The communities of origin must enjoy full autonomy to carve out any open access paths to sharing their own digital cultural heritage. Policies enabling this should be designed in partnership with communities of origin, even if the general consensus aims to enable free and unfettered open access. The French Government is uniquely positioned to explore equitable practices for how these discussions should proceed and the methodology that follows. The outcomes co-developed through such an opportunity will aid other governments and institutions attempting to tackle similar long-overdue restitution initiatives.

We, the undersigned 108 scholars and practitioners working in the fields of intellectual property law and material and digital cultural heritage at universities, heritage institutions and organizations around the world, write in support of the ‘Response to the Sarr-Savoy Report: Statement on Intellectual Property Rights and Open Access relevant to the digitization and restitution of African Cultural Heritage and associated material’.

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Réponse au Rapport Sarr-Savoy

Déclaration sur la numérisation, les droits de propriété intellectuelle et le libre accès du patrimoine culturel africain et des archives connexes

by **Dr Mathilde Pavis and Dr Andrea Wallace**

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RÉSUMÉ

1 Cette réponse remet en cause les recommandations du Rapport Sarr-Savoy concernant la numérisation systématique et la mise à disposition en « libre accès », en ligne, de la totalité du patrimoine africain destiné à être restitué. Nous soulignons la complexité des problématiques liées aux droits de la propriété intellectuelle et aux politiques de libre accès (« open access ») en matière de patrimoine, et nous recommandons au gouvernement français de consacrer davantage de ressources à l'étude et l'établissement de solutions de numérisation en partenariat avec les communautés africaines concernées. Par conséquent, nous déconseillons l'adoption des recommandations générales du Rapport sur les questions de la numérisation et du libre accès pour les raisons suivantes :

- Premièrement, les recommandations du Rapport soutiennent une position selon laquelle le gouvernement français restituerait le patrimoine africain *matériel* tout en gardant la mainmise sur la création, la présentation et la conservation du patrimoine africain *numérique*, et ce, pour les décennies à venir.
- Deuxièmement, et à l'appui de ce point, la question de l'application des droits de propriété intellectuelle et du libre accès concernant le patrimoine numérique fait l'objet de vifs débats juridiques et sociaux. En France, le libre accès en matière de collections numériques du patrimoine national est quasi-inexistant. Le gouvernement français doit s'abstenir d'entamer

une démarche qui exigerait la mise à disposition libre et gratuite du patrimoine numérique de l'Afrique, sans réciprocité envers son propre patrimoine.

- Troisièmement, la restitution du patrimoine africain dont la France est dépositaire ne doit être sujette à aucune obligation, ou pression, de numérisation ou de libre accès. La décision de procéder à la numérisation de son patrimoine, tout comme la décision de ne pas exercer les droits de propriété intellectuelle aux fins de libre accès, sont des prérogatives culturelles et de conservation. De telles décisions appartiennent aux communautés d'origine dans la mesure où la numérisation et la disponibilité en libre accès des contenus impactent la manière dont le patrimoine culturel est représenté, préservé et commémoré. Ainsi, les communautés d'origine doivent pouvoir jouir d'une entière autonomie en ce qui concerne les stratégies de numérisation et d'accès de leur patrimoine matériel comme numérique.
- Enfin, tout effort de décolonisation du patrimoine africain *matériel* détenu par les établissements français doit également prendre en compte le statut et la gestion des archives et autre documentation *numériques*, y compris pour celles destinées à rester en France. Le patrimoine numérique est aujourd'hui tout aussi important que le patrimoine matériel et doit être partie intégrante de tout projet de restitution et de gestion des collections. La question du patrimoine africain *numérique* doit

être réfléchi en amont de toute restitution, et non après-coup. En poursuivant cette réflexion et dans un souci de réparation, la France doit saisir l'opportunité de soutenir les communautés africaines dans leurs démarches de numérisation et d'accès, d'un point de vue aussi bien pratique, technique que financier.

- 2 Pour ces raisons, nous exhortons le gouvernement français à entreprendre une réflexion approfondie de ces questions, en collaboration avec les communautés et les institutions concernées, avant et pendant la démarche de restitution. Le gouvernement français est particulièrement bien placé pour entamer une réflexion sur la mise en place de négociations équitables quant à la manière dont le processus de restitution doit se dérouler. Les solutions issues de cette démarche éclaireront d'autres gouvernements ainsi que d'autres institutions nationales, désireux de décoloniser, à leur tour, leurs collections.

RÉPONSE AU RAPPORT SARR-SAVOY 2018

Déclaration sur les droits de propriété intellectuelle et le libre accès concernant la numérisation et la restitution du patrimoine culturel africain et des archives connexes¹

Traduction française

25 mars 2019

- 3 Nous écrivons en réponse au Rapport Sarr-Savoy intitulé « Rapport sur la restitution du patrimoine culturel africain. Vers une nouvelle éthique relationnelle ». Nous notons le soin, la rigueur et la démarche nuancée de cette étude qui souligne la complexité du processus de restitution ainsi que les efforts de coopération considérables qu'un tel projet requiert de la part de toutes les parties concernées.
- 4 Nous attirons l'attention du gouvernement français sur les problématiques de propriété intellectuelle et de libre accès qui sont en jeu lors la restitution du patrimoine africain. Le Rapport Sarr-Savoy ne traite que très brièvement de ces questions. Le Rapport préconise un plan de numérisation systématique et propose la mise en libre accès de la totalité du patrimoine africain à restituer. Le Rapport souligne la nécessité d'établir un dialogue sur cette question entre les parties impliquées, mais ses auteurs demeurent en faveur d'un « partage radical, dans le cadre du projet de restitution, des objets numérisés, y compris en ce qui concerne la politique des droits à l'image », visant « la gratuité d'accès et d'usage de ces images et documents ».²
- 5 Nous déconseillons l'adoption de cette recommandation générale d'accès libre et gratuit aux patrimoine numérique. Nous soutenons que le statut des reproductions numériques des œuvres culturelles (ci-après « substituts numériques »), et de la documentation du patrimoine africain, doit bénéficier de la même nuance de raisonnement dont fait preuve le Rapport à l'égard des objets (matériels) de ce même patrimoine. Notre Réponse s'appuie sur le contexte suivant :
- Le patrimoine numérique est aujourd'hui tout aussi important que le patrimoine matériel ; il doit être pris en compte avec soin et pleinement

1 Mathilde Pavis et Andrea Wallace, 'Réponse au Rapport Sarr-Savoy 2018: Déclaration sur les droits de propriété intellectuelle et le libre accès concernant la numérisation et la restitution du patrimoine culturel africain et des archives connexes ' (25 mars 2019, traduction française) CC BY 4.0 (<<https://creativecommons.org/licenses/by/4.0/>>). Traduit de l'anglais par Dr Mathilde Pavis. La version de référence est la version anglaise.

2 Rapport Sarr-Savoy, 58. (67-68 dans la version anglaise).

intégré à toute démarche de restitution.

- Le fondement juridique des revendications des droits de propriété intellectuelle sur le patrimoine numérique est vivement contesté, aussi de bien d'un point de vue socio-culturel que juridique, et ce à l'échelle internationale. Au sein même de l'Union Européenne, la réponse apportée par le droit national des États membres sur la question des substituts numériques varie considérablement.
- La revendication de droits de la propriété intellectuelle sur les substituts numériques a le pouvoir d'affecter l'accès, l'utilisation et la participation du public au patrimoine concerné ; un point particulièrement important pour les communautés d'origine. Le Rapport est imprécis sur ces questions, si bien qu'il est impossible d'établir si les auteurs encouragent les institutions françaises à ne pas exercer leur(s) droit(s) de propriété intellectuelle ou bien s'ils considèrent que de tels droits n'existent pas dans la mesure où le patrimoine numérique ferait partie du domaine public.
- La décision de numériser son patrimoine culturel ainsi que la gestion des droits de propriété intellectuelle qui en découleraient sont des prérogatives culturelles et de conservation. En tant que telles, ces prérogatives appartiennent aux communautés d'origine.
- A ce jour, l'accès libre et gratuit au patrimoine numérique français, détenu par les institutions nationales françaises, est quasi inexistant.³ Il est donc impératif que le gouvernement français s'abstienne d'adopter une position qui viendrait imposer aux communautés d'origine des exigences de numérisation et de libre accès qu'il ne requiert pas de ses propres institutions nationales.
- Les campagnes de numérisation soutenues actuellement par les gouvernements et établissements occidentaux sont menées à l'aune de principes et de valeurs occidentales, légitimement applicables à leur patrimoine. En revanche, si appliquée au patrimoine culturel africain sans discernement, cette même démarche renferme le risque de maintenir les approches de type « colonialiste » que le Rapport dénonce avec soin.

- 6 L'absence de détails dans les conclusions du Rapport sur la numérisation et les droits de la propriété intellectuelle en limite l'analyse critique. Néanmoins, nous soutenons que les recommandations du Rapport sur ces questions, si adoptées, compromettent considérablement l'objectif principal d'établir une « nouvelle éthique relationnelle » dans l'appropriation et la gestion du patrimoine africain. Ces mêmes objectifs doivent être étendus au patrimoine africain numérique et à toute archive ou documentation connexe. Rendre le patrimoine matériel d'une autre communauté, tout en conservant le droit de numériser, de commercialiser et de contrôler l'accès (y compris en imposant le libre accès) de son patrimoine numérique ne satisfait pas l'objectif de restitution.
- 7 Pour ces raisons, les recommandations du Rapport Sarr-Savoy concernant la numérisation et la gestion des collections numériques doivent être réévaluées. Nous incitons le gouvernement français à le faire avant de procéder à toute restitution. Il est impératif qu'une étude approfondie de ces questions soit faite, en collaboration avec les parties concernées, et ce, avant et pendant la démarche de restitution. Toute tentative de décolonisation du patrimoine africain par les institutions françaises doit envisager la perspective du numérique. La France détient un rôle majeur dans l'élaboration de démarches équitables de négociations visant la restitution du patrimoine africain matériel comme numérique.
- 8 Cette Réponse se divise en quatre parties. La première fait la synthèse des principaux droits et problématiques juridiques associés à la numérisation et au libre accès du patrimoine numérique africain. La seconde analyse les recommandations du Rapport à ce sujet. La troisième partie met en exergue les ambiguïtés et les difficultés de ces recommandations. Enfin, la quatrième partie conclut cette Réponse en soumettant des solutions alternatives, qui ne sont nullement exhaustives.

1. Synthèse des droits de la propriété intellectuelle en matière de patrimoine numérique (et de libre accès)

- 9 Il convient de souligner en premier lieu que les problématiques juridiques liées à la numérisation méritent leur propre rapport, ce qui n'est point le but poursuivi ici. Cette Réponse n'a pour objectif que de souligner la complexité des problématiques juridiques et sociales principales entourant ces questions. Ces problématiques font suite à la pluralité des normes juridiques internationales et nationales, à l'influence des systèmes de valeur coloniaux sur celles-ci, à la complexité du patrimoine culturel numérique et de sa création, ainsi qu'à la diversité des approches de conservation des patrimoines.

³ Voir Douglas McCarthy and Andrea Wallace, 'Survey of GLAM open access policy and practice' <<http://bit.ly/OpenGLAMsurvey>>.

- 10 Premièrement, il est important de rappeler que le niveau minimum de protection garanti par le droit d'auteur est défini par la loi nationale, elle-même harmonisée, s'il y a lieu, par des accords internationaux et régionaux. En effet, tous les pays ne sont pas signataires de ces accords. Ainsi, le contenu des droits de propriété intellectuelle, et des principes tels que le libre accès, reconnu comme fondateur dans certains pays comme la France, varie de juridiction en juridiction. Tout accord de restitution doit tenir compte de ces différences.
- 11 Deuxièmement, ces « droits », en particulier les « droits de la propriété intellectuelle », varient également en fonction de la nature du contenu numérique. Dans un contexte de restitution, deux types de contenu sont à considérer:
- (a) **Les contenus numériques dits « originaux »** - cette catégorie regroupe les contenus n'existant qu'en format numérique ou digital qui documentent des œuvres, des pratiques et des techniques patrimoniales, notamment celles appartenant au patrimoine culturel immatériel. Ce type de contenu comprend, par exemple, la documentation photographique et les enregistrements audio ou audio-visuels de prestations, de rites ou de traditions orales - ainsi que les métadonnées associées à la création et à la manipulation du format numérique. Par souci de clarté, nous nommerons cette catégorie « *documentation numérique* ».
- (b) **Les contenus numérisés** - cette catégorie rassemble les contenus numériques reproduisant le patrimoine à des fins d'archivage ou de préservation. La qualité de ces reproductions numériques peut varier en fonction de l'objet de la numérisation et des techniques employées ; ces reproductions peuvent prendre la forme de photographies, de scan d'objets, en deux ou trois dimension, et d'archives connexes. Par souci de clarté, l'expression « *substituts numériques* » fera référence à cette catégorie.
- 12 Ensemble, la documentation numérique et les substituts numériques forment ce que nous appellerons les *collections numériques*.
- 13 Un débat houleux entoure la question de la protection par la propriété intellectuelle des collections numériques. Au niveau international, il n'existe pas de consensus sur l'éligibilité de ces collections aux droits de propriété intellectuelle, et sur les personnes qui en seraient titulaires, le cas échéant. Cette difficulté ne saurait être enjambée via l'adoption d'une politique générale de « libre accès » du patrimoine africain numérique, qui servirait de raccourci.
- 14 Deux éléments ajoutent à cette difficulté : le fait que les droits de la propriété intellectuelle protègent les œuvres *couche par couche* ; et, le fait que les professionnels du patrimoine n'adoptent pas de définition objective ou homogène du libre accès lorsque leurs collections numériques sont mises à disposition du public. Chaque institution culturelle conçoit sa propre stratégie d'accès, dite « libre », en fonction de ses besoins et intérêts personnels, ce qui amène inévitablement à des écarts de définitions et d'interprétations du « libre accès » en pratique.⁴
- 15 En ce qui concerne la protection des droits de la propriété intellectuelle en « couche par couche », deux « couches » principales peuvent intervenir en matière de collections numériques.⁵ La première couche est celle des droits applicables aux œuvres les plus anciennes, sous-jacentes aux produits de la numérisation que sont la documentation numérique et les substituts numériques. Il est possible que la loi considère que de telles œuvres fassent partie du domaine public, soit parce que le droit d'auteur, qui est soumis à une application limitée dans le temps, a expiré, soit parce celui-ci ne fut jamais applicable. En effet, l'application des droits de propriété intellectuelle et la durée de protection dépendent d'un nombre de facteurs tels que la date de création, l'objet, la date et le lieu de publication ou encore la nationalité de l'auteur.
- 16 La deuxième couche de droits de propriété intellectuelle est celle applicable aux produits de la numérisation eux-mêmes (*e.g.* photographies, enregistrements audio-visuels), indépendamment du contenu sous-jacent. L'applicabilité des droits sur cette deuxième couche anime la controverse parmi les professionnels du patrimoine et du droit. Un certain nombre de professionnels font valoir que la reproduction numérique, à l'identique, d'objets du patrimoine manque d'originalité ; une condition d'application du droit d'auteur. D'autres soutiennent que si ces droits de propriété intellectuelle existent bel et bien au sein des collections numériques, ils doivent cependant être exercés au moyen de licences favorisant le libre accès, telles que les licences CC0 ou CC BY des « Creative Commons ».⁶ Néanmoins,

4 Voir Andrea Wallace et Ronan Deazley, *Display At Your Own Risk: An experimental exhibition of digital cultural heritage* (CREATE 2016) <<http://displayatyourownrisk.org/publications>>; see also McCarthy and Wallace (n 3).

5 Une oeuvre, notamment lorsqu'il s'agit de document d'archives, est souvent reproduite et re-formatée plusieurs fois avant d'être numérisée et mise en ligne. Voir Andrea Wallace, 'Mona Lisa' dans Claudy Op den Kamp and Daniel Hunter (eds), *A History of Intellectual Property of 50 Objects* (Cambridge University Press 2019).

6 Creative Commons, 'CC0 "No Rights Reserved"' <<https://creativecommons.org/share-your-work/public-domain/>>

de récentes études démontrent que ces institutions font parfois une mauvaise application de ce type de licences, notamment en matière de droits applicables au contenu sous-jacent.⁷

- 17 Cette incertitude juridique pèse lourdement sur les campagnes de numérisation et les stratégies ayant pour but l'accès à l'information et la diffusion des connaissances, d'où l'importance de ces questions dans le milieu du patrimoine culturel. D'une part, les collections numériques sont coûteuses à la production, à la maintenance et à la mise à disposition du public. La revendication du droit d'auteur sur les contenus numérisés permet aux institutions de financer le coût de la numérisation,⁸ ou du moins elle permet d'empêcher les tiers (*e.g.*, les organisations à but lucratif) de parasiter leurs investissements.⁹ D'autres facteurs peuvent également inciter une institution culturelle à exercer, ou non, ses droits d'auteur sur ses collections numériques.¹⁰ D'autre part, la revendication du droit d'auteur sur des substituts numériques d'œuvres non-protégées diminue considérablement le domaine public et en privatise le contenu,¹¹ une conséquence qui revêt une importance toute particulière à l'heure des sociétés d'information.
- 18 Aujourd'hui, ce débat divise les responsables politiques, les professionnels du patrimoine et du droit. Afin de répondre aux attentes grandissantes du public en matière d'accès, certains établissements ont adopté des stratégies de « libre accès » allant de la

simple visualisation de leurs collections sur internet au renoncement de tout droit d'auteur, assignant ainsi au domaine public la totalité de leurs substituts numériques en haute résolution. A contrario, un nombre important d'institutions n'autorisent la réutilisation de leurs collections numériques qu'à des fins personnelles ou non-commerciales, une position qui n'est pas conforme à la définition du « libre accès » établie par l'organisation Open Knowledge International, selon laquelle l'utilisation de toute donnée et de tout contenu doit être libre pour quiconque et ce, pour n'importe quel but.¹²

- 19 L'application du droit d'auteur sur les substituts numériques créés au sein de l'Union Européenne (UE)¹³ ou en Afrique peut varier considérablement d'un pays à l'autre. En effet, ces droits sont territoriaux et s'appliquent en fonction de l'endroit où a eu lieu la numérisation. Au regard des hypothèses envisagées par le Rapport, nous supposons que la numérisation se fera selon des processus définis par les institutions dépositaires des collections concernées. Cela impliquerait l'application du droit français et celui de l'Union Européenne. Ainsi, les établissements français généreraient et conserveraient une copie numérique des objets rendus, et rendrait celle-ci disponibles en libre accès sur le portail internet, tandis que le patrimoine africain matériel serait restitué au pays ou à la communauté d'origine.
- 20 Les droits moraux doivent également être pris en compte car ils peuvent constituer un obstacle juridique supplémentaire contre la numérisation. Cet obstacle peut se manifester de deux manières: premièrement, lorsqu'ils sont applicables, les droits moraux requièrent que le consentement des auteurs du patrimoine soit obtenu avant de procéder à sa numérisation ; deuxièmement, une fois numérisé, il est possible que de nouveaux droits moraux soient applicables au patrimoine numérique indépendamment des droits attachés au patrimoine matériel sous-jacent. Nous retrouvons ici le système de protection en *couche par couche* du droit d'auteur.

cc0/>.

- 7 Judith Blijden, 'The Accuracy of Rights Statements on Europeana.eu' (Kennisland 2018), <<https://www.kl.nl/wp-content/uploads/2018/02/The-Accuracy-of-Rights-Statements.pdf>>.
- 8 Cependant une étude récente démontre que "le niveau de revenus généré par les musées par le biais de l'imagerie et des droits était faible par rapport à la capacité globale du musée à générer des revenus provenant de la vente au détail, de la vente de billets, de l'abonnement et de la collecte de fonds" et note que la plupart des droits et des services de reproduction opèrent à perte pour les musées. Simon Tanner, 'Reproduction charging models & rights policy for digital images in American art museums' (A Mellon Foundation Study 2004) <<http://msc.mellon.org/msc-files/Reproduction%20charging%20models%20and%20rights%20policy.pdf>>; see also Effie Kapsalis, 'The Impact of Open Access on Galleries, Libraries, Museums, & Archives' (Smithsonian Archives 2016) <http://siarchives.si.edu/sites/default/files/pdfs/2016_03_10_OpenCollections_Public.pdf>.
- 9 Il convient de souligner que ce choix n'est et ne doit pas être une décision opérationnelle discrétionnaire si le seuil légal d'originalité n'est pas atteint.
- 10 Par exemple, les donateurs peuvent inclure des conditions quant à l'accès et la numérisation des contenus dans l'accord de don.
- 11 Il convient de souligner que ce choix n'est et ne doit pas être une décision opérationnelle discrétionnaire si le seuil légal d'originalité n'est pas atteint.

12 Open Knowledge International, 'The Open Definition' <<https://opendefinition.org/>>. En français: <<https://opendefinition.org/od/1.1/fr/>>.

13 Ceci est particulièrement pertinent afin d'anticiper les modifications du droit national qui seront éventuellement nécessaires à la suite des réformes sur le droit d'auteur étudiée actuellement par le Parlement européen. Proposition de Directive du Parlement Européen et du Conseil sur le droit d'auteur dans le marché unique numérique COM/2016/0593 final - 2016/0280 (COD). Il faut également envisager les aménagements dus à la réglementation de l'Union Européenne issue des directive suivantes: Directive 2012/28/EU du Parlement Européen et du Conseil du 25 octobre 2012 sur certaines utilisations autorisées des œuvres orphelines; Directive 2013/37/EU du Parlement Européen et du Conseil du 26 Juin 2013 modifiant la directive 2003/98/CE concernant la réutilisation des informations du secteur public.

En droit français, ces droits moraux protègent la paternité, l'intégrité et la divulgation de l'œuvre. Le titulaire du droit moral jouit également d'un droit de repentir vis-à-vis de l'œuvre lui permettant son retrait après sa publication. En pratique, cela signifie qu'un auteur ou son héritier peut : s'opposer à la numérisation ou à la distribution d'une collection ; demander qu'une œuvre soit attribuée, anonymisée ou « pseudonymisée » ; ou exiger le retrait d'une œuvre (physique ou numérique) d'une collection.

- 21 Les droits moraux font partie du droit d'auteur et ne peuvent s'appliquer que si l'œuvre est, ou fut, elle-même protégée par celui-ci. Il est important de souligner que la France définit les droits moraux comme étant perpétuels, inaliénables et imprescriptibles. En tant que tels, ces droits survivent aux droits patrimoniaux conférés à l'auteur et continuent de s'appliquer aux collections du patrimoine faisant partie du domaine public.¹⁴ Un certain nombre de pays africains, et notamment de nombreux pays ayant été colonisés ou occupés par la France, ont mis en place des régimes de droits moraux similaires. C'est le cas du Mali,¹⁵ du Tchad,¹⁶ du Cameroun¹⁷ et de Madagascar,¹⁸ pour ne citer que quelques exemples de pays mentionnés dans le Rapport Sarr-Savoy. De plus, la jurisprudence française a déclaré que les droits moraux étaient opposables lors de litiges étrangers soumis au juge français, quelle que soit l'origine de l'œuvre.¹⁹ Les droits moraux peuvent donc avoir un impact important sur la numérisation et le libre accès du patrimoine.
- 22 Enfin, d'autres droits peuvent subsister tels que les droits voisins ou encore les droits *sui generis* prescrits par la législation nationale ou supranationale. Par exemple, certains pays d'Afrique accordent une protection *sui generis* des savoirs ou des expressions culturelles traditionnels.²⁰ Ces droits appartiennent

14 Voir Mathilde Pavis, 'ICH and Safeguarding: Uncovering the Cultural Heritage Discourse of Copyright' dans Charlotte Waelde and others (eds), *Research Handbook on Contemporary Intangible Cultural Heritage Law and Heritage* (Edward Elgar 2018).

15 Loi n° 08-24 du 23 juillet 2008 fixant le régime de la propriété littéraire et artistique en République du Mali, Articles 12 and 16.

16 Loi n° 005/PR/2003 du 2 mai 2003 portant Protection du Droit d'Auteur, des Droits Voisins et des Expressions du Folklore, Articles 3, 22, and 23.

17 Loi n° 2000/011 du 19 décembre 2000, sur le Droit d'Auteur et les Droits Voisins, Article 14.

18 Loi n° 94-036 Portant sur la propriété littéraire et artistique du 9 décembre 1994, Articles 20-22, 24.

19 Cass. 1re civ., 28 May 1991, Huston, n 89-19.725 and n 89-19.522; Bulletin 1991 IN 172, p 113.

20 Voir Organisation Mondiale de la Propriété Intellectuelle, *Traditional Knowledge, Traditional Cultural Expressions & Genetic Resources Laws Database* <<https://www.wipo.int/tk/en/databases/tklaws/>>; voir aussi Molly Torsen and Jane

aux pays ou aux communautés d'origine et forment un autre niveau de protection juridique à prendre en compte.

- 23 Par conséquent, toute stratégie de « libre accès » des collections dépend des différents niveaux, ou des différentes *couches*, de protection évoquées ci-dessus. La partie suivante analyse les recommandations du Rapport sous cet angle.

2. Analyse du Rapport sur les droits de propriété intellectuelle et le libre accès en matière de patrimoine africain

- 24 Le Rapport Sarr-Savoy expose avec soin l'histoire et la responsabilité de la France vis-à-vis des cultures africaines exploitées, et souligne les difficultés pratiques et administratives que représente la restitution du patrimoine africain matériel. Le Rapport pose ainsi les fondements d'un travail de mémoire et de réparations à l'égard du patrimoine culturel africain, que nous reprenons et appliquons au sujet des collections numériques.
- 25 Nous soutenons que les points soulevés par le Rapport sur ces thèmes sont tout aussi importants en matière de gestion des collections numériques. Le Rapport ne précise pas le sens donné à certains mots-clés de leurs recommandations. Un extrait de la page 58 du Rapport est reproduit et annoté ci-dessous pour en faciliter l'analyse.

b. Partage numérique

[1] Partage radical, dans le cadre du projet de restitution, des objets numérisés, y compris en ce qui concerne [2] la politique des droits à l'image. Un grand nombre de documents photographiques, sonores ou cinématographiques concernant les sociétés africaines autrefois soumises à la tutelle coloniale française ont en effet été l'objet ces dernières années de campagnes de numérisation intensives (par exemple, l'icône du musée du quai Branly-Jacques Chirac). Étant donné la multitude d'institutions françaises concernées et la difficulté qu'il y a, pour un public étranger, à s'orienter parmi ces institutions, [3] nous préconisons l'élaboration d'un portail unique donnant accès à cette précieuse documentation en libre accès. [4] Un plan de numérisation systématique des documents concernant l'Afrique non encore numérisés doit être par ailleurs établi, qui devra concerner aussi, après concertation avec les parties impliquées, les collections de manuscrits (éthiopiens, omariens, etc.) de la Bibliothèque nationale de France. [5] Il va sans dire que l'actuelle politique de droits de reproduction des images doit faire l'objet d'une révision complète en ce qui concerne les demandes émanant des pays d'Afrique pour

Anderson, 'Intellectual Property and the Safeguarding of Traditional Cultures: Legal Issues and Practical Options for Museums, Libraries and Archives' (World Intellectual Property Organization 2010) <https://www.wipo.int/edocs/pubdocs/en/tk/1023/wipo_pub_1023.pdf>.

les œuvres et sociétés africaines photographiées, filmées ou enregistrées. [6] La gratuité d'accès et d'usage de ces images et documents doit être visée.

- 26 Nous interrogeons cette recommandation en nous appuyant sur la démarche même du Rapport.

[1] « Partage radical, dans le cadre du projet de restitution, des objets numérisés »

- 27 Le Rapport ne précise pas les tenants et aboutissants de ce « partage radical » des objets numérisés. Nous supposons ici que le Rapport soutient la mise en place d'un partage radical, et émettons l'hypothèse qu'il fasse référence au mouvement « OpenGLAM » (galeries, bibliothèques, archives et musées)²¹ qui défend le maintien des œuvres dans le domaine public afin de protéger la dissémination des connaissances et la réutilisation créative des biens culturels. Cette recommandation est louable pour son attachement aux principes démocratiques soutenant le libre accès et la réutilisation du domaine public.²²

- 28 A ce sujet, il convient de rappeler que la propriété intellectuelle est une construction occidentale, elle-même influencée par une démarche historique colonialiste.²³ Il s'ensuit que le domaine public et le « libre accès » sont des composantes de cette pensée coloniale. Il est donc important de résister à l'idée d'exporter et de plaquer, sans discernement, une conception occidentale de la notion de « partage » aux patrimoines non-occidentaux. A cet égard, il nous faut souligner deux choses.

- 29 Premièrement, nous supposons que la numérisation mentionnée dans le Rapport aura lieu en France, avant le retour du patrimoine matériel à leurs pays et communautés d'origine. Par conséquent, et comme indiqué précédemment, les droits applicables aux produits de cette numérisation seraient le droit français et celui de l'Union Européenne. Actuellement, il reviendrait aux communautés dépositaires des œuvres, ici la France, de superviser le processus de numérisation, excluant toute conception africaine alternative sur la manière dont son patrimoine pourrait être représenté puis présenté au public. Cette démarche présente ainsi un risque réel d'imposer, via l'acte de numérisation et de publication en ligne en libre accès, des perspectives occidentales sur la manière dont la propriété

intellectuelle est exploitée (ou non) et sur la façon dont l'accès est pensé en rapport au patrimoine de l'Afrique.

- 30 La revendication d'un droit de propriété intellectuelle sur tout patrimoine emporte, pour celui qui s'en prévaut, la possibilité d'empêcher l'accès aux connaissances qu'il renferme. Ce droit peut ainsi contribuer au phénomène de « mémoire empêchée »²⁴ décrit par le Rapport, en accordant au titulaire présumé de ces droits un contrôle sur l'accès et la réutilisation du patrimoine. Le Rapport note, en particulier, le rôle juridique qu'ont joué les tribunaux au XIX^{ème} siècle en légitimant le « droit de ravager et de piller ce qui appartient à l'ennemi » et « le droit de s'approprier ce qui a été pris sur l'ennemi ».²⁵ De la même manière, la loi et les systèmes de propriété intellectuelle français ont la capacité de légitimer l'appropriation du patrimoine numérique de l'Afrique par les dépositaires de ses biens culturels (ici la France), et ce, alors même que leur patrimoine matériel est, quant à lui, restitué. C'est pourquoi il est impératif que nous veillions à ce que les droits de la propriété intellectuelle, résultant de la numérisation, ne participent pas, à leur tour, à l'annexion historique et à l'appropriation du patrimoine de l'Afrique, que ce Rapport invite à démanteler.

- 31 Deuxièmement, l'attribution de droit de propriété intellectuelle aux substituts numériques peut être considérée inappropriée culturellement ou légalement, concernant certains objets ou documents d'archives. Comme expliqué ci-dessus, la revendication des droits de propriété intellectuelle est une prérogative culturelle et de conservation qui appartient à la communauté d'origine. Procéder à la restitution du patrimoine africain nous offre l'opportunité de penser certains contenus en dehors du système de propriété intellectuelle (et de numérisation).²⁶ Ainsi, ce « partage radical » doit être co-écrit avec les communautés d'origine et ne doit comprendre que les œuvres pour lesquelles la numérisation, le libre accès et la réutilisation publique sont jugés appropriés, et *uniquement* selon un processus approuvé par celles-ci.

21 OpenGLAM, 'Home' <<http://openglam.org>>.

22 Ces principes sont actuellement menacés par la réduction drastique des financements publics affectant le secteur du patrimoine. En dépit de cette réduction des budgets publics, un nombre croissant de galeries, de bibliothèques, d'archives et de musées choisissent de renoncer aux avantages économiques conférés par le droit d'auteur afin de partager, sans restriction, tout ou partie de leurs collections numériques. Voir, McCarthy and Wallace (n 3).

23 Voir Pavis (n 14).

24 Rapport Sarr-Savoy, 26. (31 dans la version anglaise).

25 Rapport Sarr-Savoy, 7. (9 dans la version anglaise).

26 Par exemple, une communauté peut avoir autorisé l'enregistrement audio ou vidéo d'un rituel secret à des fins de recherche précis, refusant que ces enregistrements soient rendus accessibles au public de manière générale. Ces demandes, émanant de communautés d'origine, doivent être prises en compte, qu'il existe ou non des droits de propriété intellectuelle ou des *sui generis* droits sur le contenu documenté.

[2] « la politique des droits à l'image »

- 32 Le Rapport ne nous éclaire pas sur la nouvelle politique des droits à l'image qu'il propose. Nous soutenons ce que nous comprenons être l'esprit général de cette recommandation tout en soulevant les préoccupations suivantes qui, là encore, s'inscrivent dans les problématiques identifiées dans le Rapport comme étant au cœur de la démarche de restitution. Si la question de la « politique des droits à l'image » est étroitement liée au sujet du « partage radical » traité ci-dessus, il est important de l'analyser séparément pour les raisons suivantes.
- 33 Premièrement, le processus de numérisation peut exposer le patrimoine culturel africain à un second « système d'appropriation et d'aliénation » dont le démantèlement est pourtant au centre de la démarche du Rapport.²⁷ Le droit d'auteur, en reconnaissant l'existence d'un auteur vis-à-vis d'une œuvre permet une appropriation symbolique de celle-ci et permet de contrôler les connaissances et la personnalité associées avec l'objet matériel.²⁸ L'aliénation quant à elle, peut survenir du fait du processus de reproduction de deux manières : à la fois *symboliquement*, lorsque les préoccupations relatives à un traitement sensible de l'objet matériel ne sont pas appliquées dans sa version numérique ; et *physiquement*, lorsque le substitut numérique est aliéné et accessible en ligne en libre accès, séparément de l'objet matériel qui est lui restitué à la communauté d'origine. C'est pourquoi les préférences culturelles de ces communautés d'origine, qu'il s'agisse de communautés historiques ou géographiques contemporaines, doivent être prises en compte dans la révision de la « politique des droits à l'image ».
- 34 Cette réflexion pourrait également s'appliquer aux biens culturels africains (et d'autres communautés) légalement détenus par les institutions françaises *non* destinés à être rendus, mais qui n'en seront pas moins numérisés. Au sein des institutions patrimoniales qui ont déjà entamé travail de réflexion, des stratégies approfondies ont été élaborées en matière d'autorisations, et ce, en collaboration avec les communautés d'origine dont les objets leur ont été confiés.²⁹ Comme le note le

27 Rapport Sarr-Savoy, 2.

28 Pavis (n 14).

29 Par exemple, les initiatives du musée Field à Chicago (Etats-Unis) et du musée Auckland War Memorial Museum (Nouvelle-Zélande), notamment, se sont recentrées sur point de vue des communautés autochtones dans la gestion des collections. Voir Alaka Wali, 'Making Room for Native American Voices' *Field Museum Blog* (8 November 2018) <<https://www.fieldmuseum.org/blog/making-room-native-american-voices>>; voir également Sarah Powell, Adam Moriarty, Michaela O'Donovan, Dave Sanderson, "The "Open by Default" Journey of Auckland

Rapport, la démarche de restitution est l'occasion d'« inverser le rapport hégémonique »³⁰ colonial autour du traitement du patrimoine africain (et du patrimoine d'autres communautés), y compris pour celui du patrimoine destiné à rester en France.

- 35 Deuxièmement, cette « politique des droits à l'image » a sa propre historiographie. Comme pour le processus de restitution détaillé par le Rapport, la numérisation et l'exploration des droits à l'image impliquent « bien davantage qu'une seule exploration du passé : il s'agit avant tout de bâtir des ponts vers des relations futures plus équitables ».³¹ Nous encourageons le gouvernement à réfléchir à la manière dont les campagnes de numérisation conçues pour ces collections contribueront à l'établissement future relations équitables autour du patrimoine culturel et de son traitement à la lumière du passé de cette politique des droits à l'image.

[3] « nous préconisons l'élaboration d'un portail unique donnant accès à cette précieuse documentation en libre accès »

- 36 Le Rapport ne contient pas de définition ou de détail sur le contexte de cette recommandation nous permettant de saisir le sens de ce « libre accès », de manière précise. Comme expliqué ci-dessus, la notion de « libre accès » a reçu nombre d'interprétations diverses et variées en pratique. A *minima*, la notion de « libre accès » implique la mise à disposition et la visualisation en ligne du contenu, à titre gratuit, afin de permettre un public non-local d'y accéder. Nous supposons que cette recommandation est motivée par l'une ou l'ensemble des raisons suivantes:

- a) Améliorer l'éducation concernant : l'histoire et les effets néfastes de la colonisation ; les dynamiques de pouvoir qui sous-tendent la formulation des récits et la création des connaissances occidentales, la préservation, la conservation et le traitement du patrimoine culturel africain ; la nécessité d'accorder plus d'attention à la restitution du patrimoine à l'échelle mondiale ; et les objectifs à l'origine cette initiative ;³²

Museum's Collections Online' *SocietyByte* (August 2017). <<https://www.societybyte.swiss/2017/08/21/the-open-by-default-journey-of-auckland-museums-collections-online/>> D'autres institutions ont également pris l'initiative de développer un système de permissions dites « culturelles » (cultural permissions) dans leurs méthodes d'étiquetage dans la présentation des œuvres et de gestion des droits de propriété intellectuelle, tels que RightsStatements.org and Local Contexts. Voir 'RightsStatements.org,' <<https://rightsstatements.org>>; voir aussi 'Local Contexts,' <<http://localcontexts.org>>.

30 Rapport Sarr-Savoy, 32. (38 dans la version anglaise).

31 Rapport Sarr-Savoy, 2.

32 Cette hypothèse est également étayée dans le Rapport au sujet du portail internet à la page 73 (86 dans la version

- a) S'assurer que les pays, les communautés et les institutions africaines fournissent un accès aux collections numériques du patrimoine restitué afin que les personnes ayant accès à ces œuvres, avant leur restitution, puissent continuer à y avoir accès ;
- a) Empêcher les établissements français dépositaires du patrimoine africain de revendiquer et d'exercer des droits de propriété intellectuelle sur les substituts numériques qu'elles possèdent ou pourraient générer, ce qui aurait pour conséquence d'empêcher la restitution du patrimoine numérique.

37 Là encore, l'esprit et l'objectif de la création de ce portail s'alignent sur les principes du mouvement international OpenGLAM soutenant « le progrès des connaissances de l'humanité » afin que les utilisateurs puissent non seulement « profiter des richesses des institutions de la mémoire du monde, mais aussi contribuer, participer et partager ». ³³ Il faut cependant s'interroger quant à savoir si ce positionnement est compatible avec le droit moral ou juridique des communautés d'origine de pouvoir décider de la numérisation et de la mise en libre accès de leur patrimoine.

38 Dans une section intitulée « La longue durée des pertes », le Rapport critique les structures juridiques ayant permis « la capitalisation économique (par le biais du marché) et symbolique (par le biais des musées) » du patrimoine allant « mains dans la main » avec sa « captation violente » pendant les « guerres du XIXe siècle ». ³⁴ Ramenée à notre époque, les structures juridiques, soutenant une numérisation systématique et obligatoire ainsi que les stratégies de libre accès, comportent le risque de renforcer à la fois la capitalisation économique (via l'exploitation de la propriété intellectuelle) et symbolique (via le portail d'accès ouvert), mariant ainsi les deux pratiques dénoncées par le Rapport.

[4] « Un plan de numérisation systématique des documents concernant l'Afrique non encore numérisés doit être par ailleurs établi »

39 S'agissant de la « numérisation systématique », nous réitérons les préoccupations exprimées précédemment. Nous suggérons l'adoption d'une approche de « numérisation lente », ³⁵ devant

anglaise), discutée dans notre réponse ci-après.

33 OpenGLAM, 'OpenGLAM Principles' <<https://openglam.org/principles/>>.

34 Rapport Sarr-Savoy, 8. (11 dans la version anglaise).

35 Voir Andrew Prescott and Lorna Hughes, 'Why Do We Digitize? The Case for Slow Digitization' [2018] *Archive Journal* <[http://www.archivejournal.net/essays/why-do-](http://www.archivejournal.net/essays/why-do-we-digitize-the-case-for-slow-digitization/)

recevoir le même soin et la même attention que ceux apportés aux objets physiques, au lieu de numériser le patrimoine africain rapidement afin de le rendre disponible en ligne. Naturellement, cela nécessite une réflexion sur les institutions les mieux placées pour s'acquitter d'une telle tâche, ainsi qu'un examen des valeurs qui sous-tendraient leurs travaux. Sur ce point, les experts nous lancent un avertissement qu'il semble pertinent de soulever ici :

Paradoxalement, l'accent mis sur la numérisation des trésors culturels risque de compromettre l'argument selon lequel la numérisation ouvre et démocratise l'accès au patrimoine culturel. *Si les bibliothèques numériques ne font que réitérer et renforcer des récits et des stéréotypes culturels de longue date, plutôt que de permettre l'exploration de collections oubliées ou négligées, alors elles deviendraient des agents d'exclusion culturelle.* ³⁶

40 Nous devons analyser de manière critique les besoins satisfaits par la numérisation systématique et il nous faut étudier, en collaboration avec les parties concernées, la mise en place d'une approche plus nuancée, servant les intérêts des communautés d'origine historiques et géographiques. Le focus du Rapport sur la numérisation systématique et le libre accès obligatoire risque de « renforcer les stéréotypes et canonicités culturels existants » ³⁷ imposés aux objets physiques par la culture dépositaire.

41 Les extraits restants ne sont abordés que brièvement dans la mesure où ils s'appuient sur les points précédents.

[5] « Il va sans dire que l'actuelle politique de droits de reproduction des images doit faire l'objet d'une révision complète en ce qui concerne les demandes émanant des pays d'Afrique pour les œuvres et sociétés africaines photographiées, filmées ou enregistrées »

42 Nous partageons l'avis et l'objectif général du Rapport en ce qui concerne la nécessité de réviser les « droits de reproduction des images ». Cependant, le sens et la substance de cette déclaration ainsi que la manière dont elle prendrait en compte les préoccupations exprimées ci-dessus restent flous. En particulier, le Rapport ne précise pas si les pays africains concernés par la restitution contribueront à cette révision, ou bien s'ils ne seront que dans la mesure de demander le duplicata des œuvres numérisées par les institutions françaises.

[6] « La gratuité d'accès et d'usage de ces images et documents doit être visée »

[we-digitize-the-case-for-slow-digitization/](https://www.archivejournal.net/essays/why-do-we-digitize-the-case-for-slow-digitization/).

36 Ibid. (emphasis added).

37 Ibid.

- 43 La dernière déclaration du Rapport sur la question du partage numérique, concernant l'objectif d'accès libre et gratuit « de ces images et documents », n'apparaît pas avoir été co-écrite avec les communautés africaines impliquées, mais énoncée par les auteurs du Rapport. Le Rapport ne décrit pas comment les auteurs aboutissent à cette conclusion pour en faire une recommandation ; une clarification sur ce point serait la bienvenue. La position du Rapport sur cette question est problématique car elle crée un « deux poids, deux mesures » en imposant un accès libre et ouvert aux collections numériques du patrimoine africain, sans que de tels obligations soient pour autant imputées des institutions du patrimoine français. Ce point est développé en détail ci-dessous.
- 44 Sur la base de cette discussion, la partie suivante résume nos inquiétudes à l'égard des recommandations du Rapport à l'égard de la gestion des collections culturelles numériques.
- 3. Synthèse de la critique du Rapport et de ses recommandations**
- 45 Nous faisons valoir dans cette Réponse qu'une réflexion critique sur le rôle de la propriété intellectuelle est nécessaire afin d'aboutir à une réelle « nouvelle éthique relationnelle » dans la démarche de restitution du patrimoine africain. Notre critique porte principalement sur la volonté de numérisation systématique (et de ses conséquences) et sur les droits qui peuvent en découler. Nous la résumons ci-dessous.
- 46 En premier lieu, les mêmes principes de dignité et de respect, reconnus par le Rapport envers les œuvres et leur restitution, doivent être appliqués à leur numérisation. Le Rapport critique l'Europe des années 1960 pour avoir manqué à son obligation de s'attaquer aux structures coloniales profondément enracinées dans la propriété et la gestion du patrimoine culturel africain. Pour autant cette « réflexion structurée dédiée au rôle que pourraient jouer le patrimoine culturel [numérique] dans l'émancipation des pays d'Afrique anciennement colonisés » fait elle-même défaut dans le Rapport.³⁸ Il est préoccupant de constater qu'un élément aussi important que celui du patrimoine culturel numérique, soit négligé. Une telle omission risque de nous faire répéter les erreurs commises pendant (et avant) les années 1960 lors de nos efforts de restitution du patrimoine africain, aussi sincères soient-ils.
- 47 En effet, tout comme il existe « différentes conceptions du patrimoine »,³⁹ il existe différentes conceptions du patrimoine *numérique*. La question du numérique ne peut pas être traitée après-coup. Tout rééquilibrage du patrimoine culturel mondial doit anticiper ces différences et, plus encore, doit être guidé par les intérêts des communautés d'origine concernées. Ce rééquilibrage doit tenir compte des conceptions alternatives des notions d'objet, d'auteur et de personnalité, de représentation et de présentation, et de la notion d'héritage numérique, afin de se dégager du « seul cadre de la pensée européenne ».⁴⁰
- 48 En second lieu, la question de savoir si des droits de propriété intellectuelle existent au sein des collections culturelles numériques et à qui appartiennent ces droits, relève du domaine juridique et reste actuellement sans réponse en droit français. Il est peu probable que cette question soit réglée avant le commencement du processus de restitution tel que prévu par le Rapport.
- 49 En l'absence de directives juridiques claires, le gouvernement français doit, *a minima*, adopter une position soutenable politiquement. Cette position doit tenir compte du fait que (a) les institutions françaises revendiquent des droits de propriété intellectuelle, dans leur totalité, sur leurs collections numériques, et que (b) très peu d'institutions françaises mettent tout ou partie de leurs collections numériques à disposition en libre accès.⁴¹ Par conséquent, le gouvernement serait avisé de ne pas tenir une ligne dépourvue de réciprocité par rapport au libre accès, selon laquelle les institutions françaises ne se verraient pas tenues à la même rigueur d'accès concernant leur propre patrimoine que celle appliquée aux communautés africaines.
- 50 Nous comprenons que les recommandations formulées dans le Rapport sur la question des droits applicables aux collections numériques du patrimoine africain visent à promouvoir la libre circulation de l'information et du savoir. Cet objectif est très certainement louable et défendable. Toutefois, et compte tenu des lacunes juridiques qui entourent la question de la numérisation et du libre accès, les recommandations du Rapport risquent de

39 Rapport Sarr-Savoy, 25. (29 dans la version anglaise).

40 Rapport Sarr-Savoy, 28. (33 dans la version anglaise).

41 Celles connues des auteurs incluent: 1) Alliance Israélite Universelle; (2) Babord-Num (Université de Bordeaux); (3) Bibliothèque de l'Institut national d'histoire de l'art; (4) Bibliothèque de Rennes Métropole; (5) Bibliothèque municipale de Lyon; (6) Bibliothèque nationale et universitaire, Strasbourg; (7) Centre national de la danse; (8) Lo CIRDÒC (Occitanica); (9) Musée d'art et d'histoire de Saint-Brieuc; (10) Musée de Bretagne; (11) Musée de Die; (12) Musée des Augustins; (13) Musée Saint-Raymond. McCarthy and Wallace (n 3).

38 Rapport Sarr-Savoy, 14. (18 dans la version anglaise).

placer le gouvernement français dans une position où il restituerait le patrimoine africain *matériel* tout en conservant le contrôle de la production, de la présentation et de la gestion du patrimoine africain *numérique*. Ces recommandations ne sont donc pas soutenables en pratique.

4. Recommandations alternatives

- 51 À la lumière des arguments présentés ci-dessus, nous formulons les recommandations alternatives suivantes, celles-ci n'étant en aucun cas exhaustives. Nous abordons en particulier les décisions préliminaires concernant la numérisation et l'accès et soulignons les ajustements du cadre juridique en cause nécessaires afin de faciliter la restitution. Nous rappelons également les autres opportunités que peuvent offrir le libre accès et la création d'un portail internet dans le contexte du retour du patrimoine africain.

Numérisation et patrimoine culturel africain

- 52 D'abord et avant tout, les décisions en matière de numérisation et de libre accès doivent incomber uniquement aux pays, aux communautés ou aux institutions à qui le patrimoine culturel est restitué. **Autrement dit, la restitution ne doit être accompagnée d'aucune obligation garantissant la numérisation ou le libre accès du patrimoine culturel en cause.**
- 53 La numérisation et la gestion des droits sur les collections numériques sont parties prenantes de la conservation du patrimoine culturel dans la mesure où ces décisions impactent la manière dont ce patrimoine est représenté, préservé et remémoré. Ces décisions doivent donc être confiées aux communautés d'origine. Le processus de restitution est l'opportunité pour la France d'accompagner les communautés africaines dans cette démarche, en offrant un soutien technique comme financier, parmi d'autres formes de réparation.
- 54 De plus, la décision d'adhérer au libre accès n'est ni neutre, ni dérisoire. Cette décision a pour conséquence d'abandonner tout contrôle sur la manière dont le patrimoine est présenté, reproduit et répertorié. Pour les communautés qui cherchent, en premier lieu, à se réapproprier et à redécouvrir leur patrimoine culturel matériel, cette décision délicate ne saurait être précipitée. Cela ne signifie pas que la numérisation ou le libre accès soient nécessairement inappropriés dans le cadre d'un accord de restitution,⁴² mais que de telles décisions

doivent être prises *uniquement* par le(s) pays, communauté(s) ou institution(s) à qui le patrimoine culturel est restitué.

Modifications du cadre juridique en cause

- 55 Deuxièmement, le statut et la gestion des collections numériques représentent un enjeu considérable à l'ère du numérique. Ces collections occupent une place de plus en plus importante au sein des institutions du patrimoine culturel. **Cette question est d'importance égale à celle de la propriété des objets physiques ; aussi il est impératif que toutes négociations incluent une consultation sur le sujet de la numérisation et des droits de propriété intellectuelle à conférer, ou non, au patrimoine africain numérique.**
- 56 Une telle consultation doit envisager la modification et le développement des cadres juridiques applicables au projet de restitution matérielle et numérique. Bien que la dernière partie du Rapport, intitulée « Accompagnement des retours », expose le cadre chronologique, juridique, méthodologique et financier de la restitution *matérielle*, elle ne fait état d'aucun cadre général concernant les questions de numérisation et de gestion de la propriété intellectuelle.⁴³
- 57 Dans un premier temps, le Rapport suggère d'entreprendre un inventaire de toutes les pièces du patrimoine africain conservées au sein des collections françaises.⁴⁴ Ici, nous recommandons que tout d'inventaire recense également: (1) l'existence éventuelle de droits de propriété intellectuelle sur le patrimoine *matériel*, notamment en ce qui concerne la documentation ou les documents d'archives; (2) si la numérisation (même à des fins de préservation) est appropriée et, le cas échéant, à quelles fins; (3) si l'accès au contenu est approprié et, dans l'affirmative, à quelles fins; (4) si des droits de propriété intellectuelle ou d'autres droits *sui generis*⁴⁵ sur la documentation ou les substituts numériques *actuellement* détenus, sont (a) reconnus ou (b) susceptibles d'être applicables à d'autres collections numériques lors de processus de numérisation *futurs*; (5) si ces droits de propriété intellectuelle sont, dans les faits, appropriés pour les collections numériques; et, le cas échéant, (6) qui serait le titulaire adéquate de ces droits (et si la cession de ces droits est envisageable par la suite).

accès souligne l'importance d'impliquer les communautés d'origine au cœur de ces projets. Rapport Sarr-Savoy, 29 (34 dans la version anglaise) (citant Achile Mbembe, *Notes sur les objets sauvages*, à paraître).

43 Rapport Sarr-Savoy, 61-74. (71-86 dans la version anglaise).

44 Rapport Sarr-Savoy, 35-36, 57-58. (41-42, 67 dans la version anglaise).

45 Voir RightsStatements.org et Local Contexts (n 28).

42 Le Rapport souligne la position d'Achile Mbembe sur la manière dont ces sociétés africaines «ont engendré des systèmes ouverts de mutualisation des connaissances au sein d'écosystèmes participatifs, où le monde est une réserve de potentiels». Cette description éloquente du libre

58 En parallèle, les droits de propriété intellectuelle et l'impact des droits reconnus à perpétuité doivent également être pris en compte dans la révision des textes visant à adapter les obligations de propriété publique et l'inaliénabilité qui constituent aujourd'hui l'obstacle principal faisant face aux restitutions.⁴⁶ Toute révision doit figurer dans les accords bilatéraux envisagés par le Rapport.⁴⁷ Pour ce faire, les droits de propriété intellectuelle et autres droits *sui generis* devront faire l'objet d'une attention plus rigoureuse que celle dont fait preuve le Rapport sur la question des « droit à l'image » et du libre accès. Il est donc impératif de mener une réflexion approfondie et une consultation plus aboutie sur ces sujets, avant de procéder à la numérisation.

Stratégies de libre accès et des plateformes internet : de nouvelles opportunités

59 Enfin, nous nous tournons vers les opportunités que le libre accès et autres plates-formes internet ont à offrir. Nous nous appuyons sur les recommandations du Rapport concernant le patrimoine matériel, **et demandons au gouvernement français d'entreprendre une « réflexion structurée dédiée au rôle que pourraient jouer [le patrimoine numérique] dans l'émancipation des pays d'Afrique anciennement colonisés ».**⁴⁸ Cette réflexion doit mettre l'accent sur deux domaines : le portail et les stratégies décrites par le Rapport aux pages 73 à 74 (« Appropriation populaire »).

60 Dans le cadre de la création du portail,⁴⁹ des modèles existants de collections numériques, d'agrégateurs de données culturelles et de plates-formes internet, conçus par des organisations qui ont mis en place des portails similaires, pourraient être étudiés. Le gouvernement pourrait également envisager d'adopter les systèmes structurant et hébergeant des contenus du patrimoine culturel déjà développés par des organisations telles que Europeana, Wikimedia ou GitHub, afin d'éviter une dépense de recherches inutile. Par exemple, des projets tels que Europeana ont mis au point une infrastructure digital qui permet l'agrégation de contenu, sous forme de métadonnées standardisées, provenant d'institutions et organisations culturelles très différentes. De plus, de nombreuses institutions utilisent maintenant Wikimedia Commons et GitHub

46 Rapport Sarr-Savoy, 64-65. (75-76 dans la version anglaise).

47 Rapport Sarr-Savoy, 66-67. (77-78 dans la version anglaise).

48 Rapport Sarr-Savoy, 14. (18 dans la version anglaise).

49 Le Rapport recommande : « L'établissement d'un portail en ligne sur la thématique de la circulation des objets, qui contiendrait des informations générales sur la situation et la répartition du patrimoine culturel issu du continent africain hors d'Afrique, tout en proposant des récits détaillés de la trajectoire de certaines pièces à l'aide de textes et de documents multimédias, serait une piste engageante. » Rapport Sarr-Savoy, 73. (86 dans la version anglaise).

afin d'héberger leur contenu et le partager librement avec un public pluriel.

61 Le gouvernement doit envisager, dans toute la mesure du possible, la manière dont il pourrait contribuer aux initiatives de numérisation ayant cours en Afrique.⁵⁰ Cela faciliterait la création de solutions communautaires autour de la numérisation, de l'accès et de l'éducation (dans les langues locales notamment). Comme le souligne le Rapport dans la partie intitulée « Appropriation populaire », restituer « c'est également travailler à ce que les communautés concernées ainsi que le grand public puissent s'approprier cette démarche dans l'ensemble de ses aspects ».⁵¹ Le Rapport décrit ensuite la façon dont cet objectif peut être mis en pratique via « la production d'ouvrages, de brochures et de films documentaires » pour ne citer que quelques exemples.⁵² Il décrit également le potentiel pour que de nouveaux réseaux de collaboration se créent, en phase avec ce souci de réparation, et mènent à la production de nouvelles œuvres et de biens culturels.

62 Nous supposons que le Rapport ne traite que brièvement du portail et les avantages associés, pour des raisons pratiques. Nous suggérons que les recommandations que nous venons d'exposer soient prises en compte, dans l'hypothèse où l'initiative de restitution serait suivie d'effets.

CONCLUSION

63 L'initiative de restitution, ainsi guidée par le Rapport Sarr-Savoy, aura un impact positif durable sur notre compréhension de l'histoire et de la culture, s'étendant sur plusieurs générations. C'est précisément pour cette raison que cette initiative doit anticiper et intégrer dès à présent les enjeux du numérique. Les communautés d'origine doivent jouir d'une autonomie totale dans la définition d'une stratégie de libre accès concernant leur propre patrimoine culturel numérique. Toute démarche doit être conçue en partenariat avec les communautés d'origine, quand bien même la mise en place d'un accès libre et gratuit fasse consensus. Le gouvernement français est particulièrement bien placé pour entamer une réflexion sur la mise en place de négociations équitables quant à la manière dont le processus de restitution doit se dérouler. Les

50 Voir par exemple, Cherry Leonardi, Zoe Cormack et Sarah Bevin, 'New explorations into South Sudanese museum collections in Europe' <<https://southsudanmuseumnetwork.com>>; Paul Basu, 'Reanimating Cultural Heritage' and 'SierraLeoneHeritage.Org' <<http://www.sierraleoneheritage.org>>; and 'Digital Innovation South Africa' <http://www.disa.ukzn.ac.za/About_Us>.

51 Rapport Sarr-Savoy, 73. (85 dans la version anglaise).

52 Rapport Sarr-Savoy, 73. (85 dans la version anglaise).

fruits d'une telle collaboration entre les institutions françaises et les communautés d'origine éclaireront d'autres gouvernements et d'autres institutions dans leurs propres démarches de restitutions, qui n'ont que trop tardées.

Nous, soussignés (108) universitaires et experts en droit de la propriété intellectuelle et du patrimoine culturel matériel et numérique, soutenons et co-signons la « Réponse au Rapport Sarr-Savoy : Déclaration sur la numérisation, les droits de propriété intellectuelle et le libre accès du patrimoine culturel africain et des archives connexes »

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Fixing Copyright Reform

A Better Solution to Online Infringement

by **Christina Angelopoulos and João Pedro Quintais***

Abstract: The newly-adopted Directive on Copyright in the Digital Single Market (DSMD) will fundamentally reshape EU copyright law. Among its most controversial offerings is Article 17, the so-called “value gap” provision, aimed at solving the alleged mismatch between the value that online content-sharing platforms extract from creative content and the revenue returned to the copyright-holders. This article argues that the new rules are misguided, misconceiving the real problems afflicting modern copyright. These are the proliferation of copyright infringement online in general – not only through content-sharing platforms – and the current piecemeal harmonisation of the rules on the liability of the intermediaries whose services are used to access and

disseminate copyright-protected content. The current outdated and fragmented EU legal framework is ill-equipped to address these problems. Instead, it creates legal uncertainty for users and intermediaries in the online environment, while also failing to compensate creators fairly. The new rules will not change this. This article examines the pre-DSMD *acquis* and proposes a better solution than Article 17, consisting of two key changes: (a) the introduction of a harmonised EU framework for accessory liability for third party copyright infringement; and (b) the adoption of an alternative compensation system for right-holders covering non-commercial direct copyright use by the end-users of certain online platforms.

Keywords: Copyright; enforcement; ‘value gap’; intermediaries; end-user rights; compensation

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A. Introduction

1 In September 2016, the European Commission published its proposal for a new Directive on Copyright in the Digital Single Market (DSMD).¹ The proposal was controversial from the start. Almost every step of the legislative process was the subject

of intense lobbying and debate, up until the final text was approved in 2019.²

2 Among the more controversial offerings of the Directive is Article 17 (13 in earlier drafts) on the “[u]se of protected content by online content-sharing service providers”. Although neither the Explanatory Memorandum nor the Impact Assessment to the

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1 Proposal for a Directive of the European Parliament and of the Council on copyright in the Digital Single Market (COM(2016)593).

2 Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC [hereinafter: “DSM Directive” or “DSMD”]. For a timeline of the EU Copyright reform process, see CREATE, ‘EU Copyright Reform, Timeline of Developments’ www.create.ac.uk/policy-responses/eu-copyright-reform/ accessed 26 April 2019. For an overview of the DSM Directive, see JP Quintais, ‘The New Copyright in the Digital Single Market Directive: A Critical Look’ (24 July 2019) EIPR (forthcoming) <http://dx.doi.org/10.2139/ssrn.3424770>.

Directive explicitly use the term, it is widely accepted that the main driver behind Article 17 is what has become known as the “value gap”, i.e. the alleged mismatch between the value that online sharing platforms extract from creative content and the revenue returned to the copyright-holders.

- 3 Article 17 regulates “online content-sharing service providers” (OCSSPs). These are defined as service providers with a profit-making purpose that store and give the public access to large numbers of copyright works uploaded by their users, which they organise and promote. This applies not only to well-known platforms, like YouTube, Facebook or Vimeo, but also to any type of user-upload platform that fits this broad definition and is not expressly excluded.³ The provision changes existing law by stating that such platforms carry out acts of communication to the public when they give access to works uploaded by their users.⁴ These platforms are therefore made primarily liable for their users’ uploads. Under the new Directive, OCSSPs no longer benefit in relation to such uploads from the hosting safe harbour, which was previously available to many of them.⁵
- 4 Platforms that fall under this regime have two options. First, they may obtain authorisation from the right-holders by concluding a licensing agreement for the content uploaded by users.⁶ This is problematic, as it’s nearly impossible to envision a scenario where a platform of this type can obtain all the required licences for the potentially millions of works uploaded by their users.⁷ The second option provided is therefore likely to be heavily relied upon. According to this, platforms can avoid liability if they meet a number of cumulative conditions/requirements. They must demonstrate that they have: (a) made best efforts to obtain an authorisation; (b) made best efforts to ensure the unavailability of specific works for which the right-holders have provided them with the relevant and necessary information; and (c) acted expeditiously, subsequent to a notice by the right-holders, to take

down or disable access to infringing content and made best efforts to prevent its future upload.⁸

- 5 Many commentators argued during the legislative process that the obligations introduced by Article 17 would be incompatible with pre-existing EU directives, as well as with the EU Charter of Fundamental Rights,⁹ as interpreted by the CJEU.¹⁰ In order to ensure the unavailability of works and escape liability, platforms will be obliged to examine all uploaded content to ensure that it does not infringe copyright in works listed by right-holders and remove that which does. Given the immense amounts of content that many platforms store, in practice this will involve the use of automatic content recognition technologies, otherwise known as “upload filters”. Critics point out that, whether done manually or through automated tools, such checks will require general monitoring, an outcome incompatible with earlier law¹¹ and which the directive explicitly rejects.¹² Crucially, in its case law, the CJEU has also stated that broad filtering measures would be in violation of platforms’ freedom to conduct a business, as well as users’ rights to the protection of personal data and freedom of expression.¹³

8 Art. 17(4) DSMD.

9 Charter of Fundamental Rights of the European Union, O.J. 2016, C 364/01 [hereinafter: ‘Charter’].

10 See e.g. S Stalla-Bourdillon et al., ‘A Brief Exegesis of the Proposed Copyright Directive’ (24 November 2016) <<https://ssrn.com/abstract=2875296>> accessed 26 April 2019 and M Senftleben et al., ‘The Recommendation on Measures to Safeguard Fundamental Rights and the Open Internet in the Framework of the EU Copyright Reform’ 40(3) (2018) EIPR 149-163; C Angelopoulos, ‘Study on Online Platforms and the Commission’s New Proposal for a Directive on Copyright in the Digital Single Market’ (January 2017) <<https://ssrn.com/abstract=2947800>> accessed 26 April 2019.

11 See Art. 15 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) [2000] OJ L 178/1.

12 See Art. 17(8) and Recital 66 DSMD. Despite this it is not clear how infringing works are to be located without the platform monitoring all posted content. Recital 66 does suggest that “in some cases” the availability of unauthorised content may “only be avoided upon notification of rightholders”. This presumably means that in other cases it will be for the intermediary to find infringements through general checks. For further criticism, see e.g. M Senftleben, “Bermuda Triangle – Licensing, Filtering and Privileging User-Generated Content Under the New Directive on Copyright in the Digital Single Market” E.I.P.R. 2019, 41(8), 480-490 and Communia Association, ‘A Final X-Ray of Article 13: Legislative Wishful Thinking that Will Hurt User Rights’ (COMMUNIA, 5 March 2019) <<https://www.communia-association.org/2019/03/05/final-x-ray-article-13-dangerous-legislative-wishful-thinking/>> accessed 26 April 2019.

13 Case C-70/10, *Scarlet Extended* (24 November 2011) ECLI:EU:C:2011:771; Case C-360/10, *Netlog* (16 February 2012) ECLI:EU:C:2012:85, [41]–[43], [48], [50]–[51]; Case C-484/14,

3 Art. 2(6) DSMD. The definition contains a non-exhaustive list of exclusions, including: not-for profit online encyclopaedias, not-for-profit educational and scientific repositories, open source software developing and sharing platforms, electronic communication service providers, online marketplaces and certain storage cloud services.

4 Art. 17(1) DSMD. NB that Recital 64 states – incorrectly in our view – that this provision is a clarification of existing law.

5 Art. 17(3) DSMD, explicitly excluding the application of Art. 14(1) ECD.

6 According to Art. 17(2) DSMD, that authorisation will extend to uploading users, provided their activities are non-commercial.

7 M Senftleben, “Bermuda Triangle – Licensing, Filtering and Privileging User-Generated Content Under the New Directive on Copyright in the Digital Single Market” E.I.P.R. 2019, 41(8), 480, 481.

- 6 To avoid the negative effects of such obligations, the provision requires platforms to ensure filters will not prevent the availability of works which do not infringe copyright. This would include uses covered by an exception or limitation, such as those for the protection of quotation, criticism, review, caricature, parody, or pastiche.¹⁴ Unfortunately, existing content recognition technologies are incapable of accommodating such dynamic and context-specific exceptions. Human review is unlikely to help much, unless undertaken by judges. The result will be that many otherwise lawful uses will be blocked.¹⁵ Although the DSMD does require that platforms implement complaint and redress mechanisms for users, these are unlikely to mitigate these effects in any meaningful way, since these mechanisms are typically ineffective.¹⁶ Article 17 also incorporates some safeguards for providers' freedom to conduct a business, in the form of factors to be taken into account in determining whether an OCSSP has complied with its obligations.¹⁷ Whether these are sufficient will be a question for the courts. Finally, while the Directive does explicitly state that it should not lead to the unlawful processing of personal data,¹⁸ it is not obvious how the filtering that Article 17 incentivises can avoid that outcome.¹⁹
- 7 In addition to these shortcomings, this article suggests that Article 17 suffers from a more fundamental weakness: it is based on a misconception of the real problem afflicting EU copyright law, i.e. the proliferation of copyright infringement online *in general*, not only through Web 2.0 hosts. This problem is compounded by an increasingly outdated EU copyright framework that allows infringing end-users to hide behind their online anonymity, while failing to provide any mechanism for the compensation or remuneration of right-holders for the infringements these users commit.²⁰ Faced with this impasse, right-holders have shifted their focus to internet intermediaries. Yet, while the CJEU's recent case law has waded into the tricky area of intermediary liability, no complete system of rules determining what obligations intermediaries have to prevent or remove online copyright infringement currently exists at the EU level.
- 8 Absent a more stable legal basis, targeted superstructure initiatives such as the new directive are set up for failure. At best they can improve a small part of a larger problem and at worst introduce significant legal uncertainty. If EU copyright law is to be reformed, it is on the above crucial weak spots that proposals should focus. This article proposes an alternative approach to Article 17, intended to better target these weak spots. Based on our pre-existing research into the areas of intermediary liability and copyright compensation systems, we advance a two-pronged proposal, consisting of: (a) the introduction of a harmonised EU framework for accessory liability for third party copyright infringement; and (b) the adoption of an alternative compensation system for right-holders covering non-commercial direct copyright use by the end-users of certain online platforms.²¹ As we explain, this solution avoids the difficulties encountered by Article 17 DSMD, while successfully targeting the copyright framework's real failings.
- 9 The article progresses in the following manner. Part B begins with a descriptive account of the relevant pre-DSMD EU law on copyright, in particular the Information Society Directive (InfoSoc Directive)²² and the E-Commerce Directive (ECD),²³ as interpreted by the CJEU. Part C moves on to the article's normative offering: our proposed alternative approach to copyright reform. Here, each of the proposal's two components are analysed in detail. Part D concludes with a brief pragmatic assessment.

McFadden, (15 September 2016) ECLI:EU:C:2016:689. See also C Angelopoulos, 'Study on Online Platforms and the Commission's New Proposal for a Directive on Copyright in the Digital Single Market' (January 2017) <<https://ssrn.com/abstract=2947800>> accessed 26 April 2019.

14 Art. 17(5) DSMD.

15 See M Senftleben, "Bermuda Triangle – Licensing, Filtering and Privileging User-Generated Content Under the New Directive on Copyright in the Digital Single Market" E.I.P.R. 2019, 41(8), 480, 484–485. See also E Engstrom and N Feamster, 'The Limits of Filtering: A Look at the Functionality and Shortcoming of Content Detection Tools' (Engine, March 2017) <www.engine.is/the-limits-of-filtering>.

16 Art. 17(8) DSMD. On the ineffectiveness of complaint and redress mechanisms in this context, see J Urban, J Karaganis & B Schofield, 'Notice and Takedown in Everyday Practice' (March 2016) UC Berkeley Public Law Research Paper No. 2755628, <ssrn.com/abstract=2755628>, 57–62.

17 See Art. 17(4) DSMD.

18 See Art. 17(9) DSMD.

19 Consider in this regard, Case C360/10, *SABAM v Netlog* (16 February 2012) ECLI:EU:C:2012:85, [49].

20 For a distinction between the concepts of fair compensation and (equitable) remuneration in EU copyright law, see *infra* at C.II.2.

21 For further information, see: C Angelopoulos, *European Intermediary Liability in Copyright: A Tort-Based Analysis* (Kluwer Law International 2016) and JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017).

22 Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society [2001] OJ L167/10 [hereinafter InfoSoc Directive].

23 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) [2000] OJ L 178/1 [hereinafter ECD].

B. Identifying the Real Problems: Two Crucial Weaknesses of the Current Copyright Acquis

10 Before a solution to the problem of online copyright infringement can be devised, a proper understanding of the current legal framework governing the issue is necessary. Such an understanding can enable the identification of that framework's failings: if online copyright infringement is a problem, in what ways is the current law struggling to address this? Once the law's weak points have been located, targeted solutions can be deployed. This section examines the pre-DSMD EU copyright framework from two perspectives: firstly, the legal position of individual infringers and, secondly, the legal position of the intermediaries whose services such infringers use. In this way, the inadequacies of the current rules' response to the two main contributors to modern online copyright infringement can be identified.

I. The Precarious Position of Individual Users

11 The first crucial weakness of the current *acquis* is found in the precarious position in which it places individual users. The everyday practices of such users on the Internet involve a diverse array of acts, including browsing, downloading, streaming, stream ripping, uploading, and hyperlinking. These activities may involve making copies of and disseminating copyright-protected content online and, as a result, trigger the application of the exclusive rights of reproduction and communication to the public, as harmonised by Articles 2 and 3 of the InfoSoc Directive.

12 In particular, following CJEU decisions, the right of reproduction applies to the online consumption, manipulation and dissemination of content by end-users, as these activities require the making of digital copies.²⁴ This broad interpretation may be questioned, with commentators suggesting that it is inappropriate for the digital age.²⁵ Concerning

the right of communication to the public, the Court has developed a complex set of criteria.²⁶ In simple terms, a use will amount to a communication to the public if it meets two cumulative conditions. It must constitute: (a) an "act of communication", that is made to (b) "the public". To this effect, the Court carries out an "individualised assessment" of several "autonomous and interdependent" criteria in light of the circumstances of each case.²⁷ Among others, the Court looks at the "role of the user", his "deliberate/intentional intervention" and whether the communication at stake is through a "separate"/"specific" technical means or directed at a "new public".²⁸ Cumulative audiences amount to a "public", as long as they are not "insignificant". Finally, whether or not the "communication" is of a profit-making nature also has to be considered.²⁹ These criteria do not always neatly apply to the online use of content, a problem compounded by the fact that the legal status of certain acts may depend on the imposition of contractual and technical restrictions by right-holders.³⁰ For example, it is not currently clear whether sharing a work with a restricted group of "friends" on a social network would amount to a communication to the public. Moreover, as the CJEU expands and contracts the scope of the right from case to case, greater flexibility might be injected into judicial deliberations, but end-users themselves are placed on legal quicksand.

13 Ultimately, as a result of the EU legal framework on reproduction and communication to the public, a significant number of individuals' online activities either prompt the application of exclusive rights or are legally ambiguous. In principle, the reproduction right applies to browsing, downloading, the reception of streams from unauthorised sources, stream ripping, certain uploads, and the making of digital adaptations. The right of communication to the public is relevant for the online transmission of streams, uploading to publicly accessible websites, and many types of hyperlinking.³¹

24 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 163–164. Leading CJEU cases in this respect include C-5/08, *Infopaq I* (16 July 2009), ECLI:EU:C:2009:465; C-403/08, *Football Association Premier League* (4 October 2011), ECLI:EU:C:2011:631; and C-419/13, *Art & Allposters* (22 January 2015), ECLI:EU:C:2015:27.

25 See e.g. A Strowel, "Reconstructing the Reproduction and Communication to the Public Rights: How to Align Copyright with its Fundamentals" and S Dusollier, "Realigning Economic Rights with Exploitation of Works: the Control of Authors over the Circulation of Works in the Public Sphere" in PB Hugenholtz (ed.), *Copyright Reconstructed: Rethinking Copyright's Economic Rights in a Time of Highly Dynamic*

Technological and Economic Change (Wolters Kluwer 2018) 204–206 and 166–169.

26 JP Quintais, 'Untangling the Hyperlinking Web: In Search of the Online Right of Communication to the Public' (2018) 21(5–6) *J. World Intell. Prop.* 385.

27 See Case C-135/10, *SCF* (15 March 2012) ECLI:EU:C:2012:140, [76]–[79]; Case C-162/10, *Phonographic Performance (Ireland)* (15 March 2012) ECLI:EU:C:2012:141, [29].

28 JP Quintais, JP, 'Untangling the Hyperlinking Web: In Search of the Online Right of Communication to the Public' (2018) 21(5–6) *J. World Intell. Prop.* 385.

29 See, for all, Case C-117/15, *Reha Training* (31 May 2016) ECLI:EU:C:2016:379.

30 T Dreier, 'Thoughts on Revising the Limitations on Copyright under Directive 2001/29' (2016) 11(2) *JIPLP* 138.

31 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 152–244.

- 14 Of course, even where exclusive rights apply, a use may nevertheless be allowed by the exceptions set out in Article 5 of the InfoSoc Directive. This, however, is not generous to users, as it excludes rights in software and databases, defines most exceptions as optional for Member States,³² and allows limitations to be overridden by contract, as well as the use of technological protection measures.³³ The EU case law on exceptions mostly follows the canon of strict interpretation, meaning that their scope is narrowly defined.³⁴ The result is that existing exceptions provide little coverage for the online practices of users.
- 15 Finally, little relief can be found in the legal regulation of digital adaptations. At the EU level, there is no harmonised right of adaptation. National law may contain a separate right of adaptation, as well as exceptions providing breathing space for the making and dissemination of derivative works.³⁵ But such space can only be limited for two reasons. First, the broad interpretation of the harmonised exclusive right of reproduction by the CJEU causes it to extend to most literal and non-literal reproductions that form part of the derivative work. Second, where that is the case, the narrow interpretation of the harmonised exceptions (quotation, incidental inclusion, and parody) excludes their application to many digital adaptations.³⁶ Thus, to create such a space, legislative reform at EU level is needed, e.g. through the creation of a specific exception for user-generated content.³⁷

- 16 As a result of the above, the current framework leaves individual users in a precarious legal position, while seemingly also conflicting with the objectives of EU copyright law.³⁸ It does not promote legal certainty, the smooth functioning of the internal market, the development of new technologies, or foster the circulation of culture. It erodes the legitimacy of copyright law by divorcing it from social norms. Finally, assuming that a significant number of online infringements by individuals is unenforceable – either *de facto* or due to limits imposed by fundamental rights³⁹ – the expansion of exclusivity in the online environment fails to ensure an appropriate remuneration to right-holders for the (unauthorised) use of works and, consequently, an adequate level of protection:⁴⁰ right-holders may be protected, but only in theory.

II. The Partial Harmonisation of Intermediary Liability

- 17 Most online copyright infringements are not performed by persons relying exclusively on their own technical capabilities. Instead, they use the services of internet intermediaries. In addition to that of individual users therefore, a second significant question concerns the liability of the providers of such services. When should they be held liable for copyright infringements committed by

32 See however Art. 17(7) and Recital 70 DSM, which suggest that the exceptions for quotation, criticism, review, caricature, parody or pastiche should be made mandatory.

33 On the general structure and functioning of Art. 5, see L Guibault, 'Why Cherry-Picking Never Leads to Harmonisation: The Case of the Limitations on Copyright under Directive 2001/29/EC' 1 (2010) JIPITEC 55.

34 Case C-5/08, *Infopaq I* (16 July 2009) ECLI:EU:C:2009:465, [56]–[57]; Case C-145/10, *Painer* (7 March 2013) ECLI:EU:C:2013:138, [109], [133]; Cases C-403/08 and C-429/08, *Football Association Premier League* (4 October 2011) ECLI:EU:C:2011:631, [162]; Case C-360/13, *Public Relations Consultants Association* (5 June 2014) ECLI:EU:C:2014:1195, [23]. See also Janssens (2009) 323 (considering the doctrine of strict interpretation to be a common view point in international norms) and M Senftleben, 'Breathing Space for Cloud-Based Business Models' (2013) 4 JIPITEC 93.

35 PB Hugenholtz and M Senftleben, *Fair Use in Europe: In Search of Flexibilities* (Institute for Information Law/VU Centre for Law and Governance 2011).

36 For an extensive analysis see J-P Trialle and others, 'Study on the Application of Directive 2001/29/EC on Copyright and Related Rights in the Information Society (the "InfoSoc Directive")' (Directorate-General for the Internal Market and Services' (European Commission, 2013).

37 See JP Quintais, 'Rethinking Normal Exploitation: Enabling Online Limitations in EU Copyright Law' 41 (2017) 6 AMI: Tijdschrift voor Auteurs-, Media- & Informatierecht, 197–205, proposing the introduction of a mandatory and unwaivable limitation for user-generated content. See also

M Senftleben, "Bermuda Triangle – Licensing, Filtering and Privileging User-Generated Content Under the New Directive on Copyright in the Digital Single Market" E.I.P.R. 2019, 41(8), 480, 485–490.

38 On these objectives as interpreted by the CJEU, see the empirical analysis of M Favale and others, 'Is There an EU Copyright Jurisprudence? An Empirical Analysis of the Workings of the European Court of Justice' (2016) 79 *The Modern L. Rev.* 31.

39 The argument is developed in detail in JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017). See also C Geiger, 'Challenges for the Enforcement of Copyright in the Online World: Time for a New Approach' in P Torremans (ed.), *Research Handbook on the Cross-Border Enforcement of Intellectual Property* (Edward Elgar 2014) 704 and C Geiger, 'Statutory Licenses as Enabler of Creative Uses' in RM Hilty and K-C Liu (eds.), *Remuneration of Copyright Owners* (Springer 2017) 305–327.

40 The connection between a "high level of protection", creative incentives and "adequate remuneration" for right-holders is patent in Recitals 9 and 10 InfoSoc Directive. For the use of "fair balance" and "adequate protection" by the CJEU as teleological arguments to limit a broad interpretation of rights in the copyright *acquis*, see M Favale and others, 'Is There an EU Copyright Jurisprudence? An Empirical Analysis of the Workings of the European Court of Justice' (2016) 79 *The Modern L. Rev.* 31, 65–68. On the disconnect between EU copyright law and social norms, see PB Hugenholtz and M Senftleben, 'Fair Use in Europe: In Search of Flexibilities' (Institute for Information Law/VU Centre for Law and Governance 2011) 26–28.

end-users employing their services? At the moment, no complete EU system on intermediary liability in copyright exists.

- 18 Prior to the adoption of the new directive, the most relevant EU provisions were the so-called “safe harbours”. These are conditional immunities introduced in the E-Commerce Directive (ECD) that shield intermediaries from liability under specific circumstances. While the safe harbours do not harmonise intermediary liability *per se*, they do set limits to its application. For the purposes of this article, the hosting safe harbour of Article 14 ECD is especially relevant. This provides protection to intermediaries that store information posted by third parties, as long as the host does not have actual or constructive knowledge that the information is illegal or, upon obtaining such knowledge, removes it.⁴¹ Many of Article 17’s OCSSPs had been presumed to be covered by the provision.
- 19 Complementing the safe harbours, Article 15(1) ECD prohibits Member States from imposing general obligations on protected providers to monitor the information that they transmit or store, or to seek facts or circumstances indicating illegal activity. In combination with Article 14, this results in the effective introduction into EU law of what is known as a “notice-and-takedown” (NTD) regime, i.e. a system that obliges hosting providers to remove infringements after receiving notification of their illegality or lose the safe harbour.
- 20 Importantly, even if a platform enjoys safe harbour protection, this will not necessarily mean that no action can be taken against it. Article 8(3) of the InfoSoc Directive instructs Member States to ensure that injunctions remain available against intermediaries whose services are used by third parties to infringe copyright or related rights. The general monitoring prohibition of Article 15(1) ECD sets limits here as well. The provision has been interpreted by the CJEU as excluding injunctions obliging intermediaries to monitor actively all the data they transmit or store.⁴²
- 21 The CJEU has also approached the issue of injunctions against intermediaries through the lens of fundamental rights. The Court has held that such injunctions involve a clash between opposing fundamental rights. According to consistent case law, such clashes should be resolved by the Member States by striking a “fair balance” between all

relevant fundamental rights.⁴³ As a general rule, in cases of copyright and related rights enforcement, a tripartite schematic focus on copyright holders, intermediaries and internet users can be identified. For the first, the right to intellectual property (Article 17(2) Charter) is at stake. Depending on the circumstances, in the application of injunctions this may collide with the intermediaries’ freedom to conduct a business (Article 16 Charter). In addition, the rights of end-users to the protection of their personal data (Article 8 Charter), their private life (Article 7 Charter) and their freedom to receive and impart information (Article 11 Charter) must be taken into account. The Court has found that filtering obligations would not strike a ‘fair balance’ between all relevant fundamental rights.⁴⁴ On the other hand, more moderate requests are more likely to be granted.⁴⁵

- 22 In addition to the above, the only harmonised source of intermediary liability rules in EU law can be found in the regular provisions on primary copyright infringement. Naturally, these may be applied to hold Internet intermediaries liable for the infringements they perform in the same way as any other person. Yet, in recent case law, the CJEU has reshaped them to do something more: hold defendants liable for infringements performed by others. In this way, their bearing on intermediary liability has significantly increased.
- 23 The relevant jurisprudence has so far focused on the right of communication to the public of Article 3 of the InfoSoc Directive. The CJEU’s aforementioned “individualised” approach to this right has allowed it to gradually relax its early finding that an “act of communication” requires an “indispensable” intervention on the part of the defendant, such that the relevant public would not otherwise be able to enjoy the work.⁴⁶ Instead, the Court now accepts that it is sufficient that the public would be able to do so only with difficulty.⁴⁷ The consequences of this

43 See Case C-275/06, *Promusicae* (29 January 2008) ECLI:EU:C:2008:54, [68].

44 Case C-360/10, *SABAM v Netlog*, (16 February 2012) ECLI:EU:C:2012:85, [25], [52].

45 No example of more moderate requests concerning hosting providers have come before the CJEU. However, that Court has found that blocking injunctions issued against internet service providers may strike a “fair balance” (Case C-314/12, *Telekabel* (17 March 2014) ECLI:EU:C:2014:192), as will obligations for WiFi providers to password-protect their network (see Case C-484/14, *McFadden* (15 September 2016) ECLI:EU:C:2016:689, [100]).

46 Case C-117/15, *Reha Training* (21 May 2012) ECLI:EU:C:2016:379, [46], citing Case C-306/05, *SGAE* (7 December 2006) ECLI:EU:C:2006:764, [42] and Cases C-403/08 and C-429/08, *Football Association Premier League* (Oct 4, 2011) ECLI:EU:C:2011:631, [195].

47 Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456, [26].

41 To benefit from the safe harbour, the host must additionally not have had authority or control over the end-user in the posting of the contested information (Art. 14(2) ECD).

42 Case C360/10, *SABAM v Netlog* (16 February 2012) ECLI:EU:C:2012:85, [34] and Case C-484/14, *McFadden*, (15 September 2016) ECLI:EU:C:2016:689, [87].

expansion are controlled through the requirement that the relevant public be a “new” one. In the recent hyperlinking decision of *GS Media*, the notion of “new public” was connected with the defendant’s knowledge of the infringement or profit derived from it.⁴⁸

- 24 This evolution has proved significant for intermediary liability. In June 2017, 10 months after the publication of the Commission’s proposal for the new directive, *GS Media*’s knowledge-based logic was applied in *Ziggo* to find that the peer-to-peer file-sharing website The Pirate Bay reaches a “new public” and thus communicates works to the public.⁴⁹ In this way, it was confirmed that the mental element *GS Media* introduced is not intended to apply exclusively to hyperlinking, but has a wider applicability. The results could be particularly important for the host service providers targeted by Article 17. After all, The Pirate Bay is in effect a host, albeit of torrent files and magnet links, as opposed to content files – and if links can constitute infringements, the difference between the two is minimal. Moreover, knowingly hosting a link to infringing content is arguably a more tenuous connection than knowingly hosting the infringing content itself. As commentators have observed, in this way, the CJEU appears to have pre-empted the EU legislator and introduced its own positively-stated rules on intermediary liability.⁵⁰
- 25 Notably, the CJEU’s approach rests on a curious blending of the notions of primary and accessory liability in copyright. Primary infringement occurs where a person engages in a copyright infringement themselves. Accessory infringement occurs where one person participates in – i.e. acts as an accessory to – a copyright infringement performed by another. While knowledge is traditionally a hallmark of accessory liability in copyright law,⁵¹ primary infringement has always been understood to be a

strict liability tort.⁵²

- 26 Obfuscating the division between the two areas can be tricky. Most obviously, the consistent requirement of a mental element would mean turning primary copyright infringement into a fault-based tort. It is however doubtful that this was the CJEU’s intention. What is far more likely is that the CJEU will, in future, rely on the variable normative power it has assigned to the multiple interdependent criteria on which it establishes communication to the public to conclude that the condition of knowledge is only necessary where the infringement depends on the existence of a prior infringement by another. That is to say, knowledge will matter only in cases where the defendant was acting as an accessory, as opposed to the primary perpetrator.⁵³
- 27 Questions however remain: what type of involvement in the infringement of another is sufficient? What is the appropriate mental element? Whether the exceptions and limitations of Article 5 of the InfoSoc Directive will apply to parties whose infringement depends on their knowledge of the infringement is also unclear. More importantly, although it represents a definite step in the right direction, the CJEU’s approach stops short of the full harmonisation of accessory liability in copyright. If an intermediary cannot reasonably be found to be communicating to the public, assuming no safe harbour applies, a pan-EU solution will remain elusive: national rules on accessory liability might result in different outcomes for the same defendant in different Member States.
- 28 Article 17 does not address these problems. For one thing, it only applies to OCSSPs. Furthermore, its relationship to the CJEU case law on communication to the public is unclear. The new provision states that OCSSPs communicate the uploads of their users to the public. But what does this mean for the CJEU’s careful interpretation of this right? Do the Court’s “autonomous and interdependent” criteria remain relevant or have they now been made redundant, whether for OCSSPs or generally? The new rules create more questions than they answer.⁵⁴

48 Case C-160/15, *GS Media* (8 September 2016) ECLI:EU:C:2016:644, [37] and [48]. The connection between the ‘new public’ and knowledge was made even more explicit in later case law, see Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456, [47]-[52] and Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456, [44]-[45].

49 Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456.

50 J Ginsburg, ‘The Court of Justice of the European Union Creates an EU Law of Liability for Facilitation of Copyright Infringement: Observations on *Brein v. Filmspelers* [C-527/15] (2017) and *Brein v. Ziggo* [C-610/15] (2017)’ (22 August 2017) <<https://ssrn.com/abstract=3024302>> accessed 26 April 2019; M Leistner, ‘Is the CJEU Outperforming the Commission?’ (26 November 2017) <<https://ssrn.com/abstract=3077615>> accessed 26 April 2019.

51 C Angelopoulos, *European Intermediary Liability in Copyright: A Tort-Based Analysis* (Kluwer Law International 2016), section 1.3.1.

52 See e.g. L Bently and B Sherman, *Intellectual Property Law* (5th ed, Oxford University Press 2018) 143.

53 This conclusion is confirmed by the recent decision in the primary liability case of *Renckhoff*, in which the Court made no reference to knowledge. See Case C-161/17, *Renckhoff* (7 August 2018) ECLI:EU:C:2018:634.

54 Some light is expected to be shed on these matters through the CJEU’s judgements in Case C-682/18, *LF v Google*, Case C-683/18, *Elsevier v Cyando*, and C-500/19, *Puls 4 TV*, currently pending.

C. A Better Way Forward: A Two-pronged Approach to Online Infringement

- 29 As the above analysis reveals, the current EU law on copyright infringement has major weaknesses. It provides little breathing space for individuals to use protected content with legal certainty, emphasises exclusivity and enforcement over remuneration and has evolved into a complex legal maze regarding the liability of online platforms. The EU legislator's "value gap"-driven and OCSSP-focused solution will not solve these problems. It is likely incompatible with existing directives and with the Charter, increases legal uncertainty, and fails to take the interests of creators into proper account.⁵⁵
- 30 This article argues that copyright reform should instead focus on the weaknesses identified above in the current EU law on copyright infringement. It recommends two mechanisms for overcoming these weaknesses and achieving real improvement of EU copyright law for all involved stakeholders. These would be complementary and intended to support each other through their parallel implementation. The first is the adoption of a truly harmonised EU framework for accessory liability for copyright infringement. The second is the introduction of an alternative compensation system for right-holders covering non-commercial direct copyright infringement by end-users online, in particular in the context of user-upload platforms.
- 31 Below, we examine how this two-pronged approach would work and what each of these mechanisms would contribute to the ultimate solution to the problem of online copyright infringement. Subsequently, the anticipated effect of their combined adoption on the operation of EU copyright law is briefly discussed.

⁵⁵ See the references cited *supra* in note 10. See also, commenting on legislative proposals for the DSM Directive: C Angelopoulos, 'Axel Voss's JURI Report on Article 13 Would Violate Internet Users' Fundamental Rights' (Kluwer Copyright Blog, 29 June 2018) <<http://copyrightblog.kluweriplaw.com/2018/06/29/axel-voss-juri-report-article-13-violate-internet-users-fundamental-rights/>>, accessed 17 April 2019; V Moscon, 'The Council Negotiating Position on Article 13: Warning, Creators are also Part of the Game!!!' (Kluwer Copyright Blog, 4 July 2018) <<http://copyrightblog.kluweriplaw.com/2018/07/04/council-negotiating-position-article-13-warning-creators-also-part-game/>>, accessed 17 April 2019.

I. Harmonisation of accessory copyright liability

- 32 As Section B.II. suggests, one of the most prominent gaps in the edifice of modern European copyright law is the lack of a harmonised regime for accessory liability.⁵⁶ In view of the ubiquity of intermediation in internet-based communications, this omission has become increasingly glaring. The rules of accessory liability are those suitable to govern questions of intermediary liability, i.e. when an intermediary should be held liable for the infringements of third parties (most commonly, its users). The lack of a harmonised regime has therefore resulted in the fragmentation of the legal framework in an area that is particularly relevant to online infringement. Introducing a harmonised solution would overcome this fragmentation and create a sound legal basis for addressing such infringement. Once adopted, this solution could also be applied to the online sharing platforms implicated in the "value gap" controversy, thus providing a more theoretically consistent solution to their liability than that offered by Article 17.
- 33 As an added advantage, such harmonisation would also help achieve greater clarity with regard to the European rules of primary liability in copyright, by decisively alleviating the pressures for their over-expansive judicial interpretation. Ideally, the harmonised framework would properly distinguish accessory from primary liability. While the current "blended" approach taken by the CJEU has the advantage of enabling harmonisation through case law, legislative intervention would make such expediencies redundant. At the same time, lessons can be learnt from the Court's recent decisions in the area. The legislator is certainly free to modify existing EU secondary law as it sees fit, as long as it respects the Charter. Yet undercutting established case law undermines the development of a coherent system. Instead of grafting supervenient provisions like Article 17 on to EU copyright law, the EU legislator would be wise take its cue from existing case law.

- 34 Examining this case law reveals the outline of a convincing framework for a European accessory copyright liability system. As seen above, while traditionally copyright infringement has relied only on the examination of the defendant's conduct, in its decisions on accessory liability, the CJEU has added a new mental element. Happily, this approach accords with the usual schematic relied upon in countries with existing accessory liability doctrines. As a rule, in such regimes accessory liability depends

⁵⁶ Opinion of Advocate General Szpunar at [3], Case C-610/15, *Stichting Brein v Ziggo* (8 February 2017), ECLI:EU:C:2017:99.

on two essential elements: a “conduct element” and a “mental element”.⁵⁷ We suggest that a future EU intermediary liability copyright regime should follow a similar approach. While the first element should focus on whether the defendant’s behaviour has contributed to a copyright infringement, the second should concern their inner involvement in the infringement, i.e. whether they demonstrated the mindset of a culpable party. Where at least one of these elements is absent, the defendant should be absolved from any liability. If both are satisfied, two possibilities arise: either the defendant should immediately be held liable for the infringement; or they are placed under an obligation to take appropriate action.

- 35 Careful consideration of the right standard for both elements is necessary, as well as of the appropriate consequences where they are both met. Again, the CJEU’s case law can guide the analysis. Where ambiguity remains, other sources of legislative inspiration should be considered. In this regard, one important question concerns the relevance of the ECD’s safe harbours. It may seem logical that a well-crafted defence should do more than mirror the provisions that determine infringement. We suggest however that the safe harbours should not be approached in this way. They were adopted not to provide exceptions to the exclusive rights of copyright holders, but to introduce harmonised horizontal rules for the smooth functioning of the single market.⁵⁸ It is therefore appropriate to treat them as guidelines for a future harmonised EU accessory liability regime for copyright.⁵⁹ By the same token, Article 15 ECD, as well as the Court’s existing case law on “fair balance” and injunctions should also be taken into consideration. The proposal below draws heavily from all three of these sources.

1. The Conduct Element of Accessory Liability

- 36 As explained in Section B.I, the CJEU’s approach to communication to the public has gradually evolved over the past decade. Helpfully, recent case law has planted the seeds for a harmonised system for accessory liability in copyright. It can therefore be relied upon to guide the construction of the elements of a harmonised European accessory liability regime. A more detailed examination is thus appropriate. In this section, we start with the conduct element. The Court’s decisions on the notion of an “act of communication” are helpful in tracing this out. As noted above, the “individualised” approach adopted by the CJEU has allowed it gradually to relax its approach.
- 37 Notably, the majority of the CJEU’s rulings in this area deal with what might be termed “secondary use”. They thus concern either retransmissions of broadcasts by wire or wireless means (see e.g. *ITV Broadcasting*, *SBS Belgium*, and *zürs.net*)⁶⁰ or the playing of phonograms or broadcasts in a public space (see e.g. *SGAE*, *Divani Akropolis*, *Del Corso*, *Phonographic Performance (Ireland)* and *Reha Training*).⁶¹ In these cases, the Court’s analysis still remains closely tied to the classic language of a “transmission”, that is embedded in Recital 23 of the InfoSoc Directive.⁶² According to this, the right of communication to the public should not cover any acts other than the transmission or retransmission of a work to the public by wire or wireless means. However, a wrinkle then appears. Starting with *Svensson*, cases come before the CJEU that concern acts of secondary use rather than secondary infringement, i.e. acts whose infringing nature depends on the existence of a primary infringement by another. The Court accepted these as valid acts of communication. *GS Media*, *Filmspeler*⁶³ and *Ziggo* continued this trend, fleshing out the relevant principles.

57 See e.g. PS Davies, *Accessory Liability* (Hart Publishing 2015). For a comparative analysis see C Angelopoulos, *European Intermediary Liability in Copyright: A Tort-Based Analysis* (Kluwer Law International 2016), section 5.1.1.

58 See Recital 40 ECD. Indeed, Recital 40, in explaining the purpose of the safe harbours, talks about providers’ “duty to act under certain circumstances”, language which does not reflect the nature of the safe harbours as mere immunities, but which might foreshadow the introduction of substantive harmonised law.

59 J Ginsburg, ‘The Court of Justice of the European Union Creates an EU Law of Liability for Facilitation of Copyright Infringement: Observations on *Breйн v. Filmspeler* [C-527/15] (2017) and *Breйн v. Ziggo* [C-610/15] (2017)’ (22 August 2017) <<https://ssrn.com/abstract=3024302>> accessed 26 April 2019.

60 Case C-607/11, *ITV Broadcasting* (7 March 2013) ECLI:EU:C:2013:147; Case C-325/14, *SBS Belgium* (15 November 2015) ECLI:EU:C:2015:764; Case C-138/16, *AKM* (16 March 2017) ECLI:EU:C:2017:218.

61 Case C-306/05, *SGAE* (7 December 2006) ECLI:EU:C:2006:764; Case C-136/09, *Organismos Sillogikis Diacheirisis... v Divani Akropolis* (March 18, 2010) ECLI:EU:C:2010:151; Case C-135/10, *SCF* (15 March 2012) ECLI:EU:C:2012:140; Case C-162/10, *Phonographic Performance (Ireland)* (15 March 2012) ECLI:EU:C:2012:141; Case C-117/15, *Reha Training* (21 May 2012) ECLI:EU:C:2016:379.

62 Note that in *Phonographic Performance (Ireland)*, even the provision of apparatus and phonograms was qualified as a “transmission”. See Case C-162/10, *Phonographic Performance (Ireland)* (15 March 2012) ECLI:EU:C:2012:141, [64]-[69].

63 Case C-527/15, *Stichting Breйн v Jack Frederik Wullems* (26 April 2017) ECLI:EU:C:2017:300.

- 38 The expansive tendency of the Court was enabled by the language of a “deliberate/intentional intervention to give access”, already adopted in previous decisions. The notion of an “intervention”, allowed the Court to move discretely beyond “transmissions”, broadening the scope of the restricted act. So, for example, *Svensson* incorporates within the notion of an act of communication “an intervention without which users would not be able to access the works transmitted” by another, thus apparently differentiating between “transmissions” and other “acts of communication”. In *Ziggo*, the Court confirms this approach by stating that an act of communication “covers” (but apparently is not limited to) any transmission or retransmission of a work.⁶⁴ Similarly, it is “sufficient” that the work is made available to the public.⁶⁵ The notion of an “act of communication” is ultimately defined as “any act by which a user, with full knowledge of the relevant facts, provides its clients with access to protected works”.⁶⁶ These decisions reveal the appropriate scope of the conduct element in a harmonised EU accessory liability regime: it seems reasonable to conclude that the notion of an “intervention” that does not amount to a “transmission”⁶⁷ is where a harmonised accessory liability regime would come into operation.
- 39 Of course, not any “intervention” will suffice. As noted above, the Court had initially required that the intervention must be “indispensable”⁶⁸ or at least “essential”⁶⁹ for the dissemination of the work to third parties. This approach eventually ran into problems, as the theory developed in the Court’s rulings did not properly match the facts to which it was applied. So, as the AG observed in *GS Media*, a hyperlink to a work is not in fact indispensable to the making of that work available on the Internet, but merely “facilitates” locating it online.⁷⁰ Eventually, in *Ziggo*, the Court adjusted the language to accommodate this reality. The current standard is therefore that of “interventions in the absence of which the public would be able to enjoy the work only with difficulty.”⁷¹
- 40 The result has been an expansion of the notion of an act of communication to the public to cover not only actual transmissions of works, but also acts that *facilitate* such transmissions. Following this model, the “conduct element” of accessory copyright liability becomes a strikingly commodious one. The bar is set very low, incorporating any non-minimal participation in the copyright infringement of another party. As the hyperlinking case law reveals, such participation may even take the form of an *ex post* promotion of the infringing behaviour. The Court appears to place causality at centre stage, so that the existence of some sort of causal connection to the primary infringement, or at least its consequences for the right-holder, seems to be necessary. However, the connection need not be *sine qua non*. All that is required is that, without the defendant’s involvement, “in principle”⁷² infringement would be “more complex”.⁷³ The implication is that of a *de minimis* rule.⁷⁴
- 41 It is worth noting that, in their national law, EU Member States have often taken different approaches. For example, in English law the doctrine of joint tortfeasance recognises three possible “participation links” connecting the behaviour of parties jointly liable for the same tort: “authorisation”, “inducement” or “procurement”, and entering into a “common design”.⁷⁵ As copyright infringement is a tort, the same principles apply to identify accessories in copyright cases.⁷⁶ English doctrine emphasises the distinction of these conduct elements from the concept of a “mere facilitation”, which is seen as incapable of giving rise to joint tortfeasance. Similarly, in Germany, under the rule of

64 Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456, [30].

65 *Id.* [32].

66 *Id.* [34].

67 Note that to date, the relationship between a “transmission” and “making available” has not been clearly addressed by the Court. While Recital 23 suggests that “making available” should be understood as a form of transmission, the two could also be seen as separate, applying respectively to linear and non-linear (i.e. on-demand) types of communication. See JP Quintais, ‘Untangling the Hyperlinking Web: In Search of the Online Right of Communication to the Public’ (2018) 21(5-6) *J. World Intell. Prop.* 385.

68 Case C-160/15, *GS Media* (8 September, 2016) ECLI:EU:C:2016:644, [35].

69 Case C-527/15, *Stichting Brein v Jack Frederik Wullems* (26 April 2017) ECLI:EU:C:2017:300, [31].

70 Opinion of Advocate General Wathelet at [54]-[60], Case C-160/15, *GS Media* (7 April 2016) ECLI:EU:C:2016:221.

71 Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456, [26].

72 Case C-527/15, *Stichting Brein v Jack Frederik Wullems* (26 April 2017) ECLI:EU:C:2017:300, [31].

73 Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456, [36].

74 For further discussions on the *de minimis* rule in accessory liability see: C Angelopoulos, *European Intermediary Liability in Copyright: A Tort-Based Analysis* (Kluwer Law International 2016), section 5.2.3.; PS Davies, *Accessory Liability* (Hart Publishing 2015) 37-40; D Cooper, *Secondary Liability for Civil Wrongs* (unpublished PhD thesis, University of Cambridge 1995) 9; and P Sales, ‘The Tort of Conspiracy and Civil Secondary Liability’ (1990) 49(3) *Cambridge L. J.* 491, at note 62.

75 H Carty, ‘Joint Tortfeasance and Assistance Liability’ (1999) 19(4) *Legal Studies* 489; L Bently and B Sherman, *Intellectual Property Law* (5th ed, Oxford University Press 2018) 1286-1289.

76 See e.g. *Credit Lyonnais Bank Nederland NV (now Generale Bank Nederland NV) v Export Credits Guarantee Department* [1999] C.L.C. 823, 853.

Article 830(2) of the *Bürgerliches Gesetzbuch* (German Civil Code – BGB), instigators and accessories to a tort (including copyright infringement) are considered *Mittäter*, i.e. joint tortfeasors responsible for the damage.

- 42 Yet, commentators have questioned the conceptual soundness of these approaches. For example, Sales has worried that: “In many cases, [...] the dividing line between inducing a third party to commit a wrong and assisting him in its commission is so fine as to be non-existent”.⁷⁷ Indeed, careful examination of these notions reveals embedded within them the implication of a mental identification of the collaborator with the primary wrongdoer. Arguably, the terms “authorisation”, “procurement” or “common design” imply an inherent mental dimension. Detangling them from that dimension distorts their natural meaning. Similarly, German legal theory justifies the liability of *Mittäter* on the existence of a “*psychisch vermittelte Kausalität*”, i.e. a psychological causation that connects the accessory to the act of the primary infringer.⁷⁸
- 43 In our view, if it is to be the defendant’s state of mind that determines which conduct leads to accessory liability, then this should be explicitly acknowledged by the law. The mental element should be examined as such, not subsumed within the analysis of the conduct element. Obviously, this approach does not offer great scope for meaningful distinctions between different kinds of intermediary conduct. But this is not necessarily inappropriate. Instead, we suggest that the purpose of the conduct element is to separate the chaff of random bystanders from the grain of the involved accessories, i.e. persons whose liability seems plausible at first glance. The “facilitation” of infringement should accordingly suffice. As all Internet intermediaries will meet this requirement as soon as their services are used by another to commit a copyright infringement, accessory liability will depend on how an intermediary fares in the subsequent analysis.⁷⁹

77 P Sales, ‘The Tort of Conspiracy and Civil Secondary Liability’ (1990) 49(3) Cambridge L.J. 491.

78 W van Gerven and others, *Tort Law* (Hart Publishing 2000) 430-432; and H Koziol, *Basic Questions of Tort Law from a Germanic Perspective* (Jan Sramek Verlag 2012) 140.

79 It is worth noting that recent academic approaches to accessory liability espouse a similar approach, including in jurisdictions that have traditionally attempted a more discerning definition of conduct capable of resulting in accessory liability. See, e.g., PS Davies, *Accessory Liability* (Hart Publishing 2015) 39. For a similar analysis by a national judge see Lord Sumption in *Sea Shepherd UK v Fish & Fish Ltd* [2015] UKSC 10 (4 March 2015), [41].

2. The Mental Element of Accessory Liability

- 44 While accessory liability for a copyright infringement cannot be established without a finding of a conduct element, that alone should not be sufficient. Instead, the case law of the CJEU has emphasised that a second condition must be met: that of a mental element. So far, the mental element has only been mentioned by the CJEU in accessory liability cases. As we have already observed, it is reasonable to assume that future decisions will also limit its applicability to such cases, preserving the strict nature of primary copyright liability. The result would be a divide between classic “transmission” cases, for which no mental element is necessary, and “intervention short of transmission” cases, where a mental element would be required.
- 45 The next question concerns the appropriate threshold for the mental element. General legal theory teaches that two main possibilities exist; namely, the mental element may take the form of intent or knowledge.⁸⁰ Again, the CJEU’s case law leads the way. *GS Media, Filmspeler* and *Ziggo* all indicate that knowledge of the primary infringement should be sufficient. At the same time, the Court is not oblivious to intent either. Close examination of the wording in *Filmspeler* and *Ziggo* makes clear that both concern accessories whose involvement in the infringement was intentional. In the first of these, the Court makes much of the fact that the advertisements of the multimedia player specifically stated that it made it possible to watch audiovisual content made available on the Internet without right-holder authorisation.⁸¹ Likewise, in the second, the Court emphasised the operators’ “purpose to make protected works available to the users” and to “encourage the latter to make copies of those works”.⁸² The final conclusion makes sense: while the stronger mental element of intention will certainly suffice, it does not appear to be necessary for accessory liability.
- 46 A bigger question concerns the type of knowledge required. From the outset, it is important to note that the knowledge relevant to the mental element in accessory liability is knowledge of the *lack of authorisation for the primary restricted act*. This should not be confused with a condition of volitional engagement in the conduct. Even before *GS Media*, the CJEU has repeatedly made reference to the fact

80 See C Angelopoulos, *European Intermediary Liability in Copyright: A Tort-Based Analysis* (Kluwer Law International 2016), sections 4.2. and 5.3, and PS Davies, *Accessory Liability* (Hart Publishing 2015) 203-209.

81 Case C-527/15, *Stichting Brein v Jack Frederik Wullems* (26 April 2017) ECLI:EU:C:2017:300, [50].

82 Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456, [45]-[46].

that the “intervention” representing the act of communication must be made “in full knowledge of the circumstances”, i.e. should be “deliberate”.⁸³ This wording implies an understanding on the part of the defendant that their conduct is occurring rather than of the infringing nature of the behaviour of another. Its purpose seems to be to exclude inadvertent behaviour from giving rise to liability.⁸⁴ It thus appears that, according to the CJEU, deliberately engaging in an “intervention” should be necessary for findings of both accessory and primary copyright infringement.⁸⁵ By contrast, the mental element of accessory liability used in *GS Media*, *Filmspeler* and *Ziggo* is clearly focused on the infringing nature of the material that is the object of the “intervention”.

- 47 In addition to this, two distinctions are important: that between “actual” and “constructive” knowledge and that between “general” and “specific” knowledge. Here, the case law paints a more complicated picture. On the one hand, *GS Media* is unambiguous. It required that the provider of the hyperlink “knew or ought to have known that the hyperlink he posted provides access to a work illegally placed on the internet”.⁸⁶ This points towards a standard of constructive, but specific knowledge, i.e. one that requires that the accessory at least had reason to believe that the specific work to which it was linking was infringing. The rebuttable presumption of knowledge introduced for profit-seeking hyperlinkers reinforces this threshold. By contrast, in *Ziggo*, general knowledge that the defendant’s services were used to provide access to works published without authorisation from the right-holders was accepted as sufficient.⁸⁷

83 Note that under the general principles of European criminal law, intent covers cases where the actor deliberately acts in a manner she knows will almost certainly bring about a result (“*dolus indirectus*”). See J Blomsma, *Mens Rea and Defences in European Criminal Law* (Intersentia 2013) 509-526. The Draft Common Frame of Reference on European civil law also includes within its definition of intention instances where the defendant knew that his behaviour could result in the commission of the wrong by the third party and meant to engage in it. See C von Bar et al. (eds), *Principles, Definitions and Model Rules of European Private Law: Draft Common Frame of Reference (DCFR)*, prepared by the Study Group on a European Civil Code and the Research Group on EC private law (Acquis Group), Outline Edition (Sellier 2009) 3266.

84 On these two different aspects of the mental element, see PS Davies, *Accessory Liability* (Hart Publishing 2015) 41.

85 For a different interpretation see J Ginsburg, ‘The Court of Justice of the European Union Creates an EU Law of Liability for Facilitation of Copyright Infringement: Observations on *Brein v. Filmspeler* [C-527/15] (2017) and *Brein v. Ziggo* [C-610/15] (2017)’ (22 August 2017) <<https://ssrn.com/abstract=3024302>> accessed 26 April 2019.

86 Case C-160/15, *GS Media* (7 April 2016), ECLI:EU:C:2016:221 [49].

87 Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456, [45].

The Court also listed a series of indications of both actual (e.g. notification of infringement) and constructive knowledge (e.g. the large number of torrent files),⁸⁸ but was not clear which of these marked the threshold.

- 48 On the basis of these decisions, we can conclude that both specific and general knowledge should be accepted as relevant. Historically, national European courts have tended to opt for the stricter “specific” approach; however, with the rise of modern technologies, a relaxing of the standard towards “general” knowledge is discernible.⁸⁹ Indeed, as the case law shows, the specific or general nature of the knowledge will largely be determined by the underlying conduct element. Whereas in *GS Media* the provider of the hyperlink is simply “intervening to provide access” to an unauthorised copy of a single protected work, the impact of the management of an online sharing platform is much more severe. Where a broad definition of the conduct element is accepted, a matching mental element is appropriate. Following the *GS Media* lead, a rebuttable presumption of knowledge may also be introduced in cases where the platform acted in pursuit of a profit. This should only be the case however where the profit-pursuing actions of the platform were targeted at a specific infringement. Simply operating a platform for profit should not be enough.⁹⁰
- 49 Similarly, given the oft-referenced objective of EU copyright law to provide right-holders with a “high level of protection”,⁹¹ our proposal suggests that both actual and constructive knowledge should be sufficient. This would also be consistent with the general rule applicable in negligence liability in most jurisdictions.⁹² At the same time, the wording “ought to have known” carries significant meaning that should not be overlooked: the accessory cannot be expected to go to unreasonable lengths to uncover infringements it has no reason to suspect. Again, the

88 *Id.*

89 C Angelopoulos, *European Intermediary Liability in Copyright: A Tort-Based Analysis* (Kluwer Law International 2016), section 5.3.2.2.

90 It is relevant that in *Filmspeler* and *Ziggo*, both of which concerned general knowledge, no rebuttable presumption of knowledge based on profit was introduced, the Court instead limiting itself to indicating that profit is an important factor.

91 See Recital 9 InfoSoc Directive, as well as the case law of the CJEU (e.g. Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456, [22]). See also M Favale and others, ‘Is There an EU Copyright Jurisprudence? An Empirical Analysis of the Workings of the European Court of Justice’ (2016) 79 *The Modern L. Rev.* 31, exploring *inter alia* the role of this recital in the Court’s “activist, harmonising agenda” of EU copyright law.

92 C Angelopoulos, *European Intermediary Liability in Copyright: A Tort-Based Analysis* (Kluwer Law International 2016), section 5.3.2.1.

case law of the CJEU is helpful. In *L'Oréal v eBay*, the Court relied on the concept of a “diligent economic operator” to determine when a host service provider should be considered to have “awareness of facts or circumstances from which the illegal activity or information is apparent” under Article 14 ECD.⁹³ The same notion can be re-purposed for the construction of a harmonised regime for accessory copyright liability. Thus, the intermediary should only be considered to have constructive knowledge when it is aware of facts or circumstances from which the infringement would have been apparent to a “diligent economic operator”. Reliable notification should suffice as an indication of actual knowledge.

- 50 Most importantly, the general monitoring prohibition of Article 15 ECD must be respected, as must the limits set by the Charter which underpin this prohibition. An accessory cannot be said to have constructive knowledge where that knowledge could only be acquired through monitoring all of the information it handles. Up until now, these limits have only been considered by the Court in the context of injunctions, but there is no reason why they should not apply more generally: if the imposition of an obligation on an intermediary would disrupt the “fair balance” between fundamental rights even where this is ordered by a court, that should all the more be the case when imposed *ex ante* with no judicial oversight.

3. The Violation of a Reasonable Duty of Care

- 51 The above expansive conclusions on the scope of the mental element do not mean that it has no practical relevance. We propose that the qualification of the mental element have an impact on the final piece of the puzzle: the consequences of the accumulation of a conduct and mental element for the defendant. In this area too, the case law of the CJEU leads the way. To date, outcomes have differed from decision to decision.
- 52 In *GS Media*, the Court noted that right-holders have the possibility of informing the providers of hyperlinks that the work to which they have linked has been communicated to the public without permission and of taking action against them if they refuse to remove the links.⁹⁴ Whether notification represents a hard condition binding right-holders before a hyperlink provider can be found liable, is not made clear by the decision’s wording. If so, the

result would be the establishment of a NTD regime.⁹⁵ In *Filmspeler* and *Ziggo*, by contrast, no mention of an opportunity to avoid liability through take-down is made. The Court simply concludes that where the conduct element is accompanied by the appropriate mental element, a communication to the public has taken place.⁹⁶

- 53 We suggest that the explanation to this apparent inconsistency can be found in the nature of the mental element. As noted above, in *Filmspeler* and *Ziggo*, in addition to mere knowledge, there were also indications of intention to promote infringement on the part of end-users. It is arguable that these drive the harsh outcome for the intermediaries in those decisions. By contrast, in *GS Media*, the only possibility considered was that of knowledge.⁹⁷ This is a reasonable interpretation that would point towards a sophisticated liability scheme. Indeed, attaching different consequences to different degrees of mental involvement in the commission of a tort has strong roots in European tort law.⁹⁸ We suggest that this approach should be further pursued in EU accessory copyright liability. A sensible framework could require that, if an accessory intended an infringement, its behaviour must be understood to be, by definition, unacceptable. Liability should therefore automatically ensue. On the other hand, if the intermediary has no intent, but does have knowledge of the infringement, the violation of a duty of care must first be established before liability

95 Presumably, *GS Media*’s rebuttable presumption of knowledge would mark the limits of such a system.

96 Case C-527/15, *Stichting Brein v Jack Frederik Wullems* (26 April 2017) ECLI:EU:C:2017:300, [52] and Case C-610/15, *Stichting Brein v Ziggo* (14 June 2017) ECLI:EU:C:2017:456, [47].

97 Although the posting of the hyperlink at issue in *GS Media* was, based on the facts, undoubtedly itself intentional (i.e. not inadvertent), it is hard to see how the provider of the hyperlink could be said to have intended the prior uploading of the protected content. The chronology is significant here: it is arguably not possible to intend an infringement that occurred before your own action, but it would be possible to intend the infringements performed subsequently by users of your technology. While *GS Media* is concerned only with knowledge of the unauthorised nature of the linked-to material, *Filmspeler* focuses on the advertisement to end-users of the multimedia player’s infringing capabilities. *Stichting Brein v Ziggo* concerns technology that enables unauthorised file exchanges by others.

98 FH Lawson and B Markesinis, *Tortious Liability for Unintentional Harm in the Common Law and the Civil Law* (Cambridge University Press 1982) 181. See also Art. 2:102(5) of the Principles of European Tort Law (PETL), developed by the European Group on Tort Law, which assigns greater weight to intentionally committed torts over merely negligence-based ones: “The scope of protection may also be affected by the nature of liability, so that an interest may receive more extensive protection against intentional harm than in other cases.” The PETL are available at: <www.egtl.org>. See also European Group on Tort Law, *Principles of European Tort Law – Text and Commentary* (Springer 2005).

93 Case C-324/09, *L'Oréal v eBay International* (12 July 2011) ECLI:EU:C:2011:474, [120]-[124].

94 Case C-160/15, *GS Media* (7 April 2016) ECLI:EU:C:2016:221, [53].

can be found.⁹⁹

- 54 What is missing in the CJEU decisions to date is any consideration of what is to happen where the defendant had only general knowledge (e.g. through notification or due to large amounts of infringing content) that it was facilitating infringement. What we suggest is that the duties of care to be imposed on an accessory should be tailored to the kind of knowledge they display: the type of duty should depend on the type of knowledge.
- 55 Indeed, it is appropriate that, as *GS Media* suggests, if the intermediary has specific knowledge – whether actual (e.g. through notification) or constructive (e.g. due to circumstances that would have made it apparent to a “diligent economic operator”) – of a particular infringement it has through its conduct supported, it will often be reasonable to expect that it remove the infringing content. We suggest that, depending on the circumstances, other measures (including preventive ones) might also be appropriate, e.g. the suspension of repeat infringers, notifying the authorities or the provision of identifying data on the perpetrator to the authorities.¹⁰⁰ On the other hand, if the intermediary has only general knowledge of mass infringements taking place using its systems, the removal of content will become much harder. Without specific knowledge, the intermediary will have difficulties locating the infringement without both violating its users’ fundamental rights and expending disproportionate time and energy (thus threatening its own freedom to conduct a business). Other measures may however be considered. The posting of warning duties is an obvious candidate. In all cases, in view of the general monitoring prohibition of Article 15 ECD and the limits set by the Charter, accessories should not be expected to proactively search for infringing content. As a result, notice-and-stay-down regimes should be excluded. All duties of care imposed on accessories should be “reasonable”.¹⁰¹
- 56 Where the accessory fails to take the measures due, assuming it had the ability to take those measures or at least ought to have ensured that it had that ability, it should be held liable. Liability may be for monetary

compensation, injunctive relief or both, depending on policy considerations. In our view, no liability should be imposed if the accessory: (a) had no knowledge; (b) having knowledge, took all measures appropriate to the knowledge it possessed; or (c) had knowledge, but no ability to take appropriate measures nor an obligation to ensure that it had such an ability. A final possibility may also be considered: if the intermediary did not take the appropriate measures that would have been expected of it on a flagrantly persistent basis, intent can arguably be inferred and full liability for damages applied.¹⁰²

4. Interim conclusion

- 57 As the above analysis reveals, the basic elements for a harmonised European system of accessory liability for copyright and related rights infringement can already be detected in the case law. What is missing is their organisation into a self-standing structure and the application of that structure on a broad basis. At the moment, accessory liability is folded into the rules of primary liability. This is, moreover, only the case for communication to the public: no accessory liability regime for participation in the infringement of other exclusive rights is established. Rather than cramming accessory liability into a single exclusive right, a clear framework distinguishing it from primary liability should be introduced. Ideally, this framework ought to be set by the legislator in a systematic way, instead of trickling out of the CJEU on a case-by-case basis.
- 58 Of course, a more targeted approach could also be envisaged, tailored specifically to Internet intermediaries or certain types thereof (such as OCSSPs). The preference should however be for a more generalised harmonisation that can allow for a future-proof regime, reliant on principles rather than reactive to circumstances and the pressure of lobby groups. Moreover, unlike Article 17, any new provision should complement, rather than

99 C Angelopoulos, *European Intermediary Liability in Copyright: A Tort-Based Analysis* (Kluwer Law International 2016), sections 5.3 and 5.4.

100 The inspiration for these suggestions can be found in the CJEU’s decisions on the safe harbours, see Case C-324/09, *L’Oréal v eBay International* (12 July 2011) ECLI:EU:C:2011:474, [141].

101 C Angelopoulos, *European Intermediary Liability in Copyright: A Tort-Based Analysis* (Kluwer Law International 2016), sections 5.4 and 5.5. Cf., on trademark law, F Mostert, ‘Study on Approaches to Online Trademark Infringements’ (World Intellectual Property Organization 2017).

102 Precedent for a presumption of intent on the basis of the previous persistent violation of duties of care can be found, for example, in German case law. The German lower courts have, in the past, found that the flagrant and consistent violation of duties of care can push liability beyond *Störerhaftung*, i.e. liability only for injunctive orders, towards full liability as a *Gehilfe*, i.e. an assistant. See e.g. OLG München, 11 January 2006, 21 O 2793/05, (2006) 3 ZUM 255; OLG Hamburg, 13 May 2013, 5 W 41/13, (2013) 8 MMR 533 – *Hörspiel*; LG Frankfurt a.M., 5 February 2014, 2-06 O 319/13, (2015) 2 ZUM 160 – *File-Hosting*. See also M Gruenberger & A Dietz, ‘Germany’ in L Bently, *International Copyright Law and Practice* (Matthew Bender 2017), § 8[1] [c][i]; S Jaworski & JB Nordemann, ‘Gehilfenhaftung von Intermediären bei Rechtsverletzungen im Internet’ (2017) 6 GRUR 567; T Hoeren & S Yankova, ‘The Liability of Internet Intermediaries – The German Perspective’ (2012) 43 IIC 501, section C.II.

undermine the pre-existing framework and its CJEU interpretation.

- 59 Would this system alone give right-holders the tools to eliminate online copyright infringement? Undoubtedly, the answer is “no”. A properly balanced regime for accessory copyright liability – particularly one that respects fundamental rights – would not hold intermediaries liable for online infringements where there is no mental element or where duties of care have not been violated. It therefore can only offer part of the answer. Once it is in place, both intermediaries and right-holders will have a clear idea of their legal standing. If no liability can be imposed on the intermediary, attention should then shift to a different question: how should the primary liability of the end-users be addressed?

II. An Alternative Compensation System for Content-sharing Platforms

- 60 The fragmentation in the area of intermediary liability can be dealt with through European harmonisation. By contrast, online infringements by the end-users of content-sharing platforms requires more innovative solutions. One such solution can be found in the adoption of an “alternative compensation system”. Generally speaking, this term refers to legal models that replace direct authorisation of certain types of online activities with a scheme for licensing such use and ensuring remuneration to right-holders or at least individual creators, i.e. authors and performers.¹⁰³ The use in question would be “permitted but paid”.¹⁰⁴ Different legal models could in theory support such a scheme, ranging from voluntary, extended and mandatory collective management to compulsory or statutory licences. These models impose increasing levels of restriction on exclusive rights. So-called “voluntary” models merely affect the exercise of the right, whereas “mandatory” models impact its very nature, replacing an exclusive right for certain uses with a corresponding right of remuneration or fair compensation.¹⁰⁵ These models do not seek further to strengthen the enforcement measures available to right-holders. Rather, they take a broader normative

view of the copyright system as one that should enhance lawful access to and use of works, while ensuring fair remuneration for right-holders, in particular creators.

- 61 One collective licensing mechanism that has received attention as a possible solution for online uses is that of collective licensing with an *extended effect*.¹⁰⁶ The DSM Directive significantly harmonises this authorisation mechanism in its Article 12,¹⁰⁷ which envisages three different mechanisms that have the effect of extending collective licenses to non-represented right-holders and their works in a certain territory: extended collective licensing, legal mandates, and presumptions of representation.¹⁰⁸ Article 12 subjects collective licensing with an extended effect to a number of requirements: the licensing mechanism must be managed by a CMO, within well-defined areas of use, where direct licensing is too costly or impractical, and in a manner that “safeguards the legitimate interests” of right-holders.¹⁰⁹ The provision further sets out a number of safeguards that must be put in place for this mechanism to be valid: the CMO must be sufficiently representative; there must be equal treatment between represented and non-represented right-holders; non-represented right-holders must be able to opt-out of the system easily and effectively at any time; and CMOs have to comply with several information obligations towards right-holders.¹¹⁰
- 62 Although there is some debate as to the legal nature of this mechanism, we are of the view that collective licensing with extended effect is not a copyright exception or limitation,¹¹¹ at least where the above

103 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017), describing different types of proposals for such systems, initially designed for the legalisation of peer-to-peer file-sharing.

104 The term is taken from J Ginsburg, ‘Fair Use for Free, or Permitted-but-Paid?’ (2015) 29 Berkeley Tech. L.J. 1383.

105 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 85-150.

106 JP Quintais, ‘The New Copyright in the Digital Single Market Directive: A Critical Look’ (24 July 2019) EIPR (forthcoming) <<http://dx.doi.org/10.2139/ssrn.3424770>>.

107 Prior to the DSM Directive, it was possible to find specific references to extended collective licensing in Art. 3(2)–(4) Satellite and Cable Directive, as well as in Recitals 18 InfoSoc Directive, 24 Orphan Works Directive, and 12 CRM Directive. In addition, several Member States contain provisions of this type in their national laws, especially the Nordic countries. See also Recital 44 DSMD.

108 Art. 12(1)(b) DSMD.

109 Art. 12(2) and Recitals 45-47, and 49 DSMD. The definition of CMO is found in Art. 3(a) CRM Directive.

110 Art. 12(3) DSMD.

111 JP Quintais, ‘The New Copyright in the Digital Single Market Directive: A Critical Look’ (24 July 2019) EIPR (forthcoming) <<http://dx.doi.org/10.2139/ssrn.3424770>>. For a more developed argument regarding extended collective licensing with an opt-out, see JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 110-111 (and references cited therein); J Axham and L Guibault, “Cross-Border Extended Collective Licensing: A Solution to Online Dissemination of Europe’s Cultural Heritage” Amsterdam Law School Research Paper No. 2012-22 (8 February 2012) <<https://ssrn.com/abstract=2001347>> accessed 21 August 2018; and J Axham, “Exceptions, limitations and

safeguards, and in particular an opt-out, are put in place. Instead, using the terminology above, this would be a “voluntary” model.¹¹²

63 The mechanism of Article 12 has been viewed as a possible option for obtaining the authorisations for OCSSPs required by Article 17 of the DSM Directive. Arguably, it could also provide a promising solution in the context of our proposed model. Still, as discussed elsewhere, it faces significant challenges.¹¹³ To begin with, Article 17 does not create a framework for pan-European licensing, but solely for voluntary territorial collective licenses. In addition, it sets out a number of requirements that will be challenging to meet in the short and medium-term for CMOs in many Member States, such as that of representativeness. Even for Member States where some CMOs in some fields meet the requirements (e.g. online music), other CMOs in other fields may not (e.g. visual arts). The result would be the co-existence of extended collective licenses in some Member States (of parts thereof) with a system of individual or limited voluntary collective licensing for platforms in other Member States, leading to a fragmented EU landscape. Finally, because extended collective licensing is an alien mechanism for many Member States, its roll out will necessarily be slow and complex, making it more of a long-term proposition, even if it is adopted consistently across the EU for all types of uses by content-sharing platforms.

64 In light of the above, we are of the view that for types of mass use where enforcement is ineffective, too costly, or even undesirable – due to conflicts with fundamental rights and other public interest concerns – mandatory variants of alternative compensation systems are compelling propositions. Indeed, such systems are best suited to deal with the substantive and territorial fragmentation of copyright that characterises the copyright *acquis*, to provide legal certainty, and to ensure the participation of users and right-holders in the system.¹¹⁴

65 Building on precedents with a long tradition in copyright law – such as continental European private copying schemes – a number of authors and policy makers have been calling for similar solutions in

collective management of rights as vehicles for access to information. In *Access To Information And Knowledge: 21st Century Challenges in Intellectual Property and Knowledge Governance* (Edward Elgar 2013) 164–186.

112 See, in this respect, JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017).

113 JP Quintais, ‘The New Copyright in the Digital Single Market Directive: A Critical Look’ (24 July 2019) EIPR (forthcoming) <<http://dx.doi.org/10.2139/ssrn.3424770>>.

114 *Id.* 85-150, 242-243.

the current “value gap” debate, as supplements to the harmonisation of intermediary liability at the EU level.¹¹⁵ Our proposal goes in a similar direction. In essence, it aims to legalise and remunerate a broad swath of infringing online acts by individuals (discussed in B.II.) that are carried out through the services of certain Internet intermediaries. Combined with the accessory copyright liability regime proposed in C.I., our alternative system could close the regulatory “value gap”, which arises from the lack of adequate rules to deal with mass uncompensated online infringements by users in a way that is consistent with the goals of copyright law and achieves a “fair balance” between competing rights and interests. The scope and main elements of the proposal are outlined below.

1. Scope of the system

66 The scope of our proposed system includes different design elements. Namely, it is a statutory license coupled with a mandatory exception, applying to specific types of subject matter and specific activities of users (and, by extension, of platforms), coupled with a right of fair compensation, and accompanied by certain obligations on payment and safeguards for the affected platforms. These elements are elaborated on below.

115 R Hilty and A Bauer, ‘Use of Protected Content on Online Platforms’ in R Hilty and V Moscon (eds), *Modernisation of the EU Copyright Rules Position Statement of the Max Planck Institute for Innovation and Competition* (Max Planck Institute for Innovation & Competition Research Paper No. 17-12, 18 September 2017) <<https://ssrn.com/abstract=3036787>> accessed 26 April 2019, 99-112. This proposal is endorsed with slight changes by M Senftleben and others, ‘The Recommendation on Measures to Safeguard Fundamental Rights and the Open Internet in the Framework of the EU Copyright Reform’ (2018) 40(3) EIPR 149. See also, V Moscon, ‘The Council Negotiating Position on Article 13: Warning, Creators are also Part of the Game!!!’ (Kluwer Copyright Blog, 4 July 2018) <<http://copyrightblog.kluweriplaw.com/2018/07/04/council-negotiating-position-article-13-warning-creators-also-part-game/>>, accessed 17 April 2019; J Reda, ‘Julia Reda discusses the current Proposal for a Directive on copyright in the Digital Single Market’ (Kluwer Copyright Blog, 18 June 2018) <<http://copyrightblog.kluweriplaw.com/2018/06/18/julia-reda-discusses-current-proposal-directive-digital-single-market/>> accessed 26 April 2019. Prior proposals with relevance to this topic include: JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017); T Kreutzer and others, ‘The Berlin Gedankenexperiment on the restructuring of Copyright Law and Author’s Rights’ 7 (2016) JIPITEC 76, para 1; M Leistner, *Copyright Law on the Internet in Need of Revision: Hyperlinks, Online Platforms and Aggregators* 12 (2) (2017) J Intell. Prop. L. & Practice 136-149; M Leistner and A Metzger, ‘The EU Copyright Package: A Way Out of the Dilemma in Two Stages’ (2017) 48 IIC 381.

a.) Statutory licence and mandatory exception

- 67 The system we envisage would involve a statutory licence, based on an exception for individual online users.¹¹⁶ The exception would privilege the non-commercial use of works on user-upload or user-generated content platforms, jointly referred here as “content-sharing platforms”. Such platforms would include Internet intermediaries that provide hosting services enabling users to upload and exchange inter alia copyright-protected works and related subject matter.
- 68 The exception should be mandatory, not only because of the cross-border and single market relevance of the uses covered, but also due to its strong normative underpinnings. As argued elsewhere, an exception of this type – i.e. one applying to user-generated content – will improve legal certainty for users and content-sharing platforms.¹¹⁷ It will furthermore align copyright with online social norms, resulting in benefits for the respect and legitimacy of the law. Finally, an exception that covers user-generated content would function as an online extension of the concepts of quotation, parody and transformative use, which are clearly grounded in freedom of expression and information.¹¹⁸ In its case law, the Court has used this fundamental freedom to limit remedies for copyright infringement and to justify the existence and broad interpretation of the parody and quotation exceptions.¹¹⁹ In view of this, an optional exception would risk insufficient harmonisation and fail to protect adequately the fundamental rights dimension of privileged uses.¹²⁰
- 69 The exception would directly cover and authorise acts by individual end-users of content-sharing platforms that are natural persons. This means that neither legal persons nor other collective entities would be *direct* beneficiaries of the system. This marks a difference from the DSM Directive’s approach. According to Article 17(2) DSMD, if OCSSPs obtain a licence from right-holders, this must also extend to acts of users of their services covered by the right of communication to the public, provided they “are not acting on a commercial basis or where their activity does not generate significant revenues”. Hence, where such agreements are concluded, the provider will assume liability for infringement by end-users by virtue of its contractual arrangement with right-holders. In a way, the platform will be passing on its licence to its users for their non-commercial activities.¹²¹ Where no licensing agreements are concluded by the platform, end-users will not be shielded from liability – unless their activities are privileged by an existing exception.¹²² In this no-agreement scenario, platforms will only be able to escape liability if they can show they have made the “best efforts” to license required by Art. 17(4) DSMD.¹²³
- 70 By contrast, our proposal does not rely on the licensing of exclusive rights through platforms. Rather, it focuses on an exception to the benefit of users. At the same time, it would indirectly benefit certain content-sharing platforms, *on the condition that* they are compliant with the accessory copyright liability regime sketched out above. In practice, this would mean the following.
- 71 To qualify, a platform must not be making an *own use* of the work that triggers the exclusive rights of reproduction and communication or making available to the public under Articles 2 and 3 of the InfoSoc Directive.¹²⁴ If there is no own use, whether the content-sharing platform is accessorially liable should be considered, meaning that it is necessary

116 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 26: “Statutory licenses restrict the nature of a pre-existing exclusive right through the application of a compensated limitation.” In this article, we use the term ‘exception’ as having the same meaning as ‘limitation’, and with reference to the title of Art. 5 InfoSoc Directive.

117 JP Quintais, ‘Rethinking Normal Exploitation: Enabling Online Limitations in EU Copyright Law’ 41 (2017) 6 AMI: Tijdschrift voor Auteurs-, Media- & Informatierecht 197-205.

118 See Art. 11 Charter and Recital 3 InfoSoc Directive. This point is also recognised in the context of the new mandatory exceptions in Article 17(7) DSMD and accompanying recital 70.

119 Case C-70/10, *Scarlet Extended* (24 November 2011) ECLI:EU:C:2011:771, [43], [50]–[53]; Case C-360/10, *Netlog* (16 February 2012) ECLI:EU:C:2012:85, [41]–[43], [48], [50]–[51]; Case C-314/12, *UPC Telekabel* (27 March 2014) ECLI:EU:C:2014:192, [46]–[47], [55]–[57]; Case C-201/13, *Deckmyn* (3 September 2012) ECLI:EU:C:2014:2132; Case C-145/10, *Eva-Maria Painer* (1 December 2011) ECLI:EU:C:2013:138; Case C-469/17, *Funke Medien* (29 July 2019) ECLI:EU:C:2019:623, [39]–[54]; Case C-476/17, *Pelham* (29 July 2019) ECLI:EU:C:2019:624, [72]; Case C-516/17, *Spiegel Online* (29 July 2019) ECLI:EU:C:2019:625, [50]–[59], [75]–[95].

120 M van Eechoud and others, *Harmonising European Copyright*

Law: The Challenges of Better Law Making (Kluwer Law International 2009) 128–129, identifying these arguments for qualifying limitations as mandatory.

121 NB other contractual schemes are possible, for example a covenant not to sue by right-holders, an indemnification obligation by the platforms, a contract in favour of third parties (the users) by the platform, a sub-licence, etc.

122 Such as applicable exceptions in Art. 5(3) InfoSoc Directive and, after national implementation of the DSM Directive, those mentioned in Art. 17(7) thereof.

123 Art. 17(4) DSMD. See also Art. 17(5) DSMD, identifying the factors to be taken into account in determining the compliance of platforms with their obligations under Art. 17(4) DSMD.

124 Our position, contrary to Art. 17(1) DSMD, is that a for-profit platform that merely hosts large amounts of copyright-protected works or other protected subject matter uploaded by its users is not automatically carrying out a restricted act under Art. 3 InfoSoc Directive.

to examine its conduct and mental elements.¹²⁵ By exempting the acts of individual users, this regime would heighten the threshold required for a finding of knowledge or intent of infringement by the platform as regards uses outside the scope of the exception. This is because accessory liability would depend on the platform having knowledge that the use in question is either commercial or otherwise not covered by the exception.

- 72 For platforms, this solution would bring significant benefits as compared to the approach in the DSM Directive. It would increase legal certainty by clarifying their liability for acts of their users, while preventing the extension of the exclusive right to their normal activities. For acts of end-users covered by the exception, platforms would be allowed significant breathing space to provide their services and would not be subject to injunctions under Article 8(3) of the InfoSoc Directive. Finally, due to the privilege granted to users, our proposal (in contrast with Article 17(4) DSMD) discourages preventive filtering, an aspect that bolsters its compliance with fundamental rights and the ban on general monitoring in Article 15 ECD. At the same time, as specified above in C.I.3., there remains ample space for reactive duties of care, such as NTD obligations, to be imposed on platforms, upon obtaining knowledge of infringements regarding content or uses outside the exception's scope.

b.) Subject Matter Scope

- 73 In theory, our system could apply to all types of protected works and other subject matter, domestic or foreign to an EU Member State, susceptible to upload and use in a content-sharing website. In practice, for reasons of compliance with the three-step test,¹²⁶ some subject matter exclusions are sensible. As explained below, the exception underlying our proposal operates as a restriction on the exclusive rights of reproduction and communication to the public in Articles 2 and 3 InfoSoc Directive. It is therefore logical to follow the directive's regime and exclude computer programs and databases from the scope of our statutory licence.¹²⁷ This exclusion is further justified by the idiosyncratic motivations and legal regimes for these types of subject matter in EU law, and the fact that the software and database sectors operate according to specific logics, so that

¹²⁵ See *supra* C.I.1.–C.I.2.

¹²⁶ More specifically, subject matter restrictions are important to ensure that the exception underlying our system qualifies as a “certain special case” under the first step of the test. See JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 387–388 and references therein.

¹²⁷ See Art. 1(2)(a) and (e) InfoSoc Directive.

they do not suffer from the problem of large-scale infringement to the same extent as other types of content.¹²⁸ In our view, many of the same arguments are valid for videogames.¹²⁹ A practical consideration strengthens such exclusions: these categories have, to date, “remained largely exempt from statutory or collective licensing”, on which our system relies.¹³⁰

- 74 In essence, the main policy choice is whether to extend the system and underlying exception to all or most types of works/subject matter covered by the InfoSoc Directive, or advance a category-based approach, aimed solely at certain types of content popular across content-sharing platforms and for which – and to the extent that – there are mature structures of collective rights management: music, including the musical work, fixations of performances and phonograms; text; visual; and film/video.¹³¹ The best option would be to have the system mirror the subject matter scope of the InfoSoc Directive, as that would ensure the internal consistency of the statutory license. The obvious issue with this approach is that sectors with underdeveloped collective rights management structures would need to develop these before being able to fully benefit from the system.

c.) Substantive Rights Scope: Authorised Acts

- 75 Our proposal is based on an exception for non-commercial online acts of reproduction and communication to the public by users of content-sharing platforms. For the types of use covered by the exception, the exclusive rights at issue would be recast as rights to fair compensation.
- 76 Existing proposals differ somewhat in this respect. For example, Hilty and Bauer suggest an exception that would cover the act of uploading and any uses in preparation of user-generated content.¹³² In a slightly

¹²⁸ JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 388 and references cited therein.

¹²⁹ See, for a detailed argument, JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 387–391.

¹³⁰ PB Hugenholtz and JP Quintais, “Towards a Universal Right of Remuneration: Legalizing the Non-commercial Online Use of Works’ in PB Hugenholtz (ed), *Copyright Reconstructed: Rethinking Copyright’s Economic Rights in a Time of Highly Dynamic Technological Change* (Kluwer Law International 2018) 265.

¹³¹ *Id.* 266.

¹³² R Hilty and A Bauer, ‘Use of Protected Content on Online Platforms’ in R Hilty and V Moscon (eds), *Modernisation of the EU Copyright Rules Position Statement of the Max Planck Institute for Innovation and Competition* (Max Planck Institute for Innovation & Competition Research Paper No. 17-12,

different approach, the proposal by Senftleben et al. also covers the further dissemination of user-generated remixes and mashups of protected content.¹³³

- 77 In our view, the exception must clearly apply to any use covered by the rights of reproduction and communication to the public that takes place in the context of content-sharing platforms.¹³⁴ It should further clarify that it applies to transformative uses (e.g. certain types of remixes or mashups), including those that lie in the grey area between reproduction and adaptation.¹³⁵ To be sure, this would amount to an indirect (partial) harmonisation of the right of adaptation. Still, it would prevent legal uncertainty in the application of the exception, which could undermine its effectiveness.
- 78 As a matter of legal design, the application of a statutory licence to at least two exclusive rights can give rise to one or more copyright exceptions. For example, Article 5(2) of the InfoSoc Directive lists cases allowing for a limitation to the reproduction right, whereas Article 5(3) of the same directive, as well as the Orphan Works Directive, set out exceptions to the rights of reproduction and communication to the public. Therefore, in this respect, our exception is not a radical departure from existing law.
- 79 Still, we should be mindful to avoid overlaps with existing exceptions susceptible to application to the types of online use targeted here. These include

18 September 2017) <<https://ssrn.com/abstract=3036787>> accessed 26 April 2019.

- 133 M Senftleben and others, 'The Recommendation on Measures to Safeguard Fundamental Rights and the Open Internet in the Framework of the EU Copyright Reform' (2018) 40(3) EIPR 149.
- 134 NB Art. 17(7) DSM Directive extends the exceptions therein to the activities of users "when uploading and making available content ...on online content-sharing services".
- 135 On the potential scope of an exception for user-generated content in the *acquis*, see JP Quintais, 'Rethinking Normal Exploitation: Enabling Online Limitations in EU Copyright Law' (2017) 41(6) AMI: Tijdschrift voor Auteurs-, Media- & Informatierecht 197-205, citing the proposals the Internal Market Committees (IMCO) and the Culture Committee (CULT) during the legislative process of the proposed Directive. See European Parliament, 'Opinion of the Committee on the Internal Market and Consumer Protection for the Committee on Legal Affairs' (COM(2016)0593 – C8-0383/2016 – 2016/0280(COD)), Rapporteur: Catherine Stihler, 14 June 2017, Amendment 55, new Art. 5b, 36; European Parliament, 'Opinion of the Committee on Culture and Education for the Committee on Legal Affairs' (COM(2016)0593 – C8-0383/2016 – 2016/0280(COD)), Rapporteur: Marc Joulaud, 4 September 2017, Amendment 60, Art. 5a (new) on "Use of short extracts and quotations from copyright-protected works or other subject matter in content uploaded by users". For a user-generated content exception that was made into law, see Sec. 29.21(1) of the Canadian Copyright Act (Copyright Act (R.S.C., 1985, c. C-42)).

temporary and transient copying, quotation, incidental inclusion and caricature, parody, and pastiche.¹³⁶ In fact, Article 17(7) of the DSM Directive imposes an obligation on Member States to ensure that users of OCSSPs benefit from certain exceptions defined as optional in Article 5 InfoSoc Directive. The exact legal nature and scope of the exceptions in paragraph (7) are unclear at this stage. At the very least, the provision will have the effect of making such exceptions mandatory and fully applicable in the context of uploads in OCSSPs. In any case, while potential overlaps cannot be excluded, their existence is not detrimental to our proposal. After all, overlaps already exist in the InfoSoc Directive, for example between private copying and reprography.¹³⁷ What is important is to take such overlaps into consideration when designing the system and calculating the amount of compensation due.¹³⁸

- 80 The thornier issue lies with the central characteristic of the exception; specifically, that it privileges only non-commercial use. The definition of non-commercial use is still an unsettled matter in the EU copyright *acquis*, despite the fact that the concept features in various provisions of the legal framework.¹³⁹ The concept also lies at the heart of the above-mentioned Article 17(2) DSM Directive.¹⁴⁰
- 81 As argued elsewhere, the notion of "non-commercial" should be understood as a legal standard (as opposed to a rule) and an autonomous concept of EU law.¹⁴¹ In essence, this means that it should apply to the use of works by individuals not in direct competition with use by the copyright-holders. To determine

136 Arts 5(1), 5(2)(b), and 5(3)(d), (i) and (k) InfoSoc Directive.

137 Arts 5(2)(a) and (b) InfoSoc Directive. See in this respect, Case C-572/13, *Reprobel* (12 November 2015) ECLI:EU:C:2015:750, [32]-[43].

138 Cf. JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 391-392. See *infra* C.II.2.

139 Art. 5(2)(b) and (e), 5(3)(a) and (b) InfoSoc Directive, as well as Art. 6(5) Orphan Works Directive (Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works [2012] OJ L 299/5) and Art. 5(3) of the Collective Rights Management Directive (Directive 2014/26/EU of the European Parliament and of the Council of 26 February 2014 on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online use in the internal market [2014] OJ L 84/72).

140 See *supra* C.II.1.(a).

141 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 10-11, 214-215, 276-284, 392-394. See also PB Hugenholtz and JP Quintais, 'Towards a Universal Right of Remuneration: Legalizing the Non-commercial Online Use of Works' in PB Hugenholtz (ed), *Copyright Reconstructed: Rethinking Copyright's Economic Rights in a Time of Highly Dynamic Technological Change* (Kluwer Law International 2018) 263-264.

this standard, recourse can be had to criteria that are both subjective, like the profit-making purpose of the user, and objective, such as the commercial character of the use.¹⁴² In the context of content-sharing content platforms, where most individual users do not carry out a business activity or make profit from the platform, the application of such a standard will, as a rule, be straightforward.

- 82 Other authors follow a similar approach. In a nod to the second condition of the three-step test,¹⁴³ Hilty and Bauer propose that whether a use is non-commercial or not, should be determined by excluding uses that conflict with the normal exploitation of works because they are on a commercial scale or serve a commercial objective.¹⁴⁴ To make the distinction clear, the authors propose adding recitals to support the exception, listing positive and negative examples, such as an exclusion of uploads in peer-to-peer platforms.¹⁴⁵ Further recitals could be envisaged to flesh out subjective and objective criteria to assess the commercial nature of a use. For example, it could be stated that the concept of non-commercial use focuses on online activities of consumption, enjoyment, reference, or expression, outside the context of a market or business activity, and excludes acts with a direct profit intention or for monetary compensation.¹⁴⁶ It would also be sensible, in line with Article 17(2) DSM Directive, to include in the concept activities that do “not generate significant revenues”, as these are unlikely to encroach upon the normal exploitation of works or produce harm to right-holders.
- 83 An important point is that the concept *does not* exclude acts of end-users that, although not carried out with a profit-making intention, nonetheless bear economic significance. To exclude from the

exception any type of use or works with economic value would deprive the exception of any useful scope and effect, limiting it to *de minimis* use. The example that comes to mind is that of cost savings for users that would be willing to pay for access to the work outside the content-sharing platform. The payment of fair compensation would be designed to address such potential harm to right-holders, returning it to tolerable levels, provided the permitted use does not conflict with major sources of right revenues of copyright-holders.¹⁴⁷ Grey area cases on the commercial/non-commercial qualification of a use will be decided by national courts and ultimately by the CJEU, in the interpretation of this autonomous concept.¹⁴⁸

- 84 A related aspect is the need to ensure the system enables the commercial exploitation of works on content-sharing platforms. Activities like the automatic posting of advertisements on the same page as the work, but unrelated to its content do not appear problematic to us at the moment. Conversely, the direct monetisation of a work by either the end-user or the platform (e.g. through advertisements on an uploaded video tailored to its contents) should generally fall outside the scope of the exception, as it would amount to a commercial use. This would mean that such monetisation would require an agreement with the right-holder, although intermediaries might avoid liability where there is no agreement, if they abide by the conditions of the applicable intermediary liability regime. If such agreement is reached, the commercialisation of the work must be taken into account when calculating fair compensation for its upload, as it would necessarily mean that, from that moment on, no “harm” would be caused to the rights-holder. The result would be that the work would remain accessible, but no fair compensation would be due under our system, as there would be no harm to compensate: the right-holders would already be remunerated through contract.
- 85 A key point is that the exception would not require the content-sharing platform at issue to be itself a non-commercial enterprise. The non-commercial restriction only refers to the activities *of the user* in uploading and disseminating the content through the platform, that is neither making its own use of the content nor qualifies as accessorially liable. This precision is important, as it ensures the effectiveness of the limitation and its potential to

142 *Id.* 391-394 and references cited therein. NB Art. 17(2) DSM Directive appears to rely on objective criteria.

143 Art. 5(5) InfoSoc Directive.

144 For a detailed argument on how an exception for user-generated content does not violate the second step of the three-step test, see JP Quintais, ‘Rethinking Normal Exploitation: Enabling Online Limitations in EU Copyright Law’ 41 (2017) 6 AMI: Tijdschrift voor Auteurs-, Media- & Informatierecht 197-205.

145 R Hilty and A Bauer, ‘Use of Protected Content on Online Platforms’ in R Hilty and V Moscon (eds), ‘Modernisation of the EU Copyright Rules Position Statement of the Max Planck Institute for Innovation and Competition’ (Max Planck Institute for Innovation & Competition Research Paper No. 17-12, 18 September 2017) <<https://ssrn.com/abstract=3036787>> accessed 26 April 2019.

146 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 393, advancing a definition of non-commercial that “would prevent individual operators of P2P and other platforms that generate advertising or sponsorship or other financial consideration in connection with the usage of works from being exempt from liability as a result of the adoption of the statutory license.”

147 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 288-295, 394.

148 *Id.* at 394, noting that “[r]egardless, whatever indirect financial consideration end-users receive in grey-area cases, it is unlikely to cause substantial harm to right-holders, and should therefore be susceptible of compensation in the context of a statutory licence...”

generate significant revenue for right-holders as fair compensation, by allowing the system to include for-profit platforms.

- 86 Finally, Hilty and Bauer also propose that only works that are freely available online (being either uploaded from an authorised source, covered by an exception or limitation or by an implied license) can be privileged by the exception.¹⁴⁹ This requirement mirrors that of “lawfulness of source” developed by the CJEU in *ACI Adam* when interpreting the private copying limitation in light of the three-step test.¹⁵⁰ Although we have reservations as to whether this requirement is truly necessary under the three-step test, its application in the present context would be useful, as it would provide a clear legal basis for right-holders to notify platforms that are otherwise (prior to this knowledge-making notification) not accessorially liable, so that they may remove or disable access to the infringing copy. It also makes clear that the re-uploading of content available online through commercial channels subject to technical restrictions of access (e.g. via a streaming service like Spotify or Netflix) would not be covered by our proposed exception.

2. Fair Compensation Right and its Calculation

- 87 The statutory licence proposed here relies on an exception to exclusive rights tied to a right of equitable remuneration¹⁵¹ or fair compensation.¹⁵² These concepts are not synonymous. Equitable remuneration rights are commonly tied to compulsory licences for uses or forms of exploitation of works not previously covered by an exclusive right. Examples at the international level are the equitable remuneration rights for the broadcasting of works and for “secondary uses” of phonograms.¹⁵³ In the EU *acquis*, there exists a right for an unwaivable and equitable remuneration for rental, an optional right of remuneration for public lending, and rights for a single equitable remuneration for broadcasting and communication to the public.¹⁵⁴ The CJEU interprets the concept of equitable remuneration as based on the “value of the use in trade” and following a logic of balance between competing interests.¹⁵⁵
- 88 “Fair compensation” has different contours. This concept accompanies certain limitation-based statutory licences. Before the InfoSoc Directive, most European systems would subject compensated limitations to the payment of equitable remuneration, following the blueprint of other non-exclusive rights in the *acquis*. After the directive, that concept was replaced by “fair compensation”. Rights of fair compensation are now recognised for reprographic reproductions, private copying, reproductions of broadcasts by non-commercial social institutions, and for use of orphan works by specific organisations.¹⁵⁶
- 89 In our view, the concept of fair compensation appears to be the most suitable companion to the exception. First, Recital 36 of the InfoSoc Directive suggests a preference of the EU legislator for this

149 Similarly, see R Hilty and A Bauer, ‘Use of Protected Content on Online Platforms’ in R Hilty and V Moscon (eds), *Modernisation of the EU Copyright Rules Position Statement of the Max Planck Institute for Innovation and Competition* (Max Planck Institute for Innovation & Competition Research Paper No. 17-12, 18 September 2017) <<https://ssrn.com/abstract=3036787>> accessed 26 April 2019, 107, explaining that “a private user action may build upon previous acts of exploitation from third-parties that are covered by an exemption, however not through the exploitation of illegal file sharing.”

150 For a detailed analysis, see JP Quintais, ‘Private Copying and Downloading from Unlawful Sources’ (2015) 46(1) IIC 66. For doubts as to the wisdom of imposing such a requirement for alternative compensation systems, see JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 390-391 and PB Hugenholtz and JP Quintais, ‘Towards a Universal Right of Remuneration: Legalizing the Non-commercial Online Use of Works’ in PB Hugenholtz (ed), *Copyright Reconstructed: Rethinking Copyright’s Economic Rights in a Time of Highly Dynamic Technological Change* (Kluwer Law International 2018) 266.

151 R Hilty and A Bauer, ‘Use of Protected Content on Online Platforms’ in R Hilty and V Moscon (eds), *Modernisation of the EU Copyright Rules Position Statement of the Max Planck Institute for Innovation and Competition* (Max Planck Institute for Innovation & Competition Research Paper No. 17-12, 18 September 2017) <<https://ssrn.com/abstract=3036787>> accessed 26 April 2019.

152 M Senftleben and others, ‘The Recommendation on Measures to Safeguard Fundamental Rights and the Open Internet in the Framework of the EU Copyright Reform’ (2018) 40(3) EIPR 149.

153 See Art. 11bis Berne Convention for the Protection of Literary and Artistic Works, July 14, 1967, 11850 U.N.T.S. 828, and Art. 12 Rome Convention.

154 Arts 5, 6 and 8(2) Rental and Lending Rights Directive.

155 See, on Art. 8(2) Rental Right Directive, Case C-245/00, *Sena* (6 February 2003) ECLI:EU:C:2003:68, [36]–[37]; Case C-192/04, *LaGardère Active Broadcast* (14 July 2005) ECLI:EU:C:2005:475, [50].

156 See, respectively, Arts 5(2)(a), (b) and (e) InfoSoc Directive and Art. 6(5) Orphan Works Directive.

concept in connection with future compensated limitations on the directive's exclusive rights, including reproduction and communication to the public, i.e. the rights to which our proposed exception applies. Second, there is a vast body of CJEU judgments interpreting "fair compensation" as an autonomous concept of EU law, thus providing a solid basis for its seamless implementation in the *acquis*.¹⁵⁷

- 90 To be consistent with EU law, our exception should be aligned with this autonomous concept, as interpreted by the CJEU. Under this case law, the right to fair compensation is defined as unwaivable and vesting solely in the authors and related right-holders that in EU law are granted the exclusive rights affected by the exception, i.e. those listed in Articles 2 and 3 of the InfoSoc Directive.¹⁵⁸ As a result, the grant of a right of fair compensation ensures, first, that creators receive a share of the amounts collected under the statutory licence system and, second, that they are not forced to transfer that share to exploiters, i.e. publishers and other derivative right-holders.¹⁵⁹
- 91 Since the normative concern with the remuneration of creators is at the heart of the "value gap" debate, it makes sense to adopt a fair compensation right that is both unwaivable and primarily for the benefit of creators. This would ensure a steady flow of rights revenue to authors and performers, thereby incentivising and rewarding creative efforts, while protecting creators from ill-advised transfers of their rights to other parties in the context of unbalanced contractual negotiations.¹⁶⁰

157 For an overview of this case law, see e.g. A Dias Pereira, 'Levies in EU Copyright Law: an Overview of the CJEU's Judgments on the Fair Compensation of Private Copying and Reprography' (2017) 12(7) J. Intell. Prop. L. & Practice 591.

158 But see Art. 16 DSMD, recognising a claim of fair compensation for press publishers. In our view, this new claim, introduced in the context of the controversial new right for press publishers in Art. 15 DSMD, should not affect our proposal.

159 Case C-572/13, *Reprobel* (12 November 2015) ECLI:EU:C:2015:750, [44]–[49]. See also European Copyright Society, 'European Copyright Society Opinion on The Reference to the CJEU in Case C-572/13 Hewlett-Packard Belgium SPRL v. Reprobel SCRL' (5 September 2015) <<https://europeancopyrightsociety.org/opinion-on-reprobel/>> accessed 26 April 2019.

160 See JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) and C Geiger 'Copyright as an Access Right, Securing Cultural Participation Through the Protection of Creators' Interests' in R Giblin and K Weatherall (eds.), *What if We Could Reimagine Copyright?* (ANU Press 2017). 73.

92 The amount of fair compensation should reflect the harm suffered by creators and other right-holders of the affected exclusive rights.¹⁶¹ The potential harm caused by the introduction of an exception in the context of our alternative compensation system should be considered in terms of the prejudice suffered by copyright owners due to their inability to exercise their copyright for the non-commercial online use of works.

93 Normally, harm would be measured against the effects of the limitation on the market. But there is no actual market to determine accurately the price of the non-commercial use in question. A statutory licence of this type applies to public goods or goods not yet released on the market,¹⁶² and to forms of use for which there is no clear market due to the lack of exercise of the right or its monetisation.¹⁶³ Therefore, we suggest that the harm should be calculated on the basis of a different reference point, namely by assessing the value of the uses at issue to the end-users that benefit from the proposed system.

94 Following our previous research, the harm in question could be determined by measuring users' willingness to pay for such a system through methods of contingent valuation.¹⁶⁴ Furthermore, the amount of harm should take into consideration mitigating factors already referred in the InfoSoc Directive's recitals and CJEU case law in this field: the *de minimis* nature of a use, prior payments for such use, or the application of technological protection measures. For instance, certain types of use permitted by the exception only cause minimal harm or are already compensated for through contractual means, i.e. priced into the purchase or licence of the digital content uploaded to the content-sharing platform. The result is that such uses do not cause economic harm to the copyright holders and may not give rise to an obligation to pay fair compensation.¹⁶⁵

161 Case C-467/08, *Padawan* (21 October 2010), [40]–[42]; Case C-572/13, *Reprobel* (12 November 2015) ECLI:EU:C:2015:750, [36], [48]–[49].

162 C Handke and others, 'Going Means Trouble and Staying Makes It Double: the Value of Licensing Recorded Music Online' (2016) 40 J. Cult. Econ. 227.

163 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 293, drawing a parallel to the factors mentioned in Recital 35 of the InfoSoc Directive, which refer to the calculation of compensation for private copying.

164 *Id.* 284–285, 293–294. See also J-J Vallbé and others, 'Knocking on Heaven's Door - User Preferences on Digital Cultural Distribution' (14 July 2015) <<https://ssrn.com/abstract=2630519>> accessed 26 April 2019 (forthcoming Internet Policy Review [2019]).

165 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 394–397; J-J Vallbé and others, 'Knocking on Heaven's Door - User Preferences on Digital Cultural Distribution' (14 July 2015) <<https://ssrn.com/abstract=2630519>> accessed

- 95 Naturally, these factors can be developed and additional ones can be devised to assist in the calculation of the compensation. An example of an existing factor that can be adjusted to our proposal would be to consider the above-mentioned case of post-upload monetisation of content on the platform with the authorisation of right-holders as harm-reducing. Additional factors suggested by other authors include the nature and operation of a platform, as well as the period of time since the publication of uploaded works.¹⁶⁶
- 96 Finally, we should reiterate that the scope of our proposed exception is linked to that of existing unremunerated exceptions, such as quotation, criticism, review, caricature, parody or pastiche.¹⁶⁷ If an upload by a user falls within the scope of such exceptions, as interpreted by the CJEU, then it will by definition give rise to no harm to be compensated under our proposed system.
- 97 If our proposal were to be accepted, it would bring with it consequences for the legal admissibility of the underlying exception. Harm calculated in the way we suggest would correspond to the “prejudice” suffered by copyright-holders due to their inability to exercise and license their rights for the uses under appreciation. By securing the payment of such an amount as fair compensation, the prejudice would be returned to reasonable levels. In so designing the system, we aim to ensure that the exception meets the requirements imposed by the final condition of the three-step test.¹⁶⁸ This approach would also retain the required link between harm and privileged use, while approximating fair compensation to the notion of “appropriate reward” to incentivise creativity, thereby fulfilling a declared objective of EU copyright law.¹⁶⁹

26 April 2019 (forthcoming Internet Policy Review [2019]).

166 R Hilty and A Bauer, ‘Use of Protected Content on Online Platforms’ in R Hilty and V Moscon (eds), *Modernisation of the EU Copyright Rules Position Statement of the Max Planck Institute for Innovation and Competition* (Max Planck Institute for Innovation & Competition Research Paper No. 17-12, 18 September 2017) <<https://ssrn.com/abstract=3036787>> accessed 26 April 2019.

167 See *supra* at C.II.1.(c).

168 JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 293.

169 *Id.* at 381. On “appropriate reward” as an objective of EU copyright law and a notion central to the Court’s case law, see Recital 10 InfoSoc Directive and M Favale and others, ‘Is There an EU Copyright Jurisprudence? An Empirical Analysis of the Workings of the European Court of Justice’ (2016) 79 *The Modern L. Rev.* 31.

3. Payment Obligations and Safeguards for Platforms

- 98 Finally, it is possible to identify some high-level features of the basic operation of the proposed statutory licence, including payment obligations and safeguards for platforms. The obligation to pay compensation would lie with content-sharing platform providers whose users benefit from the exception proposed. These providers would be considered “paying agents” or debtors in the context of a statutory licensing system managed by a CMO.¹⁷⁰ There are valid policy arguments, linked to the promotion of technological development, that justify an exclusion for certain smaller, younger and/or less profitable platforms from the payment obligation.¹⁷¹ In our view, subject to an impact assessment, it would be justified to consider payment exemptions for at least two types of service providers. First, for providers that are start-ups, meaning that their services have not been available to the public in the Union for long (e.g. only three or five years). This exemption should operate irrespective of the platform’s size, user-base and/or audience during the period in question. Second, irrespective of their age, an exemption should apply to service providers with an annual turnover below a certain threshold.¹⁷²
- 99 The statutory licence would be tied to obligatory collective management of the fair compensation right.¹⁷³ Subject to the rules set out in the CRM

170 See also R Hilty and A Bauer, ‘Use of Protected Content on Online Platforms’ in R Hilty and V Moscon (eds), *Modernisation of the EU Copyright Rules Position Statement of the Max Planck Institute for Innovation and Competition* (Max Planck Institute for Innovation & Competition Research Paper No. 17-12, 18 September 2017) <<https://ssrn.com/abstract=3036787>> accessed 26 April 2019.

171 An exclusion of this type is found for example in Art. 17(6) DSMD. According to this, certain online content-sharing service providers that have been operating for fewer than three years, have an annual turnover below EUR 10 million, and an average number of monthly unique visitors under 5 million are subject to “lighter” obligations under the liability regime of Art. 17(4) DSMD.

172 Art. 17(6) DSMD mentions a threshold of EUR 10 million calculated in accordance with Commission Recommendation 2003/361/EC. However, a much lower threshold could be envisaged, if the objective were to foster the development of smaller platforms.

173 In this system, CMOs “play a role in centralizing and monitoring information as well as in granting fair and efficient distribution (not neglecting the defence of creators’ interests against the copyright-based industries)”. See R Hilty and S Nérison, ‘Collective Copyright Management and Digitization: The European Experience’ in R Towse and C Handke (eds.), *Handbook on the Digital Creative Economy* (Edward Elgar, 2013) 222-234, discussing the prospective role of CMOs in the digital environment. The authors suggest CMOs “could develop tools to enhance non-commercial uses of protected works thanks to micropayments and blanket licences”, thus enabling “compensation of creative people” and allowing “end-users sufficient access to

Directive and implementing legislation, cross-border articulation of CMOs could rely on a network of representation agreements of national members to manage and enforce the fair compensation right. It is also conceivable that an EU-wide umbrella CMO centralises certain aspects of the system.¹⁷⁴ The management of the system and the number of organisations involved would depend on the scope and design of the exception(s). As noted, the most efficient design would be that of one exception covering two exclusive rights – reproduction and communication to the public – while leaving existing exceptions in the *acquis* intact, and dealing with potential overlaps when calculating fair compensation.¹⁷⁵

- 100** Collection of the rights revenue should be carried out by the competent national CMO directly from the content-sharing platform. As regards distribution of compensation, the beneficiaries would be the holders of the exclusive rights affected by the exception. Because the right of fair compensation would be unwaivable and non-transferable, authors and performers would be entitled to a fair share of the distributable rights revenue, with the remaining amount going to other right-holders. In our view, creators should be apportioned at least half of the rights revenue collected.¹⁷⁶
- 101** As noted, our proposal relies on a functioning and mature system of collective rights management.¹⁷⁷ Moreover, such a system would require adaptation to the digital environment so as to apply to content-sharing platforms. There is therefore an

copyrighted works”. In this respect, they add, “[e]xtending cases in which copyrights were to be statutorily collectively managed would help”.

- ¹⁷⁴ These would include data processing, information on uses, and distribution of rights revenue, to the benefit of second-level national CMOs (or subsidiaries) and other stakeholders.
- ¹⁷⁵ JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 391-392 and 400-401. This leaves open the possibility, *inter alia*, that a CMO currently tasked with managing an existing exception, say private copying, would be tasked with also managing the new exception.
- ¹⁷⁶ This appears consistent with the objective expressed in Recital 11 InfoSoc Directive of providing adequate compensation to incentivise creation and safeguard the “independence and dignity of artistic creators and performers”. To ensure a fair distribution of revenue to right-holders, different contingent valuation methods could be combined, including techniques such as the measurement of use through electronic rights management information, sampling, and strictly anonymous monitoring with the assistance of content-sharing platforms. See JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 401, making similar points in the context of a broader proposal.
- ¹⁷⁷ See *supra* C.II.1.(b).

important policy choice to be made as to the scope of application of the system that will directly affect the functioning and management of the statutory licence. If the objective would be to enable the circulation of works and incentivise collectivised licensing, a possible approach would be to accept a broad subject-matter scope for the exception, but to subject *payment obligations* to the existence of a functioning and sufficiently representative CMO in that area, in the respective Member State.

- 102** As noted, content-sharing platforms are the primary targets of the compensation, however this would lie ultimately with the users who benefit from the exception. As with most levy systems, payee platforms would have the option to either shift the burden of the compensation to users (e.g. as a subscription fee)¹⁷⁸ or absorb (part of) that cost, for example by financing it out of advertising revenue.¹⁷⁹ Where the payment of compensation is passed on, platforms should have an obligation to make this transparent to users.
- 103** The imposition of the payment obligation should be counterbalanced by the introduction of safeguards for content-sharing platforms. We suggest that, following the considerations set out above, the new regime should clarify and strengthen the prohibition on the imposition of general monitoring obligations set out in Article 15 ECD. Indeed, if a platform does not intend or have knowledge of the infringement; having knowledge, does not violate any applicable duty of care; and complies with its payment obligations under the proposed statutory licence, it should not be subject to preventive obligations regarding the content it hosts. In such a context, platforms should only be subject to obligations to take action against infringing content where it can be shown that they intend to cause infringement or after obtaining knowledge of an upload that is in violation of the exception. In a world where most of the content uploaded by users would be privileged by an exception, such obligations would become less burdensome for platforms.

4. Outcome: A Fair, Effective and Future-Proof System

- 104** Section C.II argues for the adoption of a statutory licence tied to a mandatory exception for individual online users. The exception would cover non-

¹⁷⁸ JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 401.

¹⁷⁹ M Senftleben and others, ‘The Recommendation on Measures to Safeguard Fundamental Rights and the Open Internet in the Framework of the EU Copyright Reform’ (2018) 40(3) EIPR 149.

commercial use – reproduction and communication to the public (including transformative use) – of works and other subject matter (with the possible exception of software, databases and videogames) previously uploaded legally on content-sharing platforms, whether or not these are for-profit. The system would encompass the vast majority of end-user activities that normally take place on these platforms. The exception would be coupled with an unwaivable right of fair compensation to the benefit of creators and other right-holders, with a fair and appropriate share of rights revenue to be distributed to authors and performers. The obligation to pay compensation would lie with the (non-exempted) platform providers whose users benefit from the exception. This would happen through a statutory licensing system managed by a CMO. In return, the legal system would be clarified so as to avoid the imposition of monitoring and filtering obligations on such platforms and their users. The design of the system and the fair compensation right tied to the exception would ensure its compatibility with the three-step test, at least if the test is interpreted flexibly.¹⁸⁰

- 105** This solution would serve as a complement to the harmonised knowledge/intention-based accessory liability regime for copyright sketched out in Section C.I. It would thus step in to ensure income for creators where the rules of liability reach their practical or legal limits. In this way, providers would be called upon to contribute financially to the creativity displayed on their platforms. Conversely, where the new exception would not apply – most obviously, in cases of commercial use of protected works – or where the platform refuses to cooperate, the liability system would intervene. No fair compensation would be generated, but right-holders would be able to exercise their exclusive rights against those engaging in infringement – including, where their conduct and mental involvement justifies this, Internet intermediaries. If intermediaries cannot be held liable themselves, the system would ensure that, following notification of the infringement, they may be obliged to take proportionate action to remove or prevent the infringement.

¹⁸⁰ JP Quintais, *Copyright in the Age of Online Access: Alternative Compensation Systems in EU Law* (Kluwer Law International 2017) 245-325; JP Quintais, Rethinking Normal Exploitation: Enabling Online Limitations in EU Copyright Law 41 (2017) 6 AMI: Tijdschrift voor Auteurs-, Media- & Informatierecht 197-205. For a roadmap on a flexible interpretation of the three-step test, see C Geiger and others, 'Declaration: A Balanced Interpretation of the Three-Step Test in Copyright Law' (2010) 1 JIPITEC L. 119 para 1 and C Geiger and others, 'The Three-Step Test Revisited: How to Use the Test's Flexibility in National Copyright Law' (2014) 29(3) Am. U. Int'l L. Rev. 581-626.

- 106** The anticipated effect of the combined adoption of these two mechanisms would allow breathing space for online platforms to conduct their business and innovate, while also adding a novel revenue stream for right-holders – especially for creators – and focusing enforcement measures on bad-faith platforms that foster large-scale infringement. Users and the public in general would benefit from a rich and diverse online ecosystem, where the risks of content censorship and enforcement in the private sphere are diminished, but possibilities for online enjoyment, expression and creation are promoted. Our proposal could thus bridge the “value gap” in a way that is consistent with the objectives of copyright law and respectful of fundamental rights.

D. Conclusion

- 107** Current EU copyright law is broken, at least insofar as it applies to mass scale online use. In an attempt to update and fix the legal framework, the new DSM Directive includes a so-called “value gap” provision in Article 17, aimed at enhancing the responsibility of certain user-upload content-sharing platforms. This provision imposes obligations that risk incompatibility with existing law and the Charter of Fundamental Rights of the EU. The result, we fear, will be increased legal uncertainty and a legal regime that is more prone to chilling, rather than fostering, innovation. We argue that a fundamental problem with Article 17 is that it misunderstands the real challenge with which EU copyright law struggles, i.e. the proliferation of copyright infringement online *in general*, resulting from highly complex and fragmented rules on both primary and accessory copyright infringement.
- 108** There are no perfect solutions to this challenge. Any new proposal will have to be built on top of a highly complex legal framework. Its benefits and drawbacks should be measured not against an ideal system, but the current “value gap” provision and its potential impact on the *acquis*.
- 109** In light of these constraints, we advance a pragmatic alternative for fixing EU copyright law through the parallel implementation of two legal mechanisms. The first consists of the adoption of a harmonised EU framework for accessory liability for third party copyright and related rights infringement, capable of determining, among others, when an intermediary – including content-sharing platforms – should be held liable for its users' infringements. The second is an alternative compensation system for right-holders covering non-commercial online use by individuals in the context of user-upload platforms. This entails the adoption of a mandatory exception and fair compensation right in the context of a

statutory licensing system.

110 Our solution, like most levy-based systems, undoubtedly represents a “rough justice” response to a real world problem.¹⁸¹ However, when properly calibrated along the lines suggested in this article, such an approach could contribute to achieving the “fair balance” between the rights and interests of right-holders and users that the CJEU places at the heart of EU copyright law and to which Article 17 only pays lip service. The joint operation of the two proposed mechanisms would increase legal certainty for all stakeholders, enable the development of the information society, and provide fair compensation for right-holders for uses of their works in the online environment.

¹⁸¹ PB Hugenholtz and others, ‘The Future of Levies in the Digital Environment: Final Report’ (Institute for Information Law, March 2003) <<http://dare.uva.nl/search?metis.record.id=223340>> accessed 26 April 2019.

On Upload-Filters and other Competitive Advantages for Big Tech Companies under Article 17 of the Directive on Copyright in the Digital Single Market

by Thomas Spoerri*

Abstract: Article 17 of the Directive on Copyright in the Digital Single Market (DSM), with its goal to close the so-called “value-gap”, contains several strong incentives to use and further develop filtering technologies. It also introduces a direct liability regime, which puts content-service sharing providers (CSSPs) at risk if they do not successfully implement upload-filters as it is only in exceptional situations that CSSPs will not be required to use these filters. Thus, article 17 DSM leads to a situation where nearly any company offering content-sharing services will be required to implement filtering tools in order to avoid the DSM’s direct liability regime. Having access to a strong upload-filter is therefore essential for CSSPs to be able to remain competitive in the new DSM era. However, only big tech companies have the financial power, technological knowledge and internal structure necessary to develop their own competitive upload-filter, which thus gives them an advantage over small and mid-sized CSSPs, as they most likely won’t have the means to develop their own upload-filter. While these smaller CSSPs will have the option to license the required filters from third-party providers like Audible Magic, they may not all be able to afford such provider’s services. In any event, there is a risk that small and mid-sized CSSPs

will not have access to upload-filters. However, due to the technological limitations of upload-filters, even the most sophisticated filtering tools will most likely lead to an important number of false positives, which, in turn, will cause the over-blocking of a substantial amount of non-infringing content in the EU. These false positives will have to be reviewed by humans, since maintaining an effective and expeditious complaint and redress mechanism is required by article 17(9) DSM. The requirements of having an efficient upload-filter as well as human review of false positive cases will have an adverse financial impact on the big tech companies, but it is the small and mid-sized CSSPs that will most feel the blow. As a result, a likely unintended consequence of article 17 DSM is that it indirectly provides the big tech companies a competitive advantage over smaller CSSPs, who may end up being pushed out of, or prevented from entering, the market due to their inability to meet article 17 DSM’s requirements. This competitive advantage for big tech companies is a negative side-effect that will hurt competition and may lead to a greater market concentration in the EU amongst CSSPs. This appears to be a very expensive price to pay in the attempt to close the value gap.

Keywords: Upload-Filters; Article 17; Directive on Copyright in the Digital Single Market; Directive (EU) 2019/790; Value Gap; Proactive monitoring obligations; Filtering Obligations; EU Copyright; Copyright

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A. Introduction

- 1 Generally, legal updates regarding copyright law are mostly seen as a technical matter, followed in detail by only a handful of copyright experts and industry figures. As an exception, the new Directive on Copyright in the Digital Single Market (DSM)^{1,2} has become one of the most controversial legislative pieces in the European Union's (EU) history. The opposing petition was signed over 5 million times,³ which gives a sense of the interest sparked by the DSM. In addition, dozens of demonstrations were held in numerous European cities on March 25, 2019 to protest against the DSM. Even the European Wikipedia site was shut down for an entire day in a protest against "dangerous copyright laws".⁴ Despite ferocious campaigning - led primarily by US tech giants Google/YouTube and Facebook, opposing artists, as well as internet freedom activists - the controversial DSM was approved by the European Parliament on March 26 2019 and endorsed by the Council of the EU on April 15, 2019. It was published in the Official Journal of the EU on May 17, 2019 and entered into force on June 7, 2019 (article 31 DSM). Since it is a directive (not a regulation), EU Member states have two years to implement the DSM into their national legislations, which is until June 7, 2021 (article 29[1] DSM). The DSM is the first major update to EU copyright rules in nearly two decades (2001).
- 2 The DSM's most substantial and controversial articles are article 15 (formerly article 11) and article 17 (formerly article 13). While article 15 DSM focuses on online news content and grants a new right for press publishers over the use of their press publications by information society service providers ("link tax"), this paper focusses on article 17 DSM. This article will make online platforms and aggregator sites liable

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- 1 All links to electronic sources were last accessed on August 22, 2019 (unless otherwise indicated).
- 2 Formally the "Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC", final version available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2019.130.01.0092.01.ENG>.
- 3 Petition available at: <<https://www.change.org/p/european-parliament-stop-the-censorship-machinery-save-the-internet>>.
- 4 James Vincent, European Wikipedias have been turned off for the day to protest dangerous copyright laws (March 21, 2019), *The Verge*, available at: <<https://www.theverge.com/2019/3/21/18275462/eu-copyright-directive-protest-wikipedia-twitch-pornhub-final-vote>>.

for copyright infringements if they do not take proactive steps to enter into licensing agreements with rightholders and remove the non-licensed material on their platform. Although it is mainly aimed at Google/YouTube and Facebook, article 17 DSM will also impact other online content-sharing service providers (CSSPs), in particular smaller CSSPs, and has the potential to negatively affect them to a much greater extent than it would the big tech companies. The main reason for this is that article 17(4) DSM places great emphasis on the adoption of automatic filtering systems and introduces a financial risk for CSSPs if they do not successfully implement such filtering systems. In addition, article 17(9) DSM requires CSSPs to operate an effective complaint and redress mechanism for users in the event of disputes over the disabling of access to, or the removal of, works uploaded by CSSPs. Article 17 DSM therefore not only requires CSSPs to guarantee the unavailability of non-licensed content, it also requires CSSPs to guarantee user's limitations and exceptions, such as parody.

- 3 This paper is structured as follows: Section B will explain the rationale of the DSM's new liability regime, while Section C will briefly outline the relation between article 17 DSM and the E-Commerce Directive (ECD),⁵ and allude to some inconsistencies between these directives. Section D will describe why having access to a strong upload-filter is essential for CSSPs to be able to remain competitive under the new era of the DSM. In Section E, this paper will examine why small CSSPs will not have access to filtering technology - unless a provider is able to develop a sufficiently sophisticated and competitive filtering technology and willing to license it to small CSSPs against a reasonable fee - thus creating the risk that the DSM's filtering requirement may substantially harm competition amongst CSSPs in the EU. In Section F, this paper will examine why today's content filtering technologies are subject to significant inherent limitations with regard to their accuracy, efficiency and affordability. Section G will describe what a CSSP will have to do to meet the requirement of having an effective and expeditious complaint and redress mechanism. Last but not least, in Section H, this paper will describe why under the new DSM era larger CSSPs may gain a new competitive advantage over small CSSPs, which may lead to more market concentration, and whether small CSSPs can do anything to remain competitive.

5 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) [2000] OJ L178/1, available at: <<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32000L0031&from=EN>>.

B. The rationale of article 17 DSM – closing the “value gap”

- 4 The music industry has suffered great losses in the past decades from declining CD sales and, more recently, electronic downloads. The new digital business models such as subscription based models were not able to make up for this loss - whether through paid subscriptions to Spotify or Apple Music, Internet radio from Pandora, or videos on YouTube.⁶ Big media companies and collective management organizations (CMOs) are at odds with digital music providers - especially free, ad-supported music services such as YouTube, for allegedly not returning significant revenue to the music industry. According to a Google report, from October 2017 to September 2018, YouTube paid more than USD 1.8 billion in ad revenue to the music industry.⁷ This deal is, however, not lucrative enough for them. The International Federation of the Phonographic Industry (IFPI) claims that for every USD 20 Spotify returns to the music industry, YouTube returns only one dollar.⁸ Thus, the worldwide music industry is fighting for more money and returns, in particular from tech giants like YouTube or Facebook.
- 5 In addition, the public perception and reputation of big tech companies suffered greatly from their insufficient actions to fight the spread of hate speech, violent videos and copyright infringements on their platforms. It suffered more still from recent scandals involving data breaches, the Cambridge Analytica scandal, as well as the role of tech companies and social media platforms in recent political elections and generally from their alarmingly increasing dominance in certain markets. Today, more than ever, tech companies are subject to the highest scrutiny of regulators and policymakers alike.
- 6 Moreover, safe harbor regimes are in turmoil, not only, but especially, in Europe. There seems to be a much wider global trend against safe harbor jurisdictions. Such a trend aims to impose proactive monitoring and filtering obligations on Internet

service providers (ISPs). Some authors argue that the introduction of article 17 DSM is rooted in the discourse about the “Internet threat”, which reflects a gradual shift in the perception of ISPs from being “mere-conduits” to “active gate-keepers” of content uploaded and shared by users.⁹

- 7 On a political level, the question of “the fair remuneration of authors and performers and of the difference in bargaining power when they license or transfer their rights” was raised in a communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions.¹⁰ According to an additional communication from the Commission, online intermediaries have a duty to provide a safe online environment to users by ensuring that illegal content is removed promptly and proactively, and they should adopt effective proactive measures to detect and remove illegal content online and not only limit themselves to reacting to takedown notices which they receive.¹¹
- 8 This eventually led to the introduction of article 17 DSM, which is, in such a context, not surprising and may even seem overdue. The rationale of article 17 DSM is based on the assumption that online intermediaries that operate on an ad-funded business model (e.g. YouTube, Dailymotion, Vimeo) - as opposed to companies that operate on a subscription-based business model (e.g. Spotify, Apple Music) - do not obtain licenses from rightholders for the works which they store on their platforms. With the goal of closing the value gap, article 17(4) DSM forces CSSPs to apply best efforts to enter into licensing agreements with rightholders, CMOs and big media companies. This requirement should strengthen the negotiation power of rightholders, which should eventually lead to more favorable licensing terms for the rightholders and media companies.

⁶ With regard to the U.S. music industry, see for instance Ben Sisario and Karl Russell, *In Shift to Streaming, Music Business Has Lost Billions* (March 24, 2016), available at: <https://www.nytimes.com/2016/03/25/business/media/music-sales-remain-steady-but-lucrative-cd-sales-decline.html>; Ben Beaumont-Thomas and Laura Snapes, *Has 10 years of Spotify ruined music?* (October 5, 2018), available at: <https://www.theguardian.com/music/2018/oct/05/10-years-of-spotify-should-we-celebrate-or-despair>.

⁷ *How Google fights piracy*, 21, available at <https://drive.google.com/file/d/0BwxyRPFduTN2cl91LXJ0YjlYSjA/view>.

⁸ Roy Trakin, *IFPI Report Finds Streaming Continues to Rise, YouTube Dominates Online Listening* (October 9, 2018), available at: <https://variety.com/2018/music/news/ifpi-report-streaming-youtube-online-listening-1202974035/>.

⁹ Giancarlo Frosio and Sunimal Mendis, *Monitoring and Filtering: European Reform or Global Trend?* (July 12, 2019), available at: <https://ssrn.com/abstract=3411615>.

¹⁰ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *Promoting a Fair, Efficient and Competitive European Copyright-based Economy in the Digital Single Market*, COM (2016) 592 final (September 14, 2016), 7, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016DC0592&from=EN>, released in parallel with the DSM’s proposal.

¹¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *Tackling Illegal Content Online, Towards an Enhanced Responsibility of Online Platforms*, COM (2017) 555 final (September 28, 2017), 10, available at: <https://ec.europa.eu/transparency/regdoc/rep/1/2017/EN/COM-2017-555-F1-EN-MAIN-PART-1.PDF>.

- 9 It is important to note that it is disputed whether the value gap actually exists because there is no robust empirical evidence for its existence. The idea of a value gap was developed by the music and entertainment industry, which used this term in music industry global reports without having any empirical evidence.¹² Different trade associations representing the music industry created the term “value gap” sometime around 2015 as a slogan. Since then, they have concertedly and constantly used this term in numerous public and government relations campaigns.¹³ The Draft Directive’s Impact Assessment confirms this assumption and states that “the limited availability of data in this area [...] did not allow to elaborate a quantitative analysis of the impacts of the different policy options”.¹⁴ The European Copyright Society also pointed out that the DSM’s proposal is not founded on any solid scientific - in particular economic - evidence.¹⁵ Different reports come to the same conclusion and indicate that there is no clear evidence on the effects of copyright infringement in the digital environment, the scale of it, or the effectiveness of more aggressive enforcement strategies.¹⁶ A report commissioned by the European Commission, which was released only upon the filing of an access request by the Pirate Party’s MEP Julia Reda,¹⁷ states that there is no “robust statistical evidence of a displacement of sales by online copyright infringements”.¹⁸
- 10 There is no doubt that the policy goal to redistribute resources from big platforms to creators for the use of their works in the platform economy is well-intended. After all, the policy goal of our copyright system should be for creators to allow

the European public to enjoy creative content in all ways made possible by digital technology against a fair compensation system.¹⁹ However, it remains to be seen whether the implementation of the DSM in the EU Member States’ national legislation will have the desired effect, since it is uncertain whether the value gap actually exists. Even then, assuming that it exists, it is still not clear if article 17 DSM will have the desired effects. Hence, it is questionable whether the EU has chosen an appropriate means to achieve this policy goal by introducing article 17 DSM given its potential negative side effects. These effects include harm to smaller companies and European competition amongst CSSPs in general, as well as harm to freedom of expression in particular, due to the over-blocking of content, as will be highlighted in this paper.

C. Article 17 DSM’s clash with articles 14 and 15 of the E-Commerce Directive

- 11 The DSM’s new liability regime shall apply to CSSPs, which are, according to article 2(6) DSM, defined as providers “of an information society service of which the main or one of the main purposes is to store and give the public access to a large amount of copyright-protected works or other protected subject matter uploaded by its users, which it organizes and promotes for profit-making purposes”. This broad definition and, in particular, its term “large amount” create considerable uncertainty leaving it to the courts to define what a “large amount” means.²⁰
- 12 The second part of article 2(6) DSM states that “providers of services, such as not-for-profit online encyclopedias, not-for-profit educational and scientific repositories, open source software-developing and-sharing platforms, electronic communication service providers as defined in Directive (EU) 2018/1972, online marketplaces, business-to-business cloud services and cloud services that allow users to upload content for their own use” shall not fall under the DSM’s definition of CSSP. This excludes Wikipedia, open access repositories, and open source sharing platforms because they do not operate for profit. Internet access providers and telecom service providers are not covered by the definition because it is not their main purpose to give the public access to a large amount of copyright protected works. Also, online marketplaces such as eBay, whose main activity is

12 Giancarlo Frosio, To Filter or Not to Filter? That Is the Question in EU Copyright Reform (October 25, 2017), 36(2) *Cardozo Arts & Entertainment Law Journal*, 2018, 131 with further references, available at: <<https://ssrn.com/abstract=3058680>>.

13 See Annemarie Bridy, EU Copyright Reform: Grappling with the Google Effect, (n 6) at 2 et seq. with several references to these reports and campaigns, available at: <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3412249>.

14 Commission Staff Working Document, Impact Assessment on the modernisation of EU copyright rules, COM (2016) 301 final (September 14, 2016), PART 1/3, 136.

15 General Opinion on the EU Copyright Reform Package, EUR. COPYRIGHT SOC’Y 5 (January 24, 2017), available at <<https://europeancopyrightsocietydotorg.files.wordpress.com/2015/12/ecs-opinion-on-eu-copyright-reform-def.pdf>>.

16 See Giancarlo Frosio (n 11) 132 et seqq. with references to different reports.

17 See Julia Reda, What the Commission found out about copyright infringement but ‘forgot’ to tell us (September 20, 2017), <<https://juliareda.eu/2017/09/secret-copyright-infringement-study>>.

18 Martin van der Ende et al., Estimating displacement rates of copyrighted content in the EU: Final Report 7 (European Commission, 2015).

19 Giancarlo Frosio (n 11) 108.

20 Dirk Visser, Trying to understand article 13, draft – work in progress (March 18, 2019), 4, available at: <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3354494>.

online retail, are not covered for the same reason.²¹

- 13 In theory, the new regime for CSSPs should be coherent and complement the ECD, which introduced on a horizontal level a framework of conditional liability, enabling the development and functioning of online services in various forms. However, the emphasis on the adoption of upload-filters under article 17 DSM and the encouragement to invest in such technologies may well result in a clash with articles 14 and 15 ECD.²² These articles provide safe harbor protection and prohibit Member States from imposing a general monitoring obligation on ISPs that fall under one of three categories, i.e. mere conduit, caching and hosting.²³
- 14 Under the ECD, ISPs are qualified as a hosting service according to article 14(1) ECD as long as they meet the so-called neutrality test developed by the European Court of Justice (CJEU) and are granted safe harbor protection.²⁴ However, according to article 17(3) DSM, when a CSSP performs an act of communication to the public or an act of making available to the public – which will most likely always be the case because article 2(6) DSM’s definition of CSSP already entails these acts – it shall no longer be protected by article 14(1) ECD. Accordingly, the ECD’s safe harbor protection will no longer apply to CSSPs covered by article 2(6) DSM.
- 15 The DSM’s monitoring obligation through the use of filtering clashes with article 15 ECD and will blur the line between active and passive hosting providers. This distinction was determined in detail in a number of cases by the CJEU, who has slowly associated the requirement of knowledge and awareness of copyright infringing content with the active role of an intermediary, which goes beyond the mere provision of services neutrally and the technical automatic processing of data provided by the intermediary’s users.²⁵ The CJEU also specifically recognized that monitoring obligations to prevent copyright infringement would be in violation of the

ECD.²⁶

- 16 Therefore, article 15 ECD’s prohibition for Member States to impose general monitoring obligations on ISPs will be seriously compromised with the new obligations under article 17 DSM – and this, notwithstanding the fact that article 17(8) DSM states that “the application of the provisions in this article shall not lead to any general monitoring obligation”. Indeed, this statement only makes sense if you argue that the monitoring obligation for CSSPs does not apply to “any content”, but only to content for which the rightholders have provided the CSSP with the necessary information. However, as Frosio quite logically observes, the introduction of any filtering technology “*de facto* imposes a general monitoring obligation as in order to filter unwanted content, all content must be monitored”.²⁷ Thus, the statement set forth at article 17(8) DSM is only true if CSSPs can obtain a license for all copyright protected works from all rightholders. However, this is an unlikely scenario since CSSPs will always host some amount of unlicensed content and will therefore need to ensure that such non-licensed content is not available on their platform by monitoring all content. In addition, as Bridy describes, the most prevalent filtering technologies “work by screening every piece of user-uploaded content in real time against that universe of works. No file escapes the system’s surveillance. If such functionality does not amount to general monitoring, it is hard to imagine what would”.²⁸ Thus, article 17 DSM will bring a systematic inconsistency within EU law and effectively repeals article 15 DSM for storage providers covered by article 14 ECD.

D. The filtering requirement under article 17 DSM

I. Article 17(4) DSM’s “best effort requirement” and its incentive to rely on filtering technologies

- 17 As outlined above, under the DSM’s liability regime, CSSPs are no longer protected by the ECD’s safe harbor regime and, by establishing a monitoring obligation for CSSPs that perform an act of communication to the public, article 17(3) DSM forces CSSPs to take on a more active role. More precisely, to avoid liability, CSSPs shall, as a general rule, obtain a license from the rightholders for any content available on their

²¹ *ibid.*

²² Maria Lillà Montagnani and Alina Trapova, *New obligations for Internet intermediaries in the Digital Single Market – safe harbours in turmoil?* *Journal of Internet Law*, Vol. 22 Issue 7, (January 1, 2019), 1, available at SSRN: <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3361073>.

²³ Olivier Englisch and Giulia Priora, *Safe harbour protection for online video platforms: a time to say goodbye?* *Rivista di diritto dei media* (2019), available at: <http://www.medialaws.eu/wp-content/uploads/2019/04/2_2019_priora_englisch.pdf>.

²⁴ CJEU, *Joined Cases C-236/08 to C-238/08, Google France and Google* (2010), § 112 ss.; CJEU, *Opinion of the Advocate General, Case C-324/09, L’Oréal v eBay* (2010), § 138 ss.; CJEU, *Case C-291/13, Papisavvas* (2014), § 39 ss.

²⁵ Maria Lillà Montagnani and Alina Trapova (n 21) 1.

²⁶ *L’Oreal SA* (2010), § 139.

²⁷ Giancarlo Frosio (n 11) 118.

²⁸ Annemarie Bridy (n 12) 15.

platform (article 17[1] DSM).²⁹ If no authorization is granted, CSSPs shall be liable for unauthorized acts of communication to the public, unless they may demonstrate that the following three conditions are met according to article 17(4) DSM. *First*, CSSPs must have made best efforts to obtain an authorization for the work from the rightholder (article 17[4][a] DSM). *Second*, CSSPs must have made best efforts to ensure the unavailability of specific works and other subject matter for which the rightholder provided the service provider with the relevant and necessary information to locate the infringing works (article 17[4][b] DSM). *Third*, to prevent future uploads, CSSPs must continue to have effective “notice and take down” as well as a “notice and stay down” mechanisms based on information provided by the rightholder (article 17[4][c] DSM).

- 18 The second condition (article 17[4][b] DSM) will serve as a major incentive for CSSPs to increase their efforts and improve their filters. Recital 66 of the DSM specifies that when assessing whether or not a CSSP met the requirements of the second condition to make best efforts in accordance with the high industry standards of professional diligence (article 17[4][b] DSM), “account should be taken of whether the service provider has taken all the steps that would be taken by a diligent operator to achieve the result of preventing the availability of unauthorized works [...] taking into account best industry practices and the effectiveness of the steps taken [...] as well as the principle of proportionality”. There will be specific edge cases in which CSSPs will not be required to use filtering technologies to guarantee the non-availability of non-licensed content (see below, Section D.II.). This may be of help to smaller companies in such specific situations. However, companies such as YouTube, Facebook and Soundcloud already apply filtering technologies and will not only continue to use these filters but will likely also increase their efforts around and investments in these technologies in order to improve them. This follows from the potential threat of article 17(4) DSM and specifically the requirements to make best efforts to take all the steps to achieve the result of preventing the availability of unauthorized works on its website. One can expect their improved filters to become the new industry standard. For instance, YouTube invested over USD 100 million in a sophisticated upload-filter called “Content ID”³⁰ and YouTube’s CEO Susan Wojcicki has made a number

of statements that indicate that the biggest video hosting platform is in favor of pre-filtering content before making it available to the public.³¹ This shows that from the perspective of a CSSP like YouTube, the use of filters is already *effective* and *proportionate* and the *steps taken by a diligent operator* to ensure the *unavailability of specific works*. Similar measures will also be expected from other CSSPs.

- 19 In sum, article 17(4)(b) DSM can only be understood as an obligation to filter and block these specific works with the use of filtering technology because without filters, article 17(4)(b) DSM’s preventive measures cannot realistically be achieved. Therefore, CSSPs will likely heavily invest in their filtering technologies to ensure the unavailability of specific content and to avoid liability under the DSM. In the coming years, filtering technologies will thus likely become more prevalent and sophisticated. Smaller companies with a tighter financial budget and smaller pockets will not have the means to make such investments, which may have negative consequences for them, as outlined in Section E.

II. Exceptions from the filtering requirement

- 20 Article 17(5) DSM mentions certain factors to be weighed in when considering whether a CSSP satisfied the requirements of art. 17(4) DSM, including the filtering requirement. The requirement to make best efforts in accordance with high industry standards and professional diligence must be interpreted in light of (i) the principle of proportionality, (ii) the type, the audience and the size of the service, and (iii) the availability of suitable and effective means and their cost for service providers. In other words, if there are no suitable and effective means, or simply not enough financial resources, CSSPs may not have to filter content.³² As a result, there will be certain situations - assessed on a case-by-case basis - in which (presumably small and less-dominant) CSSPs will not be required to use filtering technologies to guarantee the non-availability of non-licensed content. However, these situations seem to be exceptional and come at the cost of certainty for CSSPs.

- 21 In addition, to account for start-up companies that leverage user uploads to develop new business models (recital 67 DSM), article 17(6) DSM offers an exception for small and young companies, which,

²⁹ While this paper does not further examine the licensing requirement of article 17(1) DSM, other authors have analyzed this topic in detail (for instance, Bridy [n 12]).

³⁰ The numbers refer to the status in 2018, it can be assumed that the number has increased since then (see Paul Sawers, YouTube: We’ve invested \$100 million in Content ID and paid over \$3 billion to rightsholders (November 7, 2018), available at: <<https://venturebeat.com/2018/11/07/youtube-weve-invested-100-million-in-content-id-and-paid-over-3-billion-to-rightsholders/>>).

³¹ Andy, Article 13: YouTube CEO is Now Lobbying FOR Upload Filters (November 15, 2018), available at: <<https://torrentfreak.com/article-13-youtube-ceo-is-now-lobbying-for-upload-filters-181115/>>.

³² Dirk Visser (n 19) 7.

under certain circumstances, are not required to apply filtering technologies to avoid liability. If a new CSSP exists for less than three years and if its annual turnover is below EUR 10 million (cumulative), the liability regime under article 17(4) DSM is limited to compliance with the requirements of (i) making best efforts to enter into licensing agreements with rightholders, and (ii) providing an efficient “notice and take down” system. However, if the CSSPs number of monthly unique visitors exceeds 5 million, they do not benefit from the exception and must put a “notice and stay down” mechanism in place.³³

- 22 However, this measure is merely a drop in the ocean. A company that falls below the cumulative thresholds of article 17(6) DSM (i.e. annual turnover below EUR 10 million and less than three years since incorporation of CSSP), is presumably not a competitor of a big tech company or even an established CSSP. For instance, Soundcloud, a subscription-based music and podcast streaming platform from Berlin that hosts approx. 200 million song files, had an estimated annual turnover of over EUR 100 million in 2017³⁴ and currently an estimated 75 million visitors per month.³⁵ YouTube had an estimated revenue of over USD 8 billion in 2015³⁶ and currently an estimated 1.9 billion visitors per month.³⁷ A small or young company offering services related to content uploaded by users and thereby trying to compete with established CSSPs or big tech companies will - at the latest after three years of its existence even if the turnover is below EUR 10 million - fall under the direct liability regime of article 17 DSM and have to apply filtering technologies. In practice, the exception regime of article 17(6) DSM will thus likely rarely apply and generally not be helpful to start-up companies or to help increase competition amongst CSSPs in the EU market. The

thresholds are too low and cumulative, which makes it very difficult for a CSSP to be exempted from the filtering requirement.

E. What it takes to get access to, or develop, a sufficiently sophisticated upload-filter

- 23 As we have seen, article 17 DSM provides several strong incentives for companies to invest in the development of copyright filtering technologies. However, developing and maintaining an upload-filter requires significant resources. As mentioned, YouTube has already invested over USD 100 million in its proprietary “Content ID” filter using a filtering technology called fingerprinting.³⁸ According to a 2016 Google report, “Content ID” is responsible for 98% of the content management. With regard to the music industry, even 99.5% of reported sound recording copyright claims were automated through Content ID.³⁹ To give an idea of the scale of content: 500 hours of video material are uploaded on YouTube every minute (or 82.2 years every day).⁴⁰ YouTube describes its filter as a technology that blocks videos which match items identified by a small, trusted group of rightholders.⁴¹ Since “Content ID” is a proprietary filter, we cannot analyze the tool in detail and must rely on (rare) publicly available information about it. At any rate, in view of the significant number of YouTube users, the massive amount of content uploaded to the platform, and YouTube’s efforts and investments in its filter, there are many reasons to believe that to date, “Content ID” may well be the most sophisticated upload-filter.

- 24 However, YouTube is not the only platform that has developed its own filtering technology. Audible Magic is a US based private company and currently the only third-party provider that offers content recognition solutions, which it licenses to universities and social media platforms. It has a growing list of social media clients, which includes, for instance, Facebook, Vimeo, Viacom, DailyMotion,

33 The DSM is silent with regard to the geographical scope which counts towards the 5 million visitors’ requirement. Without any contrary indication, it has to be assumed that it refers to the number of visitors *worldwide*.

34 Burce Houghton, SoundCloud Revenues Up 80%, Tops \$100 Million (January 29, 2019), available at: <<https://www.hypebot.com/hypebot/2019/01/soundcloud-revenues-up-80-tops-100-million.html>>.

35 Craig Smith, 16 Amazing SoundCloud Statistics and Facts (June 9, 2019), available at: <<https://expandeddrablings.com/index.php/soundcloud-statistics/>>.

36 Artyom Dogtiev, Business of Apps, YouTube Revenue and Usage Statistic of 2018 (January 7, 2019), available at: <<http://www.businessofapps.com/data/youtube-statistics/>>. According to analysts, this number could have increased to over USD 15 billion in 2018, see Adam Levy, YouTube Could Be a \$15 Billion Business This Year (February 18, 2018), available at: <<https://www.fool.com/investing/2018/02/18/youtube-could-be-a-15-billion-business-this-year.aspx>>.

37 See YouTube press material, available at: <<https://www.youtube.com/intl/en-GB/yt/about/press/>>.

38 The most commonly used filtering technologies are metadata searches, hash-based filtering content, and fingerprinting. Fingerprinting is technically more complex than the other two filtering methods (for explanations about these filtering technologies, see Evan Engstrom and Nick Feamster, *The Limits of Filtering: A look at the Functionality & Shortcomings of Content Detection Tools* (March 2017), 11-15, available at: <<https://www.engine.is/the-limits-of-filtering/>>).

39 How Google fights piracy (n 6) 26.

40 Artyom Dogtiev (n 35).

41 See YouTube Help Desk, available at: <<https://support.google.com/youtube/answer/2797370?hl=en>>.

and Tumblr.⁴² YouTube initially licensed Audible Magic's digital fingerprinting technology, but ultimately decided to build its own proprietary system. Confusingly, both companies now refer to their systems as "Content ID",⁴³ which led to an (on-going) trademark dispute over this name.⁴⁴

- 25 Also, smaller platforms in the EU have made important investments in the development of such filters. For instance, Soundcloud spent over EUR 5 million to build its own filtering technology and dedicates seven full-time employees – out of approx. 300 employees⁴⁵ – to maintain the technology.⁴⁶
- 26 The above shows that, contrary to claims made by proponents of article 17 DSM, copyright filtering tools are expensive, both to develop and maintain, and such cost may be too much to bear for startups and small companies. The European Commission's policy rationale for proposing a mandatory filtering obligation (outlined in a leaked impact assessment) reflects a misunderstanding of the technological and economic realities around content filtering. In this impact assessment, the European Commission claims that the cost of filtering tools would be negligible for startups: "it is estimated that a small-scale online service provider can obtain such services for less than 900 euros a month".⁴⁷ This estimate is almost solely based on comments submitted by Audible Magic to the US Copyright Office in a study about the effectiveness of the U.S. Digital Millennium Copyright Act's safe harbor provisions.⁴⁸ However, as Engstrom and Feamster explain, this estimate is only accurate for an incredibly small number of CSSPs.⁴⁹
- 27 According to Audible Magic's website and its current pricing, a CSSP hosting less than 10,000 song files per month has to pay a monthly fee of USD 1,000 in order to license Audible Magic's filtering technology for audio files only (video files have to be licensed separately at the same rate).⁵⁰ However, 10,000 song

files is an incredibly low volume for a CSSP. To put this in perspective, when Soundcloud was only five years old, users were already uploading twelve hours of audio content every minute (or two years of material per day).⁵¹ This amounts to 172,000 files per month, with an average song length of 3 minutes.

- 28 As such, developing or licensing a content filter comes at a relatively high cost. A survey of CSSPs reported that medium-sized platforms engaged in file-hosting services paid between USD 10,000 and USD 50,000 a month of licensing fees just to use Audible Magic's filtering tool.⁵² Another source states that, for mid-sized streaming companies, Audible Magic is quoting on average USD 30,000 to 60,000 per month of licensing fees.⁵³ However, it is worth noting that the licensing fees paid to the third-party provider amount to only a portion of the total costs associated with fingerprinting software. As noted by Urban et. al., licensed content filtering systems are not a turnkey service. In addition, filtering systems require integration with existing systems and additional operational work, such as tracking and managing user appeals.⁵⁴ The platform of any CSSP must be altered or augmented to perform the fingerprint lookups and comparisons against a fingerprint database. This is also a substantial software integration task.⁵⁵ Under article 17(4) DSM, this is what a CSSP will potentially need to do in order to meet the requirement to make best efforts to ensure the unavailability of specific works for which the rightholders have provided the CSSPs with the necessary information (i.e. fingerprinting and other information, which then needs to be compared against the CSSP's data base). Thus, the cost for CSSPs to source filtering technologies from third parties and implement them in their internal systems is likely to be much greater in absolute terms than the European Commission's initial projection.

42 Audible Magic, Customers and Partners, available at: <<https://perma.cc/M27S-H45P>>.

43 Annemarie Bridy (n 12) 13.

44 Audible Magic Press Release, Audible Magic Pursues Trademark Case Against Google (January 10, 2017), available at: <<https://www.audiblemagic.com/2017/01/10/audible-magic-pursues-trademark-case-against-google/>>.

45 According to Wikipedia (<<https://en.wikipedia.org/wiki/SoundCloud>>).

46 Evan Engstrom and Nick Feamster (n 37) 27.

47 Commission Staff Working Document Impact Assessment on the Modernisation of EU Copyright Rules (draft), at 138, (2016)>.

48 Comments of Audible Magic, U.S. Copyright Office, Section 512 Study, at 2 (2016).

49 Evan Engstrom and Nick Feamster (n 37) 22.

50 See Audible Magic official pricing list, available at: <<https://www.audiblemagic.com/compliance-service/#pricing>> (last time checked on July 12, 2019).

51 Evan Engstrom and Nick Feamster (n 37) 22, referring to Janko Roettgers, SoundCloud Turns 5, Creators Now Upload 12 Hours of Audio Every Minute (November 13, 2013), available at: <<https://gigaom.com/2013/11/13/soundcloud-turns-5-creators-now-upload-12-hours-of-audio-every-minute>>.

52 Evan Engstrom and Nick Feamster (n 37) 22; Jennifer M. Urban et al., Notice and Takedown in Everyday Practice (March 22, 2017), UC Berkeley Public Law Research Paper No. 2755628, 64, available at SSRN: <<http://ssrn.com/abstract=2755628>>.

53 Mike Masnik, There Was Heavy Tech Lobbying On Article 13... From The Company Hoping To Sell Everyone The Filters (January 23, 2019), available at: <<https://www.techdirt.com/articles/20190121/17024041437/there-was-heavy-tech-lobbying-article-13-company-hoping-to-sell-everyone-filters.shtml>>.

54 Jennifer Urban et al. (n 51) 64.

55 Evan Engstrom and Nick Feamster (n 37) 23.

- 29 The fact that article 17 DSM applies to “copyright-protected works or other protected subject matter uploaded by its users” is another challenge, because it is not restricted to certain specific copyrighted works such as audio or audio-visual works, for which most of the current filtering technologies are designed for, but for any kind of work.⁵⁶ This makes it even more difficult for a CSSP to efficiently filter the entire uploaded content and will create challenges for any CSSP applying article 17 DSM. Indeed, because rightholders can provide CSSPs with the relevant information about any kind of copyrighted work, including images or text files, a DSM-compliant filter will have to be capable of recognizing any kind of copyrighted content. However, fingerprinting tools are narrowly tailored to particular media types (for instance, an audio fingerprinting tool cannot be used to match copyrighted text files), and such tools only exist for a small subset of the many types of copyrighted content available online.⁵⁷ This will imply additional costs, since text, image, audio and video content must be separated and will likely each require a separate tool or technology (in case a CSSP’s platform allows one to upload these different kinds of works).
- 30 An additional aspect of the requirement set by article 17 DSM is that the cost of filtering systems also makes it harder for young companies to attract investors and compete with incumbents. This is confirmed by a survey in the US and the EU, which indicates that a majority of investors would be “uncomfortable investing in businesses that would be required by law to run a technological filter on user uploaded content”.⁵⁸
- 31 The effects of economies of scale also weigh in favor of large tech companies when it comes to the filtering requirement. Once a technological product is built, the costs of offering an additional unit decrease with increasing scale. Economies of scale are a key advantage for large businesses, as such businesses can afford to invest in expensive and specialized capital machinery, whereas it may not be viable or cost-efficient for smaller businesses to either buy/license or invest in specific technologies, thus creating an entry barrier for such companies, where having the technology in question is a legal requirement. Large companies are also more likely to have a large workforce that can be assigned to
- separate tasks in order to boost productivity.⁵⁹ These factors all contribute to the fact that it will likely be big companies with sufficient financial and human resources and a large user-base that will be in a position to develop a sophisticated content filter, rather than smaller players with no such resources and a much smaller user-base. For instance, it seems doubtful that any other company than YouTube would reasonably be in a position to invest USD 100 million in a proprietary content filtering technology. And even if another company did choose to invest in the development of its own filter, the end product would presumably not be as powerful as YouTube’s “Content ID” and might not even be compliant with the requirements of article 17 (4) DSM (which requires CSSPs to make best efforts in accordance with the high industry standards of professional diligence and to take all the steps that would be taken by a diligent operator to achieve the result of preventing the availability of unauthorized works taking into account best industry practices and the effectiveness of the steps taken).
- 32 The German Federal Commissioner for Data Protection and Freedom of Information, Ulrich Kelber, also comes to the conclusion that smaller CSSPs will not be able to develop their own filtering technology and that they will have to license it from a third party. He raises an interesting point in connection with data collection. According to Kelber, the filtering obligation will ultimately create an oligopoly of a few providers of filtering technologies, through which more or less all the Internet traffic of the relevant platforms and services will run. Thus, these providers would receive and collect extensive data.⁶⁰ This would allow these companies to collect data about the users of their clients’ (i.e. other CSSPs) platforms in addition to the data already collected in connection with their own platform. At this point, however, it seems more likely that large tech companies will rather take advantage of their technological, structural and financial edge over smaller CSSPs and keep their more advanced filtering technology for themselves. This allows large CSSPs to gain in market power instead of supporting their competitors by licensing out their filtering technology to smaller CSSPs on a voluntary basis. However, it remains to be seen how powerful third-party providers like Audible Magic will become and how they will use the collected data from their

56 For instance, Audible Magic is currently only offering filtering technology for audio and video files according to its pricing list (n 49).

57 Evan Engstrom and Nick Feamster (n 37) 4.

58 Evan Engstrom, et al., *The Impact of Internet Regulation on Early Stage Investment*, (2014), available at: <<https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/572a35e0b6aa60fe011dec28/1462384101881/EngineFifthEraCopyrightReport.pdf>>.

59 Examples taken from <<https://www.tutor2u.net/business/reference/production-economies-of-scale>>.

60 Federal Commissioner for Data Protection and Freedom of Information (*Bundesbeauftragte für den Datenschutz und die Informationsfreiheit*), press release: *Reform des Urheberrechts birgt auch datenschutzrechtliche Risiken* (February 26, 2019), available at: <https://www.bfdi.bund.de/DE/Infothek/Pressemitteilungen/2019/10_Uploadfilter.html?sessionid=B4190157E6A16C7DB3E5825542229E5.2_cid329>.

clients.

- 33 In sum, it seems unlikely that smaller companies will be able to develop sufficiently strong content filters on their own, primarily due to their financial and structural disadvantage compared to larger companies. Hence, in the new DSM world, smaller CSSPs will have no choice but to license their filters from a third party – provided they can even afford it given the probable high licensing fees that may be imposed upon smaller CSSPs. Adding to the challenge is that there is no guarantee that a third-party provider such as Audible Magic will be able to develop a content filter that meets the requirements of the DSM and is offered against an affordable fee. Whether or not this is the case will mostly depend on whether the third-party provider can attract investors that are willing to inject funds into the improvement/development of its filtering technology. This, in turn, will depend on whether there is a sufficient pool of potential clients, which are CSSPs that are willing to invest a substantial amount of money and internal resources in order to license a third-party filtering technology.

F. The technological limitations of upload-filters

- 34 As mentioned, upload-filters already play an important role for CSSPs today, and their role will only gain in importance under article 17 DSM. The role of upload-filters under article 17 DSM might be somewhat overstated and may stem from the false impression that filtering technologies are more developed than what they actually are. For instance, in a video for the European Commission, Audible Magic advertised the benefits and affordability of filtering technologies,⁶¹ giving the (false) impression that such filters were efficient, accurate and affordable. As part of its lobbying efforts, Audible Magic stated that its technology is accurate to about 99%. Even if this statement is true, an algorithm that misidentifies about one in every 100 pieces of audio content does raise a number of issues. To put the range of acceptable false positive rates into perspective, e-mail service providers, for instance, consider that any false positive rate higher than about 0.1 percent is too high to be used for spam filters, due to the potential limitations on speech that could arise as a result of legitimate e-mail messages being misidentified as spam.⁶² Thus, an accuracy rate of 99% might sound high at first glance, but taking a closer look may well prove insufficient for a tech company filtering millions of files on a daily basis.

- 35 In their report that examines the current state of content filtering technology, Engstrom and Feamster find that all tools currently available to identify potentially infringing material – from hash-based filtering to fingerprinting – are limited in their capacity to accurately identify infringements.⁶³ The authors observe that “critically, all content filtering technologies are at best capable of simply identifying the contents of a file, not making the often complex determination as to whether the use of a particular file constitutes an infringement”.⁶⁴ Filtering technologies have a role to play in the online ecosystem to identify and remove infringing material. However, due to the mentioned limitations, the range of infringing activity that filtering tools can effectively address is rather narrow. Even for media types for which filtering tools already exist, the tools are only capable of matching content; however, they are not capable of determining whether or not the use of a particular work constitutes an infringement. This determination generally requires the intervention of humans – courts and legal practitioners, since such identification does, depending on the applicable law, also entail being able to correctly identify copyright concepts such as fair use and fair dealing, as well as specific copyright exceptions such as parody or criticism. In the EU, the list of exceptions is already quite rigid and comprises twenty-one exceptions, nearly all optional, which describe exhaustively when a copyright protected work may be lawfully used without the rightholder’s approval.⁶⁵ The lack of EU-level harmonization in relation to copyright exception and limitations makes it even more challenging for filtering systems to be effective. This would require filtering systems to ascertain on a case-by-case basis the infringing nature of content in a geographically sound manner, namely taking into account the diverse existing national exception regimes.⁶⁶ For these reasons, it seems rather unlikely that in the near future an algorithm will be able to accurately identify copyright infringements, in the EU or elsewhere. This would, however, be necessary to avoid false-positives.

- 36 Even works belonging to the public domain present challenges for upload-filters as evidenced for instance by YouTube’s Content ID, which struggles to recognize the difference between copyrighted material and works belonging to the public domain. A German music professor tested Content ID and uploaded public domain recordings of copyright-free music pieces by Bartok, Schubert, Puccini, and

61 Video available at: <<https://vimeo.com/198929871>>.

62 Evan Engstrom and Nick Feamster (n 37) 17.

63 Evan Engstrom and Nick Feamster (n 37) 1-2.

64 Evan Engstrom and Nick Feamster (n 37) ii and 15.

65 Maria Lillà Montagnani and Alina Trapova (n 21) 4; Tito Rendas, *Destereotyping the Copyright Wars: The ‘Fair Use vs. Closed List’ Debate in the EU* (September 8, 2015), available at: <<https://ssrn.com/abstract=2657482>>.

66 Maria Lillà Montagnani and Alina Trapova (n 21) 4.

Wagner, recorded before 1963 (and therefore in the public domain under German law). All these music pieces were blocked by Content ID and the professor had to appeal to numerous takedown requests.⁶⁷ Another professor even uploaded a ten-hour video of white noise, only to have it flagged five times for copyright infringement.⁶⁸

- 37 The above shows that filtering technologies are still in a rudimentary state and are far from being able to identify copyright infringements and are not even capable of accurately matching content. Therefore, there will be (too many) false positives, or, in other words, non-infringing content that will be (over-) blocked. How article 17 DSM addresses this issue will be analyzed in the following Section G.

G. The DSM's measures to prevent over-blocking

I. CSSPs shall respect limitations and exceptions (article 17[7] DSM)

- 38 The new liability regime established by article 17 DSM could lead to a “shoot-first-ask-questions-later” effect. In other words, CSSPs will be tempted to over-block uploaded content and err on the side of caution by filtering rather too much than too little. Article 17(7) DSM addresses the issue of over-blocking by providing that the cooperation between CSSPs and rightholders shall not result in the prevention of the availability of works uploaded by users, which do not infringe another's copyright, including where such works or other subject matter are covered by an exception or limitation. In particular, Member States must ensure that users are able to rely on (a) quotation, criticism, review, and (b) use for the purpose of caricature, parody or pastiche.
- 39 Recital 70 of the DSM specifies that article 17(7) DSM “is particularly important for the purposes of striking a balance between, in particular, the freedom of expression and the freedom of the arts, and the right to property, including intellectual property.” In order to ensure that users receive uniform protection across the EU, those exceptions and limitations should, therefore, be made mandatory.

67 See Karl Bode, *Vice Magazine*, “This This Music Theory Professor Just Showed How Stupid and Broken Copyright Filters Are” (August 30, 2018), available at: <https://www.vice.com/en_us/article/xwkbad/this-music-theory-professor-just-showed-how-stupid-and-broken-copyright-filters-are>.

68 *ibid.*

- 40 There appears to be a conflict between taking into consideration limitations and exceptions on the one hand, and the application of the filtering requirement on the other hand. At a minimum, this will be a difficult undertaking, given the risk of direct liability that CSSPs run if they do not proactively monitor their platform's content by pre-filtering uploaded works. A diligent CSSP will thus naturally be tempted to block content to avoid liability, and given the mentioned technical limitations of upload-filters (which are not capable of recognizing copyright infringements, as described above under Section F) this will unavoidably lead to over-blocking of content.

II. Effective and expeditious complaint and redress mechanisms (article 17[9] DSM)

- 41 Since a significant amount of non-infringing content will be blocked, article 17(9) DSM states that CSSPs shall “put in place an effective and expeditious complaint and redress mechanism that is available to users of their services in the event of disputes over the disabling of access to, or the removal of, works or other subject matter uploaded by them”. Recital 70 of the DSM further sets out that the complaint and redress mechanisms shall allow users to complain about the steps taken with regard to their uploads, in particular where they could benefit from an exception or limitation to copyright in relation to an upload to which access has been disabled or that has been removed. These complaints filed under such mechanisms should be processed “without undue delay” and - since upload-filters will most likely not develop a sense of humor and since algorithms may not be able to recognize a parody - be subject to human review, as specified by recital 70 of the DSM. As we have seen, platforms deal with millions of uploads per day, and filters still make a substantial number of mistakes, it seems unavoidable that the number of complaints to deal with will potentially be huge.
- 42 As having recourse to humans rather than to automatic systems is far more expensive, CSSPs will try to minimize human intervention in this context. This can be done for instance by starting to filter all of the works for which CSSPs receive the necessary information by the rightholders without making any effort to decide in advance whether the works are in fact protected and not covered by exceptions or limitations to copyright. CSSPs could counterbalance this by accepting or reinstating the upload as soon as an uploader shows evidence that the upload is not protected or covered by an exception or

limitations.⁶⁹ However, such a process would lead to an over-blocking of content since it would entail the blocking of content, which is rightfully uploaded until the work is reinstated.

- 43 Another way to respond to this new threat is to allow uploaders to certify in advance that their upload is not protected by another's copyright (e.g. public domain) or covered by an exception or limitation. This could be balanced by blocking the material as soon as a rightholder refuses to provide such certification.⁷⁰
- 44 The CSSPs could argue that these are the only available and suitable solutions in view of the associated costs and the principle of proportionality. How CSSPs will implement the requirement to put in place a redress mechanism will also depend on how aggressively big media companies will fight online creators making use of exceptions and limitations. Under the current regime, record labels engage in fierce battles against online teachers and video creators for every use by the latter of record labels' works, even if it is only a few seconds of the copyrighted material.⁷¹
- 45 In any case, the determination as to whether an uploaded content is covered by an exception or limitation will very likely have to be made by a human and some kind of internal review mechanism will have to be implemented in order to guarantee, in particular, the freedom of expression and freedom of arts. This comes at a high cost and small CSSPs with a tight budget will necessarily feel the blow more than bigger companies with substantial financial resources.

H. Some consequences of closing the "value gap" and open questions

I. Article 17 DSM harms smaller CSSPs more than the big tech companies and creates a bigger market for third-party filtering technology services

- 46 It is possible that article 17 DSM will strengthen the negotiation power of the rightholders and allow them to obtain more favorable licensing terms, which, to some extent, may close the "value gap". The tech giants that operate on an ad-funded basis (e.g. YouTube/Google, Facebook), and which article 17 DSM is mainly aimed at, will incur losses as a result of more "rightholder-friendly" licensing terms. At the same time, these tech companies will have to invest in the development of upload-filters given the DSM's emphasis on the adoption of automatic filtering systems and the financial risks that occur if non-licensed works remain available on their platforms. Therefore, it is likely that we will see enhanced filtering systems over the next years. Also, additional human resources will be needed to implement an efficient and expeditious internal complaint and redress mechanism. Big tech companies have the financial power, technological knowledge, and internal structure to develop their own sophisticated and competitive upload-filters and to maintain an efficient internal complaint and redress mechanism. They will thus be able to implement these new requirements and - even though these new measures will financially harm them - continue to run a successful business model in the EU.
- 47 By contrast, smaller EU companies will feel the blow of article 17 DSM much stronger because these measures are, relatively speaking, more expensive for them than they are for the big tech companies. Also, as many companies are currently not using filtering technology, the costs associated with these measures will be new to them. In an open letter from a coalition of 240 Europe-based online businesses to the members of the European Parliament, the signatories mentioned that "most companies are neither equipped nor capable of implementing the automatic content filtering mechanisms".⁷²

- 48 Instead of developing their own filtering technology, which is, as we have seen, very costly, small and

69 Dirk Visser (n 19) 10.

70 *ibid.*

71 For an example of a fight between a record label and an online creator, see Julia Alexander, *Youtubers and record labels are fighting, and record labels keep winning*, *The Verge*, (May 24, 2019), available at: <<https://www.theverge.com/2019/5/24/18635904/copyright-youtube-creators-dmca-takedown-fair-use-music-cover>>.

72 Open Letter to European Members of Parliament from 240 EU Businesses Against Copyright Directive Art. 11 & 13 (March. 19, 2019), available at: <<https://perma.cc/VX2C-SAXC>>.

mid-sized CSSPs could also license the filtering technology from a third-party. YouTube does not license its Content ID to third parties and the only obvious alternative is Audible Magic, who touts its services as “the industry standard” that is most often recommended by “the biggest names in music”.⁷³ As the only serious third-party provider of filtering technology and first-mover, Audible Magic will have several competitive advantages over new entrants to the filtering technology services market. Also, Audible Magic has a 10 million reference file, which has, as Bridy observes, already won the trust of the world’s corporate rightholders, which further strengthens its first-mover advantage.⁷⁴ In addition, Audible Magic has a large patent portfolio covering automated content recognition and fingerprinting technology.⁷⁵ New entrants will first have to deal with these patents before being able to compete with Audible Magic.⁷⁶ It remains to be seen whether Audible Magic will be able to offer a DSM-compliant filtering technology for a “reasonable” license fee from the perspective of its EU clients.

- 49 The European filtering technology market will be potentially large as CSSPs will have to comply with article 17 DSM. Unless they are exempted by article 17(5) DSM, relatively young (i.e. as of three years) and small (i.e. above an annual turnover of USD 10 million) companies will have to meet the requirements of article 17(4) DSM to avoid liability under article 17 DSM. In all cases, for five million monthly (unique) visitors, CSSPs will have to offer an efficient “notice and take down” regime. Both require some kind of filtering technology that will have to be in line with “high industry standards”. Hence, in practice, article 17 DSM leads to a situation where nearly any company that offers content-sharing services will, at some point, require strong and sophisticated filtering tools in order to avoid the DSM’s liability regime. In other words, for a business to compete in this market and to offer a broad range of interesting (and non-infringing) copyright content, it will be crucial to have access to sophisticated filtering systems. Since these filters are expensive and technically limited with regard to their efficiency, accuracy and range of applicability,

many companies will struggle in this regard because, presumably, the cheaper the systems are the less effective they would be.⁷⁷

II. Open questions and possible solutions

- 50 A possible scenario is that the most sophisticated upload-filters will be in the hands of a very select number of companies (e.g. YouTube/Google, Facebook, Audible Magic), the only ones with the financial power, know-how and structure to develop such filters. These companies will not voluntarily share their technology with their competitors (YouTube/Google, Facebook), or charge unreasonably high fees (Audible Magic). As a consequence, the question of mandatory licensing will arise.
- 51 A CSSP’s refusal to grant a license could constitute a violation of article 102 of the Treaty on the Functioning of the European Union (TFEU), which prohibits the abuse of a dominant position. For article 102 TFEU issues to arise in the context of the refusal to license intellectual property rights (IPR), there must first be an undertaking that enjoys a dominant position in a relevant product and geographic market. The question of whether the refusal to grant a license to a third party constitutes an abuse under article 102 TFEU has been considered in detail by different EU courts. They have consistently held that the refusal by a dominant company to license IPR to a third party amounts to an abuse in the sense of article 102 TFEU only in exceptional circumstances. We have seen such cases in *Volvo v Yeng*,⁷⁸ *Magill*,⁷⁹ *Bronner*⁸⁰ or *Microsoft*.⁸¹ At this point, it is very early to assess whether a CSSP could make a similar case based on article 102 TFEU, arguing that a refusal to grant a license for an upload-filter constitutes an abuse of a dominant position given the necessity to obtain access to such technology. The question whether an argument under article 102 TFEU could successfully be made will depend on many factors

73 Audible Magic, Copyright Compliance Service, available at: <<https://perma.cc/7ZWF-EC8B>>.

74 Annemarie Bridy (n 12) 21.

75 Audible Magic website, patents, available at: <<https://www.audiblemagic.com/patents/>> (“Audible Magic has been awarded 33 patents, and additional patents are pending with US and European patent offices. Patents are in the areas of digital fingerprint-based media detection technology; detection of content on media playing devices such as smart phones, televisions, video players, and other devices; identification of content as it flows across networks; and approaches to caching and indexing a reference database to improve the performance of the system.”).

76 Annemarie Bridy (n 12) 21.

77 Christina Angelopoulos et al., “The Copyright Directive: Misinformation and Independent Enquiry” (June 29, 2018), available at: <https://www.create.ac.uk/wp-content/uploads/2018/06/Academic_Statement_Copyright_Directive_29_06_2018.pdf>.

78 Case 238/87 AB Volvo v Erik Yeng (UK) Ltd, judgement of October 5, 1988.

79 Cases C-241 and C-242/91P RTE and ITP v Commission, judgement of April 6, 1995.

80 Case C-7/97 Oscar Bronner GmbH & Co. v Mediaprint Zeitungs und Zeitschriftenverlag GmbH, judgement of November 26, 1998.

81 Case T-201/04 Microsoft v Commission, judgement of September 17, 2007. Microsoft did not appeal the judgement to the CJEU.

such as whether upload-filters will become essential to compete in a market, whether the technology will be in the hands of a tech company with a dominant position, and whether a third-party provider such as Audible Magic will be able to develop an affordable, sophisticated and DSM-complaint filtering technology.

- 52 Instead of traditional competition law solutions, a broader regulatory solution through a Fair, Reasonable and Non-Discriminatory (FRAND) access regime could be envisaged, as suggested by Heim and Nikolic. The authors propose to use the FRAND regime to help to get access to critical infrastructure such as digital platforms and access to data, while ensuring effective competition and maintaining incentives of dominant platforms to innovate.⁸² This could be an interesting and long-term solution. However, since it requires regulatory steps first, this approach would take time. Under the article 17 DSM regime, CSSPs will not have this time to get access to filters.
- 53 At the current stage, it seems more obvious for a CSSP to try to invoke article 17(5) DSM and argue that it is not required to apply filtering technology (for instance because it is too expensive and therefore not proportional). It will be important to observe how article 17(5) DSM will work for smaller CSSPs. At this point, however, relying on this article seems to be a rather risky approach as it contains a number of grey areas which will ultimately have to be clarified by courts. For instance, the courts will have to define what *type, audience and size of services* and what *type of works* are likely to fall under article 17(5) DSM. This is, at the current stage, very unclear, which is a problem for CSSPs hoping to find a way to avoid the filtering requirement. In any event, it will only be in exceptional cases that a CSSP will be able to benefit from article 17 (5) DSM and most likely not apply to a CSSP with a widely dispersed target audience.
- 55 As mentioned above (see Section E), a survey amongst US and EU investors indicates that a majority of investors would be “uncomfortable investing in businesses that would be required by law to run a technological filter on user uploaded content”.⁸³ The issue is that investors are often precisely what young companies need to succeed. For this reason, and if the survey is any indicator, it seems unlikely that the next YouTube will come from the EU. We will rather see investments in companies offering content filtering technologies. In all of this, and perhaps unfortunately for the EU, the company that is likely to benefit from the filtering requirement is US-based Audible Magic. Large US tech giants or Audible Magic may thus well end up with a monopoly for video, audio and other content filtering, with the unintended consequence of the DSM being that such companies will become more powerful and collect extensive data about EU users, which will ultimately give them the power to decide - to some extent - what can and cannot be posted online in the EU. This is precisely a situation the EU wants to avoid.
- 56 The policy goal of redistributing resources from big US platforms to EU creators for uses of their works in the platform economy is undeniably well-intended. The positive impact that article 17 DSM might have for rightholders in the EU, however, comes with a price to be paid primarily by small and mid-sized EU CSSPs and EU artists having blocked their rightfully used works due to over-blocking. There might soon be less competition for US tech companies in the EU, which will lead to greater market concentration among EU CSSPs. This situation is not in the interest of the EU and seems to be an expensive price to pay to try to close a gap that may not even exist.

III. Long-term impact on innovation in the EU

- 54 If the legal regime does not provide for a solution that gives any CSSP access to upload-filters against a reasonable fee or to be exempted from the filtering requirement, having access to a sophisticated filtering system will become a market entry barrier or push smaller companies completely out of the market. This will hinder investments in, and innovation by, CSSPs in the EU.

82 Mathew Heim and Igor Nikolic, A FRAND Regime for Dominant Platforms, JIPITEC – Journal of Intellectual Property, Information Technology and E-Commerce Law (2019), available at: <<https://www.jipitec.eu/issues/jipitec-10-1-2019/4883>> (date of last visit: August 18, 2019).

83 Evan Engstrom et al. (n 57).

Recht der öffentlichen Werkwiedergabe im harmonisierten Urheberrecht

by **Helmut Haberstumpf***

Abstract: This article analyses the criteria which the European Court applies to interpret the right of communication to the public. It shows that the criteria that determine the concepts “public” and “act of communication” are not adequate to outline this right. The concept “public” remains vague because the applied criteria do not make clear under which conditions an act of communication is directed to a private or public group. The concept “act of communication” is unspecific because it fails to distinguish the right of communication to the public from the distribution right. The jurisdiction of the European Court neglects to acknowledge that the granted exclusive rights of authors are not only rights to prohibit the use of their works, but primarily to authorize them. Authors should be able to control the exploitation of their works and negotiate a fair remuneration. It is to be hoped that the recently adopted Directive 2019/790 on copyright and related rights in the Digital Single Market, which harmonizes the European copyright contract law, will help to eliminate these deficits.

Dieser Beitrag unterzieht die Kriterien in der Rechtsprechung des EuGH zum Recht der öffentlichen Wiedergabe einer kritischen Analyse. Es soll gezeigt werden, dass die zum Begriff der Öffentlichkeit und der Wiedergabe entwickelten Einzelkriterien nicht geeignet sind, dieses Recht adäquat zu konturieren. Der Begriff der Öffentlichkeit bleibt unbestimmt, da die dafür entwickelten Kriterien keinen Beitrag dazu leisten, wann sich eine Wiedergabe an eine private oder öffentliche Gruppe richtet. Der Begriff der Wiedergabe ist konturlos, da er keine Abgrenzung zum Verbreitungsrecht liefert und vernachlässigt, dass auch die Verwertungsrechte des europäischen Rechts primär Erlaubnisrechte sind, die es dem Urheber ermöglichen sollen, die wirtschaftliche Verwertung seines geschützten Werkes zu steuern und eine angemessene Vergütung für dessen Nutzung aushandeln zu können. Es ist zu hoffen, dass die gerade verabschiedete neue Richtlinie 2019/790 über das Urheberrecht im digitalen Binnenmarkt, die erstmals das Urhebervertragsrecht harmonisiert, diese Defizite beseitigt.

Keywords: File-Sharing; Framing; Hyperlinks; Inhaltsplattformen; Linksetzung; Öffentlichkeit; Öffentliche Wiedergabe; Private Wiedergabe; Öffentliches Zugänglichmachen; Sendung; Störerhaftung; Täterhaftung; Wiedergabe

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A. Einleitung

1 Der Verteilungskampf um die Gewinne, die mit der öffentlichen Wiedergabe von geschützten Werken und Leistungen im Internet erzielt werden, tritt in eine heiße Phase. Selten hat es ein urheberrechtliches Thema geschafft, die Schlagzeilen der Medien und der öffentlichen Diskussion derart zu beherrschen, wie die Auseinandersetzungen um die neue Richtlinie über

das Urheberrecht und die verwandten Schutzrechte im digitalen Binnenmarkt zeigen. Sie ist am 17.4.2019 durch die endgültige Zustimmung des Rates In Kraft getreten.¹ Mit ihren vertragsrechtlichen

* Prof. Dr. jur., Vorsitzender Richter am LG a.D.

1 Richtlinie 2019/790 des Europäischen Parlaments und des Rates vom 17.4.2019 über das Urheberrecht und die verwandten Schutzrechte im digitalen Binnenmarkt, ABL. EU 2019 Nr. L 130, S. 92.

Bestimmungen will sie eine schmerzliche Lücke im europäischen Urheberrecht schließen und dazu beitragen, dass die ins Hintertreffen geratenen Urheber und Leistungsschutzberechtigten einen angemessenen Anteil am Kuchen bekommen können. In diesem Beitrag soll zwar nicht näher auf die Regelungen der neuen Richtlinie eingegangen, sondern versucht werden, das Recht der öffentlichen Wiedergabe in der Rechtsprechung des EuGH darzustellen.² Als Fazit wird sich jedoch ergeben, dass die am meisten umstrittene Vorschrift des Art. 17 der Richtlinie, nach der Diensteanbieter für das Teilen von Online-Inhalten wie YouTube, Twitter, Facebook und Co. für Urheberrechtsverletzungen unmittelbar haften und verpflichtet sein sollen, die Erlaubnis der Rechtsinhaber zu fairen und angemessenen Bedingungen einzuholen, eigentlich eine urheberrechtliche Selbstverständlichkeit zum Ausdruck bringt, die sich bereits aus dem bisher geltenden Recht der öffentlichen Wiedergabe ableiten lässt.

B. Die Entwicklung der Rechtsprechung des EuGH zum Recht der öffentlichen Werkwiedergabe

- 2 Das Recht der öffentlichen Wiedergabe von Werken ist in Art. 3 Abs. 1 der Richtlinie 2001/29/EG (InfoSoc-RL) geregelt. Es ist wie das Vervielfältigungs- und das Verbreitungsrecht nach Art. 2 und 4 InfoSoc-RL europaweit im Sinn eines Maximalschutzes harmonisiert. Soweit der Anwendungsbereich der Richtlinie reicht, darf deren Schutzniveau weder über- noch unterschritten werden.
- 3 Da der Begriff der öffentlichen Wiedergabe in Art. 3 Abs. 1 InfoSoc-RL nicht definiert und auch nicht durch beispielhafte Aufzählung von Einzelrechten näher erläutert ist, kommt dem EuGH die maßgebende Rolle zu, seinen Sinn und die Tragweite mit Blick auf die Ziele der Richtlinie und den Zusammenhang, in dem er steht, zu konturieren. Dies hat er seit etwas über einem Jahrzehnt in einer sich steigernden Zahl an Entscheidungen versucht, deren Begründungen häufig vom traditionellen Rechtsverständnis in Deutschland und in anderen Mitgliedstaaten abweichen und uns nach Ansicht vieler Kommentatoren zwingen, sich von vertraut gewordenen Grundsätzen zu verabschieden. Verkrustete Dogmen aufzubrechen und mit europaweit einheitlichen Lösungen auf die Herausforderungen zu reagieren, die neuartige

wirtschaftliche und technische Rahmenbedingungen an das Urheberrecht stellen, ist zwar begrüßenswert. Das Problem aber ist, dass es schwer fällt, in der Rechtsprechung des EuGH einheitliche und widerspruchsfreie Entwicklungslinien zu erkennen, die aufzeigen, wohin die Reise geht. Wenn man versucht, das harmonisierte Recht der öffentlichen Wiedergabe aus der Sicht des EuGH zu skizzieren, kann man deshalb nicht darauf vertrauen, dass ein einigermaßen festes Fundament vorhanden ist, von dem aus es weiter entwickelt werden könnte. Oft werfen die aufgestellten Grundsätze und Begründungen mehr Fragen auf als sie beantworten und können in der nächsten Entscheidung bereits wieder in Frage gestellt sein.

I. Die Entscheidung „Football Association Premier League“

- 4 Die entscheidenden Weichen wurden in der Entscheidung des EuGH „Football Association Premier League“ gestellt,³ wo es u.a. um die Frage ging, ob der Begriff der öffentlichen Wiedergabe im Sinn von Art. 3 Abs. 1 InfoSoc-RL auch die Übertragung durch Rundfunk gesendeter Werke – hier von Fußballspielen – über einen Fernseh Bildschirm und Lautsprecher für die sich in einer Gastwirtschaft aufhaltenden Gäste umfasst. Dass der EuGH eine öffentliche Wiedergabe durch den Gastwirt bejahte, ist im Ergebnis zutreffend und nicht besonders aufregend. Insoweit befindet er sich nämlich im Einklang mit dem internationalen Urheberrecht gem. Art. 11^{bis} Abs. 1 Nr. 3 RBÜ. Auch in Deutschland ist die Rechtslage klar. Das in § 22 UrhG definierte Recht, Funksendungen durch Bildschirm, Lautsprecher oder ähnliche technische Einrichtungen öffentlich wahrnehmbar zu machen, ist als Zweitverwertungsrecht konzipiert, dem eine Funksendung vorausgeht. Ein Gastwirt, der im Gastraum sein Fernsehgerät einschaltet und eine bestimmte Sendung auswählt, macht sie über den Bildschirm und Lautsprecher für die anwesenden Gäste wahrnehmbar. Wenn nicht gerade eine Veranstaltung einer geschlossenen Gesellschaft stattfindet, sind sie Mitglieder der Öffentlichkeit gem. § 15 Abs. 3 S. 2 UrhG, da sie normalerweise nicht untereinander und auch nicht zum Gastwirt durch persönliche Beziehungen verbunden sind.
- 5 Bemerkenswert an der Entscheidung des EuGH ist aber, mit welcher Begründung er diesen Vorgang unter Art. 3 Abs. 1 InfoSoc-RL subsumiert. Ausgehend u.a. von Art. 11^{bis} Abs. 1 Nr. 3 RBÜ zieht er den Schluss, dass der Begriff der öffentlichen Wiedergabe weit zu verstehen ist und jede Übertragung geschützter Werke unabhängig von dem eingesetzten technischen

² Eine aktuelle Übersicht geben v. Ungern-Sternberg GRUR 2019, 1 ff.; Grünberger ZUM 2019, 281, 288 f. Vgl. auch Hofmann, UFITA 2/2018, 334 ff.

³ EuGH GRUR 2012, 156.

Mittel oder Verfahren umfasst,⁴ also sowohl das öffentliche Wahrnehmbarmachen des Werkes als auch dessen Sendung. Ersteres tut der Gastwirt, indem er absichtlich den dort anwesenden Gästen über einen Fernseh Bildschirm und Lautsprecher den Zugang zu einer Rundfunksendung gewährt. Damit diese Art der Wiedergabe eine öffentliche ist, müsse sie allerdings für ein „neues Publikum“ übertragen werden, d.h. für ein Publikum, das von den Urhebern der geschützten Werke nicht berücksichtigt worden sei, als sie deren Nutzung für das ursprüngliche Publikum zugestimmt hätten. Da nach Ansicht des EuGH die Urheber, wenn sie die Sendung durch den Rundfunk erlauben, grundsätzlich nur die Besitzer von Fernsehgeräten erfassen wollen, die das Signal allein oder im privaten bzw. familiären Kreis empfangen und die Sendungen verfolgen, sei das vom Gastwirt im Gastraum erreichte Publikum ein neues (öffentliches) Publikum.⁵ In diese Argumentation schleicht sich hier bereits ein Denkfehler ein, der sich durch die nachfolgende Rechtsprechung des EuGH durchzieht und sich insbesondere bei der Setzung eines Links auf fremde Webseiten im Internet bemerkbar macht. Zum Tatbestand einer erlaubnispflichtigen Sendung gehört nach völlig unbestrittener Ansicht nämlich der Empfang nicht, was der Gerichtshof im Übrigen in Rn. 171, 194 dieses Urteils und einer Reihe weiterer Entscheidungen⁶ ausdrücklich betont. Wenn also der Urheber einer Rundfunkanstalt eine Sendeerlaubnis erteilt, gestattet er ihr, Sendesignale, die sein Werk enthalten, auszusenden, und Personen, die über geeignete Empfangsanlagen verfügen, gleichzeitig den Empfang zu ermöglichen, gleichgültig, ob ihre Empfangsanlagen überhaupt in Betrieb sind und ob sie Privatpersonen, Gebäudeeigentümer, Gastwirte, Hoteliers, Justizvollzugsanstalten, Betreiber von Altenheimen, Unternehmer, Behörden usw. sind. Wenn er nur die Sendung an Privatpersonen erlauben würde, müssten Sendeunternehmen jeweils sicherstellen, dass die Sendesignale nur von Privatpersonen empfangen werden können. Das macht aber normalerweise kein Sendeunternehmen und entspricht auch nicht dem Interesse und dem Willen der Beteiligten. Die Sendeerlaubnis bezieht sich deshalb nicht darauf, was Empfänger der Sendung mit ihr machen. Für die Frage, ob sie eine von der Sendung unabhängige eigenständige urheberrechtlich relevante Handlung vornehmen, ist vielmehr allein entscheidend, ob sie einen Tatbestand der gesetzlich gewährten Verwertungsrechte verwirklichen, was der EuGH im Fall des Gastwirts im Ergebnis auch zutreffend bejaht.

4 EuGH GRUR 2012, 156 Rn. 193 – Football Association Premier League.

5 EuGH GRUR 2012, 156 Rn. 198 f. – Football Association Premier League.

6 Z.B. EuGH GRUR 2013, 500 Rn. 28 – ITV Broadcasting/TVC.

6 Mit diesem Ergebnis handelt er sich jedoch die Schwierigkeit ein, dass nach dem Willen des europäischen Gesetzgebers in Erwägungsgrund 23 InfoSoc-RL eine öffentliche Wiedergabe im Sinne von Art. 3 Abs. 1 nur solche Wiedergaben an Personen der Öffentlichkeit umfassen soll, die am Ort, an dem die Wiedergabe ihren Ursprung nimmt, nicht anwesend sind. Am Ort der Wiedergabe im Gastraum sind die Gäste aber notwendig anwesend, weil sie sonst nicht auf den Fernseh Bildschirm blicken könnten. Um diese Hürde zu überwinden, argumentiert der EuGH, dass Erwägungsgrund 23 sich nur auf persönliche Darbietungen – etwa durch einen Vortrag oder eine musikalische Aufführung durch Interpreten entsprechend § 19 Abs. 1 und 2 UrhG – beziehe und die Gäste am Ort, wo die Sendung durch die ausstrahlende Rundfunkanstalt ihren Ursprung genommen habe, nicht anwesend seien. Damit wird der Ort der Wiedergabe vom Gastraum zu dem Ort vorverlagert, wo das Sendeunternehmen seine Signale ausgestrahlt hat. Konsequenz weitergedacht, würde das im Widerspruch zum Ergebnis des EuGH allerdings bedeuten, dass die nachfolgende Wiedergabe durch den Gastwirt nur ein Teilaspekt der Sendung wäre und die Sendeerlaubnis des Urhebers auch die im Gastraum versammelten Gäste einbeziehen würde. Die Gäste wären dementsprechend kein neues Publikum. Zu seinem richtigen Ergebnis kommt der EuGH somit mit einem falschen Argument.

7 Aus dieser Begründung wird deutlich, dass der Gerichtshof den Anwendungsbereich der InfoSoc-RL verlässt und das Recht der öffentlichen Wiedergabe als ein generalklauselartiges Recht auffasst, das mit Ausnahme der Wiedergabe durch persönliche Darbietung alle Wiedergabearten, durch die ein Werk mittels technischer Einrichtungen einer *anwesenden* Öffentlichkeit wahrnehmbar gemacht wird, sowie alle Vorgänge umfasst, durch die es drahtgebunden oder drahtlos am Ort der Wiedergabe *abwesenden* Mitgliedern der Öffentlichkeit zugänglich gemacht wird. Übersetzt in die Terminologie des UrhG umfasst es damit das Vorführungsrecht des § 19 Abs. 4, das Recht der Wiedergabe durch Bild- und Tonträger gem. § 21, das Recht der öffentlichen Zugänglichmachung nach § 19a, der Sendung gem. §§ 20 bis 20b und das Recht der Wiedergabe von Funksendungen und öffentlicher Zugänglichmachung nach § 22 UrhG.

II. Konkretisierung des Rechts der öffentlichen Wiedergabe

8 Welche Handlungen im Einzelfall unter dieses Recht fallen, hat der EuGH in einer Reihe von Folgeentscheidungen konkretisiert. In ständiger Rechtsprechung geht er inzwischen von folgenden Grundsätzen aus. Sie sind umfassend in der neueren

Entscheidung „Filmspeler“⁷ zusammengestellt.

- (1) Mit Art. 3 Abs. 1 InfoSoc-RL verfügen die Urheber über ein Recht vorbeugender Art, das es ihnen erlaubt, sich bei Nutzern ihrer Werke vor der öffentlichen Wiedergabe, die diese Nutzer durchzuführen beabsichtigen, einzuschalten, und zwar, um diese zu verbieten.⁸
- (2) Der weit auszulegende Begriff „öffentliche Wiedergabe“ erfordert eine individuelle Beurteilung.⁹
- (3) Der Begriff vereint zwei kumulative Tatbestandsmerkmale, nämlich eine Handlung der Wiedergabe und eine öffentliche Wiedergabe.¹⁰
- (4) Um zu beurteilen, ob ein Nutzer eine Handlung der öffentlichen Wiedergabe vornimmt, sind eine Reihe weiterer Kriterien zu berücksichtigen, die unselbstständig und miteinander verflochten sind. Sie sind deshalb einzeln und in ihrem Zusammenwirken mit den anderen Kriterien anzuwenden, da sie im jeweiligen Einzelfall in sehr unterschiedlichem Maß vorliegen können.¹¹
- (5) Dem Nutzer kommt die zentrale Rolle zu. Er nimmt eine Wiedergabe vor, wenn er in voller Kenntnis der Folgen seines Handelns tätig wird, um seinen Kunden Zugang zu einem geschützten Werk zu verschaffen, und zwar insbesondere dann, wenn ohne dieses Tätigwerden die Kunden das ausgestrahlte Werk grundsätzlich nicht empfangen können.¹²
- (6) Er muss sich gezielt an das Publikum richten, das in der einen oder anderen Weise für die Wiedergabe aufnahmebereit ist und nicht bloß zufällig „erreicht“ wird.¹³
- (7) „Öffentlichkeit“ bedeutet begrifflich eine unbestimmte Zahl potenzieller Leistungsempfänger, die keiner privaten Gruppe angehören dürfen¹⁴ und die ferner aus recht

vielen Personen bestehen müssen.¹⁵

- (8) Zur Bestimmung dieser Zahl kommt es nicht nur darauf an, wie viele Personen gleichzeitig Zugang zu demselben Werk haben, sondern auch darauf, wie viele von ihnen in der Folge Zugang zu diesem Werk haben.¹⁶
- (9) Nicht unerheblich ist es, ob eine Wiedergabe im Sinne von Art. 3 Abs. 1 InfoSoc-RL Erwerbszwecken dient.¹⁷
- (10) Für die Einstufung als öffentliche Wiedergabe ist es schließlich erforderlich, dass ein geschütztes Werk unter Verwendung eines technischen Verfahrens, das sich von dem bisher verwendeten unterscheidet, oder ansonsten für ein „neues Publikum“ wiedergegeben wird, d.h. für ein Publikum, an das die Inhaber des Urheberrechts nicht gedacht hatten, als sie die ursprüngliche öffentliche Wiedergabe erlaubten.¹⁸

1. Begriff der Öffentlichkeit

- 9 Auf den ersten Blick sieht das wie ein praxistauglicher Katalog einzelner Tatbestandsmerkmale aus, deren systematische Durchprüfung zu einem mehr oder weniger eindeutigen Ergebnis führt. Dieser Eindruck trägt aber leider, weil der EuGH schon die unter den Kriterien (6) bis (10) angesprochenen nach Kriterium (4) unselbstständigen, miteinander verflochtenen und für den *Begriff der Öffentlichkeit* maßgebenden Einzelkriterien nicht einheitlich und widerspruchsfrei anwendet. So bezeichnet er in der Entscheidung „ITV Broadcasting/TVC“¹⁹ das Kriterium der Verfolgung eines Erwerbszwecks explizit als unerheblich, misst ihm aber andererseits in der Entscheidung „GS Media/Sanoma“²⁰ die ganz entscheidende Bedeutung bei. Einerseits ist die *einmalige* Übertragung eines Fußballspiels in einer Gaststätte eine öffentliche Wiedergabe, auch wenn sich in ihr gerade niemand, nur wenige Personen oder für Fußball nicht aufnahmebereite Personen, z.B. Frauen, aufhalten, während dies bei der Wiedergabe von Musiksendungen im Wartezimmer eines Zahnarztes nicht der Fall sein soll,²¹ obwohl

7 EuGH GRUR 2017, 610.

8 EuGH GRUR 2017, 610 Rn. 25 – Stichting Brein/Wullems (Filmspeler).

9 EuGH GRUR 2017, 610 Rn. 28 – Stichting Brein/Wullems (Filmspeler) unter Berufung auf EuGH GRUR 2016, 1152 Rn. 33 – GS Media/Sanoma.

10 EuGH GRUR 2017, 610 Rn. 29 – Stichting Brein/Wullems (Filmspeler).

11 EuGH GRUR 2017, 610 Rn. 30 – Stichting Brein/Wullems (Filmspeler).

12 EuGH GRUR 2017, 610 Rn. 31 – Stichting Brein/Wullems (Filmspeler).

13 EuGH GRUR 2012, 593 Rn. 91 – SCF.

14 EuGH GRUR 2012, 593 Rn. 85 – SCF.

15 EuGH GRUR 2017, 610 Rn. 32 – Stichting Brein/Wullems (Filmspeler).

16 EuGH GRUR 2012, 593 Rn. 87 – SCF.

17 EuGH GRUR 2017, 610 Rn. 34 – Stichting Brein/Wullems (Filmspeler).

18 EuGH GRUR 2017, 610 Rn. 47 – Stichting Brein/Wullems (Filmspeler).

19 EuGH GRUR 2013, 500 Rn. 43.

20 EuGH GRUR 2016, 1152 Rn. 51.

21 EuGH GRUR 2012, 593 Rn. 95 ff. – SCF. *Grünberger* ZUM 2019, 281, 294, meint mit Recht, dass diese Entscheidung als „Ausrutscher“ betrachtet werden sollte.

Zahnärzte und ihr Sprechstundenpersonal sicherlich anderes zu tun haben, als jeden Tag ein neues individuelles Musikprogramm zusammenzustellen, sondern erfahrungsgemäß einen bestimmten Musiksender oder Tonträger wählen, womit bestimmte Musikstücke immer wieder übertragen werden, so dass gemäß Kriterium (8) in der Folge recht viele Patienten einschließlich ihrer Begleitpersonen in den Genuss *derselben* Musikwerke kommen. Anders soll es dagegen wieder sein, wenn Sendungen in Behandlungs- und Wartezimmern eines Reha-Zentrums über bereitgestellte Fernseh- oder Radiogeräte den dort befindlichen Personen wahrnehmbar gemacht werden.²²

- 10 Wie die vom EuGH entwickelten Einzelkriterien zum Begriff der Öffentlichkeit im Einzelfall zu gewichten sind und wie sie zusammenspielen, bleibt unklar, sodass mit ihnen jedes beliebige Ergebnis begründet werden könnte. Der wesentliche Grund liegt meines Erachtens darin, dass sie keinen Beitrag dazu leisten, wann die Personen, an die sich der wiedergebende Nutzer nach den Kriterien (5) und (6) gezielt richtet, Personen der Öffentlichkeit oder Personen sind, die einer privaten Gruppe angehören. Anders als § 15 Abs. 3 S. 2 UrhG definiert der EuGH den Begriff der privaten Gruppe nämlich nicht, sondern setzt ihn in Kriterium (7) als bekannt voraus. Stattdessen weist er nur vage daraufhin, dass Personen der Öffentlichkeit Personen „allgemein“ sein müssen, die ferner aus recht vielen Personen bestehen. Wenn man aber weiß, welche Eigenschaften Personen einer privaten Gruppe haben, dann weiß man auch, welche Personen keine private Gruppe sind, sondern eine Öffentlichkeit bilden. Deren Zahl und die weiteren Kriterien des EuGH spielen dann keine Rolle mehr. In der Tat sind sie weder einzeln noch in ihrer Kumulation notwendig und hinreichend für die Annahme von Öffentlichkeit und erweisen sich damit letztlich als irrelevant. Die Anzahl geladener Gäste auf einer großen Hochzeitsfeier kann recht viele Personen umfassen, ohne dass man am privaten Charakter dieser Veranstaltung zweifeln könnte.²³ Umgekehrt bleibt eine als öffentlich angekündigte Musikaufführung eine öffentliche, auch wenn sich am Veranstaltungsort recht wenige Personen einfinden. Aufnahmebereitschaft kann bestehen oder fehlen, gleichgültig, ob die Adressaten und Teilnehmer einer privaten oder öffentlichen Gruppe angehören. Auch das Verfolgen eines Erwerbszwecks ist irrelevant. Das Fehlen eines Erwerbszwecks beim Wiedergebenden etwa bei Wohltätigkeitsveranstaltungen i.S.v. § 52 UrhG²⁴

schließt Öffentlichkeit nicht aus, wie umgekehrt eine private Gruppe eine private Gruppe bleibt, wenn sie dem Veranstalter der Wiedergabe ein Entgelt zahlen muss. Schließlich trägt auch das Kriterium (10) des neuen Publikums zur Bestimmung des Begriffs der Öffentlichkeit nichts bei, weil es implizit voraussetzt, dass das neue Publikum ein öffentliches ist.

- 11 Dass auch nur *eine einzige Person* ein Mitglied der Öffentlichkeit sein kann, ergibt sich ferner aus Art. 4 Abs. 1 InfoSoc-RL (§ 17 Abs. 1 UrhG), wo die Verbreitung eines Werkexemplars durch Verkauf, Eigentums- und Besitzübertragung²⁵ notwendig nur an eine Einzelperson erfolgt. Die Kriterien (7) und (8) können deshalb die Regel des § 15 Abs. 3 S. 2 UrhG nicht ersetzen. Aus dieser Diagnose möchte ich folgenden Therapieversuch ableiten: Die Kriterien des EuGH zum Begriff der Öffentlichkeit sollten so angewendet werden, dass sie im Einklang mit dem überkommenen Verständnis des Begriffs der Öffentlichkeit nach § 15 Abs. 3 UrhG stehen.²⁶ Dem Nutzer, der in voller Kenntnis der Folgen seines Handelns das Werk einem anwesenden Publikum wahrnehmbar oder einem abwesenden Publikum zugänglich macht, kommt entsprechend Kriterien (5) und (6) die Rolle zu, zu bestimmen, um welchen Personenkreis es sich handelt (s. § 15 Abs. 3 S. 1 UrhG). Ob dieses Publikum ein öffentliches oder privates ist, richtet sich nach § 15 Abs. 3 S. 2 UrhG. Ist es ein öffentliches, muss es sich um eine Mehrzahl von Personen handeln, um eine Abgrenzung zum Verbreitungsrecht des Art. 4 InfoSoc-RL bzw. § 17 UrhG zu erreichen, das sich auf die Eigentums- oder Besitzübertragung von einzeln identifizierbaren Werkexemplaren bezieht, die dem Erschöpfungsgrundsatz unterliegen. Mit einem einzelnen Akt der unkörperlichen Wiedergabe können dagegen gleichzeitig oder in der Folge eine Vielzahl von Personen erreicht werden. Erschöpfung im Hinblick auf nachfolgende Akte gleicher Art tritt deshalb nach Art. 3 Abs. 3 InfoSoc-RL nicht ein.

2. Begriff der Wiedergabe

- 12 Wirklich neue Wege beschreitet der EuGH dagegen bei seinen Bemühungen, dem grundlegenden Begriff der Wiedergabe Konturen zu verleihen. Um ihn zu umreißen, stellt der Gerichtshof in Kriterium (5) auf die zentrale Rolle des Nutzers ab. Dieser nimmt eine Wiedergabe vor, wenn er absichtlich, d.h. in voller Kenntnis der Folgen seines Handelns seinen Kunden Zugang zu geschützten Werken gewährt. Das ist nach der Entscheidung „Football

22 EuGH GRUR 2016, 684 Rn. 65, 47 – Reha-Training; ebenso BGH GRUR 2018, 608 Rn. 34 ff. – Krankenhausradio.

23 So AG Bochum GRUR-RR 2009, 166 f., im Hinblick auf 600 geladene Gäste einer türkischen Hochzeit.

24 Entsprechende Ausnahmebestimmungen enthält die InfoSoc-RL in Art. 5 Abs. 2 Buchst. e, Abs. 3 Buchst. b und g.

25 S. EuGH GRUR 2008, 604 Rn. Rn. 33 ff. – Le-Corbusier-Möbel.

26 Zur Streichung dieser Vorschrift, wie es *v. Ungern-Sternberg*, in Schricker/Loewenheim, Urheberrecht, 5. Aufl. 2017, § 15 Rn. 354, befürwortet, besteht daher keine Veranlassung.

Association Premier League“ der Fall, wenn er Werke einem anwesenden Publikum mittels technischer Einrichtungen wahrnehmbar macht oder wenn er Sendesignale ausstrahlt, die von einem abwesenden Publikum empfangen werden können. Dazu zählt nach dem Wortlaut des Art. 3 Abs. 1 und 2 InfoSoc-RL auch das Zugänglichmachen eines Werkes etwa über eine Internetseite, von der es von einem abwesenden Publikum von Orten und zu Zeiten ihrer Wahl abgerufen werden kann.

- 13 Dabei hat der EuGH es aber in einer Reihe von Nachfolgeentscheidungen nicht belassen, sondern den Begriff auf Sachverhalte ausgedehnt, in denen der Nutzer ein Werk weder wahrnehmbar macht, noch sendet oder auf einer Webseite zum Abruf durch Personen von Orten und Zeiten ihrer Wahl zugänglich macht. Ein erstes Beispiel ist die Entscheidung „Phonographic Performance (Ireland)“,²⁷ wo er entgegen Erwägungsgrund 27 der InfoSoc-RL das bloße Bereitstellen von bespielten Bild- oder Tonträgern zusammen mit geeigneten Abspielgeräten in Hotelzimmern als eine Wiedergabehandlung des Hoteliers wertet. Dieser sendet nämlich die auf den Trägern befindlichen Werke nicht in die Hotelzimmer und macht sie auch nicht wahrnehmbar. Letzteres macht vielmehr der Gast, wenn er den Träger in das Wiedergabegerät einlegt und dieses einschaltet. Ein anderes Beispiel ist das Setzen eines offen verweisenden Hyperlinks durch eine Suchmaschine auf eine fremde Webseite, auf der Werke ohne Erlaubnis des Rechtsinhabers für alle Internetnutzer frei zugänglich sind, wie es in den Entscheidungen „Svensson/Retriever Sverige“²⁸ und „GS Media/Sanoma“²⁹ geschehen ist. In letzterem Fall hatte der Generalanwalt³⁰ meines Erachtens zu Recht noch dafür plädiert, dass die Handlung des Linksetzers kein „act of communication“ i.S.v. Art. 3 Abs. 1 InfoSoc-RL sei, weil er nur auf eine Webseite verweise und deren Inhalte nicht selbst zugänglich macht. Dieser Auffassung ist der EuGH jedoch nicht gefolgt und hat dahingehend differenziert, ob der Linksetzer eine Einzelperson oder ein Unternehmer ist, der mit Gewinnerzielungsabsicht tätig wird.³¹ Im ersteren Fall sei zu vermuten, dass die Einzelperson nicht wisse oder vernünftigerweise nicht wissen könne, dass auf der fremden Webseite Werke ohne Erlaubnis des Urheberrechtsinhabers veröffentlicht wurden, sie handele daher im Allgemeinen nicht in voller Kenntnis ihres Tuns. Bei einem Linksetzer mit Gewinnerzielungsabsicht sei dagegen zu vermuten, dass er die Kenntnis i.S.v. Kriterium (5) hat. Auch der bloße Verkauf eines multimedialen Abspielgerätes

soll nach der Entscheidung „Filmspeler“³² eine Wiedergabehandlung sein, wenn auf ihm sog. Add-ons vorinstalliert sind, die Hyperlinks auf frei zugängliche Webseiten enthalten, auf denen geschützte Werke zum Teil ohne Erlaubnis der Rechtsinhaber öffentlich zugänglich gemacht werden, und damit sogar noch geworben wird. In diesem Zusammenhang gehört schließlich auch die Entscheidung „The Pirate Bay“³³, in der der Gerichtshof das Betreiben einer File-Sharing-Plattform als Wiedergabehandlung ansah, obwohl der Betreiber der Plattform die getauschten Werke nicht selbst zugänglich macht, sondern ihre Nutzer, die mehrheitlich ohne Erlaubnis der Urheber handeln.

- 14 Aus den aufgeführten Beispielen lässt sich deutlich die Tendenz ablesen, den Tatbestand des Rechts auch auf Handlungen zu erweitern, die mit einer fremden rechtswidrigen Urheberrechtsverletzung in einem Zusammenhang stehen und für die nach deutschem Recht eine differenzierte Störerhaftung eintreten würde. Das generalklauselartige Recht der öffentlichen Wiedergabe wird auf diese Weise als ein rein deliktisches Haftungsmodell, als ein System von Verbotensrechten, interpretiert, in das jede Person als *Täter einer Urheberrechtsverletzung* einbezogen ist, für die es gerechtfertigt und geboten ist, sie irgendwie auf Unterlassung, Beseitigung oder Schadensersatz im Zusammenhang mit einer rechtswidrigen Urheberrechtsverletzung in Haftung zu nehmen. Darauf weist insbesondere auch Kriterium (1) hin, wo der Gerichtshof das Recht der öffentlichen Wiedergabe als Recht vorbeugender Art bezeichnet, das es Urhebern erlaubt, vor der Nutzung durch andere sich einzuschalten, und zwar *um diese zu verbieten*. Diese Auslegung von Art. 3 Abs. 1 InfoSoc-RL im Sinne eines deliktischen täterschaftlichen Haftungsmodells hat im deutschen Schrifttum vielfach Anhänger gefunden,³⁴ die u.a. darauf verweisen, dass der BGH im Bereich des Wettbewerbsrechts mit der Entscheidung „Jugendgefährdende Medien bei eBay“³⁵ einen ähnlichen Weg eingeschlagen hat. Für diesen Ansatz kann ins Feld geführt werden, dass es sich bei den Fällen „Filmspeler“ und „The Pirate Bay“ um besonders krasse Beispiele handelte, in denen es nicht akzeptabel gewesen wäre, die in Anspruch Genommenen ungeschoren davon kommen zu lassen. Er hat schließlich den Vorteil, dass man in weiterem Umfang als nach der Rechtsprechung

27 EuGH GRUR 2012, 597.

28 EuGH GRUR 2014, 360 Rn. 30 f.

29 EuGH GRUR 2016, 1152 Rn. 40 ff.

30 BeckRS 2016, 80592 Rn. 45.

31 EuGH GRUR 2016, 1152 Rn. 46 ff. – GS Media/Sanoma.

32 EuGH GRUR 2017, 610.

33 EuGH GRUR 2017, 790.

34 Z.B. Jan Bernd Nordemann in Fromm/Nordemann, Urheberrecht, 12. Aufl. 2018, § 97 Rn. 144a, 150 ff.; Leistner GRUR 2017, 755, 758 ff.; Ohly, in Festschrift für Gernot Schulze, 2017, 387, 393 ff.

35 GRUR 2007, 890 Rn. 36 ff.

des BGH³⁶ zu Tätern gemachte Störer ebenfalls zur Zahlung von Schadensersatz heranziehen könnte.

- 15 Dennoch handelt es sich um einen Irrweg, der ohne gedankliche Brüche kaum mit dem europäischen Recht in Einklang zu bringen ist und vor allem die drängenden Probleme des Urheberrechts im Internet nicht adäquat löst. Der vom EuGH entwickelte Begriff der Wiedergabe ist zunächst völlig konturlos. Jeder Buchhändler, der Buchexemplare verkauft, handelt in voller Kenntnis der Folgen seines Handelns, um seinen der Öffentlichkeit angehörigen Kunden Zugang zu geschützten Werken zu verschaffen; ohne sein Tätigwerden könnten sie es über dieses Medium nicht aufnehmen. Dasselbe gilt auch für jeden Elektrofachmarkt, der seinen Kunden bespielte Ton- oder Bildträger zusammen mit geeigneten Abspielgeräten verkauft; ohne sein Tätigwerden könnten seine Kunden die auf den Trägern verkörperten Werke nicht wahrnehmen und/oder zu einer öffentlichen Wiedergabe benutzen. Wenn man Kriterium (5) ernst nimmt, müsste man also das Verbreitungsrecht als Unterfall des Rechts der öffentlichen Wiedergabe ansehen, wie es beispielsweise in der Entscheidung „Phonografic Performance (Ireland)“ geschehen ist, wo der Hotelier bespielte Tonträger den Gästen mietweise für die Dauer ihres Aufenthalts zur Verfügung stellte. Das steht aber wiederum in Widerspruch zu der Entscheidung „UsedSoft/Oracle“,³⁷ in der der Gerichtshof die kaufrechtliche Online-Verbreitung von geschützter Software an Mitglieder der Öffentlichkeit als Unterfall des Verbreitungsrechts wertet, für die der Erschöpfungsgrundsatz eingreift.³⁸ Um zu einer Abgrenzung zum Verbreitungsrecht zu kommen, muss man also schon vor der Anwendung der Kriterien des EuGH wissen, was man durch ihre Durchprüfung erst herausbringen will. Wir haben es somit auch hier mit einem typischen Fall eines Zirkelschlusses zu tun.

- 16 Mit seinem Modell fällt der EuGH in das rechtshistorisch überwundene Zeitalter der allgemeinen Nachdruckverbote und Privilegien zurück, die den privilegierten Autoren, Druckern und Verlegern ebenfalls nur hoheitlich sanktionierte, individuelle Verbotsrechte gewährten. Erst mit der Theorie des geistigen Eigentums setzte sich der Gedanke durch, dass dem Schöpfer eines geistigen Werkes primär ein Erlaubnisrecht zuwächst, über das er in autonomer Freiheit verfügen kann und das es ihm ermöglichen soll, durch Einräumung dinglicher Nutzungsrechte oder durch schuldrechtliche

Gestattung eine angemessene Vergütung mit einem Interessierten aushandeln zu können, sodass es gar nicht erst zu einer Rechtsverletzung kommt. Dieses Verfügungsrecht macht nach ständiger Rechtsprechung des BVerfG³⁹ den gem. Art. 14 Abs. 1 GG grundgesetzlich geschützten Kern des Urheberrechts aus. Wichtiges Ziel der InfoSoc-RL ist es nach Erwägungsgrund 10 dementsprechend, dass Urheber für die Nutzung ihrer Werke eine angemessene Vergütung erhalten. Ist die Nutzung bereits erfolgt, ist die Verhandlungsposition des Rechtsinhabers geschwächt. Ein gesetzlich gewährter nachträglicher Vergütungs- oder Schadensersatzanspruch ist dafür kein adäquater Ersatz.⁴⁰ Auch die harmonisierten Verwertungsrechte sind folglich *verletzungsfrei* auszulegen und gewähren, wie der Wortlaut der einschlägigen Richtlinien unzweideutig besagt, nicht bloß Rechte vorbeugender Art, um die Nutzung durch andere zu verbieten, sondern primär, sie zu *erlauben*. In einem solchen System von Erlaubnisrechten nimmt nicht ein rechtswidrig handelnder Nutzer die zentrale Rolle ein, sondern der Urheber. Ein Erlaubnisrecht, das sich nur auf Handlungen bezieht, die ohne Erlaubnis des Rechtsinhabers vorgenommen werden, gibt keinen Sinn. Ebenso sind Handlungen, für die ein zum Täter gemachter Störer haftet, nicht sinnvoll lizenzierbar, da dies ja darauf hinauslaufen würde, dem Störer zu erlauben, eine fremde rechtsverletzende Handlung zu fördern oder auszunutzen und damit zu perpetuieren. Durch den gegen einen Störer gerichteten Unterlassungs- oder Schadensersatzanspruch wird die fremde Rechtsverletzung weder aus der Welt geschafft noch kompensiert, so dass für die Beteiligten in ökonomischer Hinsicht kein hinreichender Anreiz gegeben ist, sich auf Verhandlungen über eine kaum kalkulierbare angemessene Vergütung überhaupt einzulassen. Für den Urheber nicht, da er bestrebt sein muss, die illegale Quelle insgesamt zu stopfen, für den Störer nicht, da er nur daran interessiert sein kann, dass sie für ihn weitersprudelt.

- 17 Ein weiterer Grund, der es verbietet, von der Störerhaftung auf eine täterschaftliche Haftung zu schließen, liegt darin, dass Störer wegen ihrer ziemlich verschiedenen Verursachungsbeiträge im Einzelfall unterschiedlichen Sanktionen ausgesetzt sind – auch bei ihnen muss sich ein gegebener Unterlassungsanspruch an der konkreten Verletzungsform orientieren – und je nach Zumutbarkeit unterschiedliche Prüfpflichten beachten müssen. Denjenigen, der den jeweiligen Tatbestand eines Verwertungsrechts eigenhändig verwirklicht, treffen dagegen nicht etwa gesteigerte Prüfpflichten, sondern gar keine. Er muss wie jeder, der geschützte Leistungen verwertet, nur

36 BGH ZUM 2010, 696 Rn. 17 – Sommer unseres Lebens: Störer haften nicht auf Schadensersatz.

37 EuGH GRUR 2012, 904 Rn. 53 ff.

38 Auf die Parallelen zwischen der Rechtsprechung des EuGH zum Recht der öffentlichen Wiedergabe und dem Verbreitungsrecht weist Jütte, UFITA 2/2018, 354, 364 ff., hin.

39 Z.B. BVerfG GRUR 2014, 169 Rn. 87 – Übersetzerhonorare.

40 So explizit BVerfG GRUR 2016, 690 Rn. 73 – Metall auf Metall.

sicherstellen, dass er die erforderliche Erlaubnis des Rechtsinhabers bekommt. Auch wenn er sich überobligationsmäßig darum bemüht hat, rechtmäßig zu handeln, hilft ihm das nicht. Er haftet verschuldensunabhängig auf Unterlassung und Beseitigung, wenn er sie nicht hat. Die Frage, ob er dabei bestimmte Sorgfalts- oder Verkehrspflichten missachtet hat, spielt deshalb nur für die Frage des Verschuldens nach § 97 Abs. 2 S. 1 UrhG eine Rolle, d.h. für die Frage, ob gegen ihn auch ein Schadensersatzanspruch begründet ist. Bei der Störerhaftung bildet dagegen die Verletzung von Prüfpflichten erst die Grundlage, ihn überhaupt auf Unterlassung, Beseitigung und ggfs. auf Schadensersatz in Anspruch nehmen zu können.⁴¹ Die Rechtsfolgen der Haftung als Täter und als Störer sind nicht äquivalent.⁴²

- 18 Darin liegt auch der entscheidende Unterschied zur Situation im Lauterkeitsrecht, wo die anspruchsberechtigten Mitbewerber und Verbände zwar gegen rechtswidrige Wettbewerbshandlungen vorgehen, sie aber nicht erlauben können. Aus diesem Grund hält der BGH für die Bereiche des Urheber-, Kennzeichen- und Namensrechts an der Lehre zur Störerhaftung, wo es nicht um die Ahndung von Verhaltensunrecht, sondern um die Verletzung tatbestandsmäßiger absoluter Rechte geht, weiterhin mit Recht fest.⁴³ Auch im harmonisierten Urheberrecht hat die Unterscheidung zwischen täterschaftlicher Haftung und Haftung als Vermittler (Störer) eine gesetzliche Grundlage, nämlich in Art. 8 Abs. 3 InfoSoc-RL, wonach die Mitgliedstaaten sicher zu stellen haben, dass die Rechtsinhaber gegen Vermittler gerichtliche Anordnungen beantragen können, deren Dienste von einem Dritten zur Verletzung des Urheberrechts genutzt werden. Die Haftung von Vermittlern (Störern) wird also bei den Sanktionen verortet, nicht aber bei den Tatbeständen der Verwertungsrechte. Im *McFadden-Urteil*⁴⁴ hat der EuGH im Übrigen die Rechtsprechung des BGH zur Störerhaftung im Ergebnis gebilligt und klargestellt, dass es den Vorgaben der E-Commerce-, der Durchsetzung- und InfoSoc-Richtlinie nicht widerspricht, wenn z.B. ein Access-Provider auf Unterlassung, zur Tragung von Gerichts- und Abmahnkosten verurteilt wird.⁴⁵

- 19 Nicht nur in vertragsrechtlicher, sondern auch

41 Z.B. *Jan Bernd Nordemann*, in *Fromm/Nordemann*, Urheberrecht, 12. Aufl. 2018, § 97 Rn. 144a.

42 Wenn der BGH in Rn. 97 f. der Entscheidung „Cordoba II“ (GRUR 2019, 813) das Gegenteil ausgedrückt haben sollte, würde er sich in einen Widerspruch zu der in Rn. 100, 106 geäußerten Auffassung setzen, die Störerhaftung begründe keine Haftung auf Schadensersatz.

43 Z.B. BGH GRUR 2013, 370 Rn. 19 – *Alone in the Dark*.

44 EuGH GRUR 2016, 1146 Rn. 72 ff.

45 Dazu eingehend *Leistner*, in *Schricker/Loewenheim*, Urheberrecht, 5. Aufl. 2017, § 97 Rn. 107 ff.

in haftungsrechtlicher Hinsicht müssen also die Tatbestände der Verwertungsrechte verletzungsfrei ausgelegt werden, damit Klarheit herrscht, was der Urheber erlauben und wofür er durch Verfügung über seine Erlaubnisrechte eine angemessene Vergütung aushandeln kann. Dieses Verfügungsrecht kann durch die Ausweitung der täterschaftlichen Haftung auf Störerfälle und Gewährung von *nachträglichen Schadensersatzansprüchen* nicht adäquat ersetzt werden. Das bedeutet allerdings nicht, wie der BGH in „Sommer unseres Lebens“⁴⁶ apodiktisch ausgeführt hat, dass Störer, die einen adäquat kausalen Beitrag zu einer unerlaubten fremden Urheberrechtsverletzung bei schuldhafter Verletzung ihrer Verkehrs- und Prüfpflichten gem. § 823 Abs. 1 BGB nicht auch zu Schadensersatzleistungen herangezogen werden könnten und sollten, um gem. §§ 249 ff. BGB die wirtschaftlich nachteiligen Folgen ihres jeweiligen Tatbeitrags für den Urheber zu kompensieren. Da sie aber keine Täter sind, kann ein gegen sie begründeter Schadensersatzanspruch nicht gemäß § 97 Abs. 2 S. 2 und 3 UrhG nach dem Gewinn des Störers oder nach der Lizenzanalogie berechnet werden. Urheber haben vielmehr das Recht, tatbestandsmäßige Handlungen zu erlauben oder zu verbieten, nicht aber mit Handlungen von Störern, die die Tatbestände der Verwertungsrechte nicht eigenhändig verletzen, Gewinne zu erzielen. Auch die Berechnung des Schadensersatzanspruchs gegen einen rechtswidrig und schuldhaft handelnden Störer nach der Lizenzanalogie ist nicht angebracht, weil dessen Handlung vernünftigerweise nicht sinnvoll lizenzierbar ist.

- 20 Als Zwischenergebnis ergibt sich aus den vorstehenden Erwägungen: Statt sich an dem Haftungsmodell des EuGH zu orientieren, sollte man vielmehr genau auf die Tatbestände der jeweiligen gesetzlich gewährten Verwertungsrechte und den erkennbaren Willen des europäischen Gesetzgebers blicken und fragen, was der Urheber im Einzelfall erlaubt, wenn er eine unter den Tatbestand fallende Handlung erlaubt, bzw. erlauben würde, wenn er sie erlaubt. Das europäische Recht gibt keine Handhabe, dessen tatsächlichen Willen mit normativen Erwägungen zu unterlaufen.⁴⁷ Die Klärung des jeweiligen Tatbestands ist Dreh- und Angelpunkt auch für Haftungsfragen. Erst wenn feststeht, dass ein Verwertungsrecht verletzt ist, stellt sich die davon unabhängige Frage,⁴⁸ wer in welchem Umfang für sie

46 BGH GRUR 2010, 633 Rn. 17 – *Sommer unseres Lebens*; ebenso BGH GRUR 2019, 813 Rn. 106 – *Cordoba II*.

47 So aber *Grünberger* ZUM 2019, 573, 577, gegen BGH GRUR 2016, 171 Rn. 35 – *Die Realität II*, *Ohly* GRUR 2018, 996, 1000, *ders.* GRUR Int. 2018, 517, 519 f.; vgl. auch *Haberstumpf* GRUR 2016, 763, 768 ff.

48 Vgl. *Hofmann*, *Der Unterlassungsanspruch als Rechtsbehelf*, 2017, S. 182 ff., der überzeugend darlegt, dass die Verwertungsrechte des Immaterialgüterrechts (Stammrechte) kategorial von den Rechtsfolgerechten (z.B.

einzustehen hat und welche konkreten Rechtsfolgen ihn treffen. Das europäische Recht hat in der Enforcement-RL 2004/48/EG und E-Commerce-RL 2000/31/EG hierfür einen rechtlichen Rahmen vorgegeben. Man kann zwar darüber streiten, ob er mit den strafrechtlich geprägten Begriffen Täter, Anstifter, Teilnehmer und Störer der deutschen Dogmatik ausreichend ausgefüllt ist.⁴⁹ Eine Abgrenzungslinie ist aber unausweichlich: Die primäre Haftung derjenigen, die allein oder zusammen mit anderen den Verletzungstatbestand eigenhändig verwirklichen und die die volle Härte des nationalen und europäischen Haftungsregimes trifft, und die sekundäre Haftung, denen diejenigen ausgesetzt sind, die nur einen kausalen Beitrag zur Rechtsverletzung leisten oder von ihr profitieren.⁵⁰ Beides kann nicht zusammenfallen.⁵¹ Wo die Grenzlinie im Einzelnen zu ziehen ist, ist jedoch nicht mehr Thema dieses Beitrages.

III. Urheberrecht im Internet

1. Das Recht der öffentlichen Zugänglichmachung

21 Die argumentativen Schwächen der EuGH-Rechtsprechung machen sich besonders beim Verteilungskampf im Internet bemerkbar, bei dem die Urheber und ihre lizenzierten Verwerter klar ins Hintertreffen geraten sind. Hier steht das Recht der öffentlichen Zugänglichmachung gem. Art. 3 Abs. 1, 2 InfoSoc-RL und des gleichlautenden § 19a UrhG im Vordergrund. Nach dem derzeitigen Stand der Technik wird es so ausgeübt, dass eine Person das Werk auf einer Webseite im Internet präsentiert, auf der es Internetnutzer durch Ansteuern dieser Webseite über ein drahtgebundenes oder drahtloses Kommunikationsnetz anschauen, anhören oder ggfs. von der aus sie es herunterladen, senden oder auf einer eigenen Webseite erneut öffentlich zugänglich machen können. Ebenso wie beim Senderecht spielt es für die Erfüllung des Tatbestands keine Rolle, ob es zum Aufruf der Webseite kommt.

Ansprüche nach §§ 97 ff. UrhG), die ihre Verletzung nach sich zieht, zu trennen sind.

49 Ausführlich dazu Jan Bernd Nordemann in Fromm/Nordemann, Urheberrecht, 12. Aufl. 2018, § 97 Rn. 144a, 150 ff.; Grünberger ZUM 2019, 281, 292 ff., unter Bezugnahme auf zwei Vorlagebeschlüsse des BGH GRUR 2018, 1239 – uploaded – und GRUR 2018, 1132 – YouTube. In seiner aktuellen Entscheidung „Cordoba II“ (GRUR 2019, 813 Rn. 107 ff.) hält der BGH jedoch an seiner traditionellen Rechtsprechung zu dieser Frage fest.

50 Ohly GRUR Int. 2018, 517, 519, 522, 525.

51 BGH GRUR 2018, 178 Rn. 60 ff. – Vorschaubilder III, m. Anm. Ohly.

22 Die Inhalte einer Internetseite werden in einer Seitenbeschreibungssprache niedergeschrieben, mit der üblicherweise auch Links gesetzt werden, die verschiedene Dateien mit der Webseite verknüpfen. Mit Links kann auf Dateien Bezug genommen werden, die auf eigenen Rechnern des Webseitenbetreibers gespeichert sind, aber auch auf Dateien, die sich auf fremden Rechnern befinden und mit einer fremden Webseite verknüpft sind. Im ersten Fall ist die Rechtslage eindeutig. Der Webseitenbetreiber, der auf diese Weise die Inhalte der miteinander verknüpften Dateien auf seiner Internetseite erscheinen lässt, macht sie den an das Internet angeschlossenen Mitgliedern der Öffentlichkeit als Teil seines eigenen Angebots zugänglich. Das ist der Standardfall des Rechts der öffentlichen Zugänglichmachung. Im zweiten Fall stellt sich dagegen die Frage, ob der Webseitenbetreiber, der auf die Inhalte einer anderen Internetseite verweist, diese *erneut* öffentlich zugänglich macht und dafür eine gesonderte Erlaubnis des Rechtsinhabers benötigt. Diese Grundfrage ist bis heute nicht befriedigend gelöst. Im Paperboy-Urteil⁵² hat der BGH sie mit der Begründung verneint, dass der Link nur die Funktion eines technischen Verweises auf die schon zugänglich gemachten Inhalte der fremden Webseite habe. Da hatte er Links im Auge, die z.B. in den Linklisten von Suchmaschinen erscheinen. Anders hat er jedoch die Fälle beurteilt, in denen der den Link setzende Webseitenbetreiber aus objektiver Sicht sich die fremden Inhalte zu Eigen macht, indem er nach außen sichtbar die inhaltliche Verantwortung für sie übernimmt, beispielsweise sich umfassende Nutzungsrechte an ihnen einräumen lässt und Dritten anbietet, diese Inhalte kommerziell zu nutzen.⁵³

2. Verlinkung auf frei zugängliche Internetseiten

23 Der EuGH sieht das anders. Er unterscheidet nicht zwischen offen verweisenden Links, wie sie vor allem Suchmaschinen verwenden und die zum „guten Funktionieren des Internets beitragen“⁵⁴, und verdeckten Links, durch die beispielsweise mittels der Technik des Framing Inhalte fremder Webseiten in die Webseite des zweiten Betreibers so eingebettet werden, dass sie Teil seines eigenen Angebots werden. Das Setzen von Hyperlinks auf eine Webseite zu einem geschützten Werk, das mit der Erlaubnis des Rechtsinhabers auf einer anderen Webseite ohne Zugangsbeschränkungen, d.h. frei zugänglich, gemacht wurde, stelle keine öffentliche Wiedergabe dar, weil kein neues Publikum erreicht

52 BGH GRUR 2003, 958, 962.

53 BGH GRUR 2010, 616 Rn. 21 ff. – marions-kochbuch.de.

54 So EuGH GRUR 2018, 911 Rn. 40 – Renckhoff (Cordoba).

werde.⁵⁵ Ein solcher Schluss könne jedoch nicht gezogen werden, wenn eine solche Erlaubnis fehle. Nach der schon erwähnten Entscheidung des EuGH „GS Media/Sanoma“⁵⁶ erfülle in diesen Fällen der Linksetzer den Tatbestand des Rechts, wenn er wisse oder vernünftigerweise nicht wissen könne, dass das betreffende Werk auf der Zielwebseite ohne Erlaubnis des Rechtsinhabers veröffentlicht worden sei. Bei Linksetzern, die eine Gewinnerzielungsabsicht verfolgen, sei zu vermuten, dass sie diese Kenntnis hätten, bei Einzelpersonen dagegen nicht. Abgesehen davon, dass es an einer empirischen Basis fehlt, die beide Vermutungen stützen könnten – Einzelpersonen wissen oft sehr genau, wo sich die unerlaubten Inhalte befinden und greifen gezielt darauf zu –, leidet das Argument des EuGH an dem grundlegenden Denkfehler, der schon in der Entscheidung „Football Association Premier League“ zu konstatieren war. Ein Urheber, der einer bestimmten Person erlaubt, sein Werk in bestimmter Weise zu verwerten, erlaubt nicht anderen Personen, dasselbe zu tun. Wenn er einem Sendeunternehmen gestattet, Sendesignale, die sein Werk enthalten, auszustrahlen, dann gestattet er den Empfängern nicht, das Werk in derselben Weise weiterzusenden (Art. 11^{bis} Abs. 1 Nr. 2 RBÜ) oder sonstwie zu nutzen. Und das kann für das Recht der öffentlichen Zugänglichmachung nicht anders sein. Jede Internetseite ist zwar von allen ans Netz angeschlossenen Nutzern aufrufbar. Das heißt aber nicht, dass das Angebot eines bestimmten Webseitenbetreibers alle ans Netz angeschlossenen Nutzer anspricht und faktisch erreicht. Anbieter von Inhalten im Netz konkurrieren nämlich miteinander und sprechen je nach Ausrichtung, Attraktivität, Beliebtheit usw. unterschiedliche Personenkreise mit unterschiedlichen Nutzergewohnheiten an. Wenn ein Urheber gegen Vergütung einem Anbieter im Internet das Recht einräumen will, es auf seiner Webseite öffentlich zugänglich zu machen, können sie deren Höhe deshalb nicht an der Gesamtheit der Internetgemeinschaft orientieren, sondern nur im Hinblick auf die Personenkreise und deren Nutzergewohnheiten kalkulieren, die der zu lizenzierende Verwerter voraussichtlich erreicht. Diejenigen Personenkreise, die andere Webseitenbetreiber durch Einbettung erlaubter fremder Webseiteninhalte in das eigene Angebot erreichen, bilden deshalb stets ein neues Publikum mit der Folge, dass sie eine gesonderte Erlaubnis des Urhebers benötigen. Der BGH hat dementsprechend in der Entscheidung „Die Realität II“⁵⁷ dem Urheber mit Recht die Befugnis zugesprochen, seine Erlaubnis auf die Webseite seines Lizenznehmers

zu beschränken.

- 24 Mit seiner Rechtsprechung zur Linksetzung ermöglicht es der EuGH dagegen insbesondere den großen Akteuren, das Netz systematisch nach frei zugänglichen Internetseiten zu durchsuchen, geschützte Inhalte, deren Veröffentlichung der Urheber ohne Zugangsbeschränkungen erlaubt hat, in ihr eigenes Angebot zu integrieren, damit Gewinne zu machen und den lizenzierten Webseitenbetreiber womöglich wirtschaftlich zur Seite zu drücken, sodass Urheber und sein Verwerter im Netz nichts mehr verdienen. Im Ergebnis führt der EuGH entgegen Art. 3 Abs. 3 InfoSoc-RL den Erschöpfungsgrundsatz ein, verfehlt die in Erw. grd. 10 formulierte Zielsetzung der InfoSoc-RL und missachtet den grundgesetzlich garantierten Kern des geistigen Eigentums von Urhebern, indem er ihnen weitgehend die Möglichkeit nimmt, die wirtschaftliche Nutzung ihrer geschützten Leistungen im Internet zu steuern und eine angemessene Beteiligung an ihrer wirtschaftlichen Nutzung sicherzustellen.

3. Die Entscheidung des EuGH „Renckhoff (Cordoba)“

- 25 In diesem Zusammenhang lässt allerdings die neueste Entscheidung des EuGH vom 7. Aug. 2018 „Renckhoff (Cordoba)“⁵⁸ aufhorchen. Sie erging auf Vorlagefragen des BGH⁵⁹ und betrifft folgenden Sachverhalt: Eine Schülerin hatte eine Fotografie von einer ohne Zugangsbeschränkungen versehenen Webseite, wo es mit Zustimmung des Rechtsinhabers veröffentlicht war, in einem Referat verwendet, dieses auf einem eigenen Rechner und dem Schulserver kopiert und das Referat auf die Webseite der Schule eingestellt. Der BGH hatte gemeint, dass die Schülerin den Tatbestand des § 19a UrhG verwirklicht und der Träger der Schule, gegen den die Klage des Fotografen gerichtet war, gem. § 99 UrhG mithaftet.⁶⁰ Dieser Beurteilung stimmte der EuGH mit der bemerkenswerten Begründung zu, dass sich mit der Erlaubnis des Fotografen sein Recht nach Art. 3 Abs. 1 InfoSoc-RL nicht erschöpft habe. Die Schülerin erreiche damit auch ein neues Publikum, weil das Publikum, an das der Rechtsinhaber gedacht habe, als er die Wiedergabe auf der ursprünglichen Webseite erlaubt habe, „nur aus den Nutzern dieser Webseite und nicht aus den Nutzern der Webseite bestehe, auf der das Werk später ohne Zustimmung des Rechtsinhabers eingestellt worden

55 EuGH GRUR 2014, 360 Rn. 24 und 31 – Svensson/Retriever Sverige; EuGH GRUR 2014, 1196 – BestWater International; EuGH GRUR 2017, 610 Rn. 48 – Filmspeler.

56 EuGH GRUR 2016, 1152 Rn. 44 ff.

57 BGH GRUR 2016, 171 Rn. 35.

58 EuGH GRUR 2018, 911; ihm folgend BGH GRUR 2019, 813 Rn. 33 ff. – Cordoba II.

59 BGH GRUR 2017, 514 – Cordoba I.

60 Dazu ausführlich BGH GRUR 2019, 813 Rn. 70 ff. – Cordoba II.

sei, oder sonstigen Internetnutzern“.⁶¹ Damit bestätigt der EuGH zunächst, dass die Erlaubnis zur Veröffentlichung des Werkes auf einer frei zugänglichen Webseite andere Beteiligte nicht dazu berechtigt, dasselbe zu tun. Seine anderslautende vorherige Rechtsprechung zur Linksetzung sei auf diesen Fall allerdings nicht anwendbar, weil die Schülerin das strittige Bild vorher auf ihrem privaten Server und dem Schulserver vervielfältigt und dann auf die Webseite der Schule eingestellt habe. Sie habe eine entscheidende Rolle bei der Wiedergabe des Werkes für ein neues Publikum gespielt.⁶² Die Reaktionen im deutschen Schrifttum sind positiv,⁶³ was wenig verwunderlich ist. Denn das Verhalten der Beteiligten bildet gerade den Standardfall, für den aus der Sicht des Urhebers das Recht des § 19a UrhG geschaffen wurde. Wer wie die Schülerin ein von ihr geschaffenes Werk im Internet verbreiten will, kann dies natürlich über eine eigene Internetseite tun oder einem Webseitenbetreiber das Werk überlassen und ihm erlauben, es öffentlich zugänglich zu machen. Im vorliegenden Fall hatte die Schülerin womöglich auf Anregung oder Veranlassung ihres Lehrers die Webseite ihrer Schule gewählt; sie hätte sich aber z.B. auch für die Plattformen Twitter oder YouTube entscheiden und ihnen nach deren Geschäftsbedingungen entsprechende unentgeltliche Nutzungsrechte einräumen können. Was die strittige Fotografie angeht, war sie jedoch nicht Inhaberin eines Nutzungsrechts nach § 19a UrhG, so dass sie es der Schule oder einem anderen Webseitenbetreiber nicht übertragen oder einräumen konnte.

- 26 Dem Ergebnis, dass hier eine öffentliche Zugänglichmachung vorgenommen wurde, wird man sicherlich zustimmen können. An der Vorlagefrage des BGH, der Antwort des EuGH und der Reaktion des BGH auf diese ist jedoch zu kritisieren, dass beide die Schülerin als Täterin der Verletzungshandlung am Recht des Fotografen nach Art. 3 Abs. 1 InfoSoc-RL bzw. § 19a UrhG ansehen und die Schule als Betreiberin der Webseite nur als Störer daneben haften lassen wollen, weil in diesem Spezialfall mit § 99 des deutschen UrhG eine Zurechnungsnorm besteht, die Unternehmer und Auftraggeber für rechtswidrige Verletzungshandlungen ihrer Arbeitnehmer und Beauftragten einstehen lässt. Hätte die Schülerin ihr Referat dagegen auf einer der genannten Internetplattformen veröffentlicht und vorher auf deren Rechnern gespeichert, gibt es keine entsprechende Zurechnungsnorm. Man müsste sie deshalb als alleinige Täterin⁶⁴ einstufen mit der Folge, dass der Fotograf sich nur an sie

hätte wenden können, um seinen Anspruch auf angemessene Vergütung im Internet und Zahlung von Schadensersatz⁶⁵ zu verwirklichen. Für den Rechtsinhaber ist dieses Ergebnis wenig attraktiv, da er zur Durchsetzung seines Rechts sich an die normalerweise wirtschaftlich schwächste Partei unter den Beteiligten halten müsste. Er läuft ferner Gefahr, dass er die Schülerin nicht zwingen könnte, seine Fotografie vom Schulserver und von der Schulwebseite bzw. vom Server und der Webseite der gewählten Internetplattform zu entfernen; denn darüber hat sie keine Kontrolle. Er wird sich deshalb vernünftigerweise, wie im vorliegenden Fall auch geschehen, primär an den Webseitenbetreiber wenden, ihn zur Sperrung seines geschützten Werkes auffordern und versuchen, ihn auf Schadensersatz in Anspruch nehmen.

- 27 Die Schülerin als primäre Verletzerin des Rechts der öffentlichen Zugänglichmachung haften zu lassen, überzeugt aber auch in urhebervertragsrechtlicher Hinsicht nicht. Wer nämlich als Nichtberechtigter über bestimmte urheberrechtliche Nutzungsrechte rechtsgeschäftlich verfügt, nimmt die darunterfallenden Handlungen nicht selbst vor⁶⁶, sondern der Erlaubnisempfänger, wenn er die vermeintlich erlaubten Handlungen vollzieht. So liegt es fern, allein den Autor eines Sprachwerks wegen Verletzung des Verbreitungsrechts heranzuziehen, wenn er einem Verleger ein Manuskript mit unzulässigen Zitaten oder Abbildungen aus anderen Werken überlässt und ihm erlaubt, es in Buchform zu verbreiten. Es spricht nichts dafür, bei der Verbreitung von Werken im Internet durch Webseitenbetreiber anders zu verfahren. Denn diese haben die Kontrolle darüber, welche Inhalte als Teil ihres Angebots auf ihren Seiten erscheinen und benötigen ein entsprechendes Nutzungsrecht bzw. eine Erlaubnis des Rechtsinhabers. Und das trifft im Fall „Cordoba“ auf die Schule zu, die im eigenen Interesse eine eigene Webseite betreibt, um die Schule und ihre Einrichtungen im Internet zu präsentieren und u.a. auch mit Leistungsergebnissen ihrer Schüler und Schülerinnen für sich zu werben.
- 28 Mit diesen Überlegungen lässt sich somit bereits auf der Grundlage des geltenden europäischen Rechts rechtfertigen, Urhebern gegenüber Inhaltsweitergabediensten wie YouTube, Twitter, Facebook und Co., die von ihren Nutzern auf ihren Webseiten mit oder ohne vorherige Speicherung eingestellte Werke öffentlich zugänglich machen, einen unmittelbaren Anspruch auf angemessene Vergütung zuzubilligen und sie als Täter für Urheberrechtsverletzungen unmittelbar in Haftung zu nehmen, wenn sie dies ohne gesonderte

61 EuGH GRUR 2018, 911 Rn. 35 – Renckhoff (Cordoba).

62 EuGH GRUR 2018, 911 Rn. 46 – Renckhoff (Cordoba).

63 Grünberger ZUM 2019, 281, 289; Ohly GRUR 2018, 996; Hofmann ZUM 2018, 641, 645.

64 So BGH GRUR 2019, 813 Rn. 109 – Cordoba II.

65 BGH GRUR 2019, 813 Rn. 93, 100 – Cordoba II.

66 BGH GRUR 1999, 152, 154 – Spielbankaffäre; BGH GRUR 1999, 579, 580 f. – Hunger und Durst.

Erlaubnis des Rechtsinhaber tun. Diese Lösung hat insbesondere den Vorteil, dass Urheber, die Webseitenbetreibern das Zugänglichmachen ihrer Werke erlauben, einen unabhängigen Anspruch auf Anpassung der vereinbarten Vergütung gemäß § 32 Abs. 1 S. 3 und 32a Abs. 1 UrhG haben, wenn diese hinter der angemessenen zurückbleibt und in ein auffälliges Missverhältnis zu den Erträgen und Vorteilen aus der Nutzung durch den Lizenznehmer gerät. Die neue Richtlinie über das Urheberrecht im digitalen Binnenmarkt trägt dem mit ihrer am heftigsten umstrittenen Vorschrift des Art. 17 Abs. 1 bis 3 Rechnung,⁶⁷ drückt insoweit nur eine urheberrechtliche Selbstverständlichkeit aus und sieht in den Art. 18 und 20 Ansprüche auf Anpassung der Vergütung vor, die im deutschen Recht mit den §§ 32 ff. UrhG bereits vorgenommen worden sind. Bei der Umsetzung der neuen Richtlinie wird es somit darauf ankommen, die bereits vorhandenen lizenzrechtlichen Instrumente soweit zu ertüchtigen, dass Internetplattformen für ihr großes Repertoire an geschützten Werken und Leistungen leicht die erforderlichen Nutzungsrechte gegen angemessene Vergütung erwerben können, sodass sich die Verwendung von kostenaufwendigen und fehlerhaften Upload-Filtern, deren Einrichtung weder im Interesse der Nutzer noch der Plattformen steht, erübrigt.

4. Konsequenzen für die Zulässigkeit von Links auf Inhalte fremder Webseiten

29 Im Renckhoff-Urteil lehnt der EuGH es ab, Konsequenzen für die Frage zu ziehen, wann ein Webseitenbetreiber, der einen Link auf die Inhalte einer frei zugänglichen Webseite setzt, eine gesonderte Erlaubnis des Urhebers benötigt. Da er das bisher verwendete Hauptargument, der Linksetzer erreiche damit kein neues Publikum, nicht mehr aufrecht erhält, sieht er jetzt den entscheidenden Unterschied darin, dass der Urheber sein Werk von der ursprünglichen Webseite entfernen könnte, so dass der Link ins Leere geht, während im entschiedenen Fall das von der frei zugänglichen Webseite bezogene Foto auf dem Schulserver gespeichert blieb.⁶⁸ Dieses Argument überzeugt aus mehreren Gründen nicht. Dass es nicht stimmt, ergibt folgende Kontrollüberlegung. Hätte die Schülerin die fragliche Fotografie nicht auf ihrem Rechner und dem Schulserver gespeichert, sondern mittels eines verdeckten Links direkt auf die fremde Webseite verwiesen, wäre das Ergebnis dasselbe geblieben. Sie und die Schule hätten dann aber nach

der Entscheidung des EuGH „GS Media/Sanoma“ keine öffentliche Wiedergabe vorgenommen, da beide ohne Gewinnerzielungsabsicht handelten. Geht man davon aus, müsste in jedem Fall, in dem ein Webseitenbetreiber bzw. eine Inhaltsplattform in Anspruch genommen wird, positiv geklärt werden, dass der beanstandete Inhalt nicht durch Verlinkung in das eigene Webseitenangebot eingebettet wurde, sondern vorher auf einem eigenen Server dauerhaft abgespeichert war oder ist.

30 Die Rechtsprechung des EuGH zur Frage der Linksetzung zwingt den Urheber und seinen Internetverwerter dazu, das Werk vom Netz nehmen, wenn sie nicht wollen, dass andere Webseitenbetreiber es in ihr Angebot einverleiben. Dann sind sie allerdings nicht mehr im Netz präsent, was nicht ihrem Interesse entspricht. Um ihre wirtschaftlichen Interessen im Internet zu wahren, bietet ihnen der EuGH als Alternative das Geschäftsmodell an, das Werk auf einer mit Zugangsbeschränkungen versehenen Webseite ggfs. gegen Entgelt zu präsentieren.⁶⁹ Dann laufen sie allerdings Gefahr, dass das Werk in geringem Maße zur Kenntnis genommen wird und sie Nachteile gegenüber anderen Rechtsinhabern und Webseitenbetreibern befürchten müssen, die ihre Werke ohne Zugangsbeschränkungen im Netz unentgeltlich veröffentlichen und sich auf andere Weise finanzieren, so dass sie häufig aus Konkurrenzgründen mit ihnen gleichziehen müssen, um im Netz präsent zu bleiben. Für welche Alternative sie sich auch entscheiden, es läuft auf dasselbe hinaus: Urhebern und ihren lizenzierten Verwertern wird weitgehend die Möglichkeit genommen, eine angemessene Vergütung sichern zu können. Es ist schlichtweg nicht akzeptabel, dass Webseitenbetreiber das Netz systematisch nach frei zugänglichen Webseiten durchsuchen, die passenden Inhalte durch Verlinkung in ihr eigenes Angebot inkorporieren, mit Werbeeinnahmen und dem Verkauf von Nutzerdaten immense Gewinne erzielen können, ohne die betroffenen Rechtsinhaber daran beteiligen zu müssen. Linksetzer, die auf diese Weise vorgehen, benötigen daher stets eine gesonderte Erlaubnis der Rechtsinhaber und müssen eine angemessene Vergütung zahlen, weil sie jeweils ein neues Publikum ansprechen, gleichgültig, ob auf den fremden Webseiten geschützte Werke mit oder ohne Zustimmung der Urheber bereit gehalten werden. Gegenüber anderen Webseitenbetreibern, die ihre Inhalte mit Dateien auf eigenen Rechnern verknüpfen, ersparen sie sich zusätzlich, eigene Rechnerkapazitäten vorzuhalten, sodass sie besonders kostengünstig arbeiten können.

⁶⁷ Dazu Hofmann ZUM 2019, 617 ff.; Dreier GRUR 2019, 771, 776 ff. Von einem Paradigmenwechsel zu sprechen (Wandtke/Hauck ZUM 2019, 627, 636), scheint deshalb stark übertrieben zu sein.

⁶⁸ Zustimmung Grünberger ZUM 2019, 281, 291.

⁶⁹ Grünberger ZUM 2019, 281, 290, ebenso Schubert ZUM 2018, 726, 727 f., halten dies dagegen ohne Weiteres für zumutbar.

31 Daraus resultiert allerdings die Frage, wann im Einzelfall ein Linksetzer die fremden Inhalte in sein eigenes Webseitenangebot inkorporiert. Hierzu hat der BGH in der zitierten Entscheidung „marions-kochbuch.de“ bereits die wesentlichen Hinweise gegeben. Er macht sich die fremden Inhalte wirtschaftlich zu Eigen, wenn er etwa in seinen Nutzungsbedingungen nach außen hin sichtbar deutlich macht, die Kontrolle über die auf seiner Webseite erscheinenden Inhalte auszuüben, sich vertraglich bereit erklärt, im Fall einer Urheberrechtsverletzung sie von der Webseite zu entfernen, sich umfassende Nutzungsrechte einräumen lässt und seinen Kunden seinerseits Nutzungsbeschränkungen auferlegt.⁷⁰ Das ist dagegen nicht der Fall, wenn Suchmaschinen auf ihren Webseiten Linklisten bereithalten und mit Wort- oder Tonfetzen und verkleinerten Vorschaubildern nur andeuten, welche Inhalte die nachgewiesenen Webseiten haben.⁷¹ Das ist ebenfalls nicht der Fall, wenn Internetdienste und Plattformen nur den technischen Zugang zu den Kommunikationsnetzen vermitteln (sog. Accessprovider), Speicherplätze zur Verfügung stellen (sog. Hostprovider) oder die technische Infrastruktur bereitstellen und für die Übermittlung von Inhalten im Netz sorgen. In diesen Fällen machen sie die geschützten Inhalte nicht selbst öffentlich zugänglich und müssen daher keine angemessene Vergütung an die Rechtsinhaber zahlen. Dies schließt natürlich nicht aus, dass sie im Einzelfall als Störer oder Teilnehmer an fremder Urheberrechtsverletzung deliktisch auf Unterlassung, Beseitigung ihres Beitrags und Schadensersatz deliktisch haftbar sind.

C. Fazit

32 Als Fazit ist festzuhalten: Die Rechtsprechung des EuGH zum Recht der öffentlichen Wiedergabe krankt daran, dass sie dieses Recht nur unter dem Gesichtspunkt der Haftung betrachtet und seine vertragsrechtlichen Implikationen vernachlässigt. Diese Haltung ist damit erklärlich, dass das Urhebervertragsrecht bislang nicht harmonisiert war. Wenn durch die neue Richtlinie zum Urheberrecht im Binnenmarkt diese Lücke geschlossen wird, wird sich der EuGH bei der Auslegung der Verwertungsrechte entsprechend anpassen müssen. Einen kleinen Schritt in diese Richtung hat er mit der Entscheidung „Renckhoff (Cordoba)“ inzwischen getan.

⁷⁰ So z.B. Nr. 8.2, 8.4, 10, 6.1 der Nutzungsbedingungen von YouTube (Stand 10.5.2019) und Nr. 3 und 4 der Allgemeinen Geschäftsbedingungen von Twitter.

⁷¹ So BGH GRUR 2010, 628 Rn. 33 ff. – Vorschaubilder I; ebenso im Ergebnis BGH GRUR 2018, 178 Rn. 76 ff. – Vorschaubilder III.

Game-theoretical Model on the GDPR

Market for Lemons?

by **Tim Zander, Anne Steinbrück and Pascal Birnstill***

Abstract: In order to evaluate the regulatory effects of the GDPR on the institution of privacy as a public good, a data protection law and economic perspective should be applied. Conveying an economic point of view on the GDPR, we include a game-theoretical model on the rights and duties arising out of the GDPR in order to clarify the possible game-theoretical strategies and discuss the compensatory mechanisms for the problem of asymmetric information between the data controller and the data subject. Furthermore, we point out the concepts of control and the legal construction of “data ownership” as an unsatisfying concept. The fact that services within

the scope of the GDPR can rewrite their privacy policies and afterwards request the users’ consent or otherwise lock them out of the service causes undue pressure on the data subject. The recent decision of the Federal Cartel Office of Germany disputed this behaviour and imposed far-reaching restrictions on Facebook. Thus, elements of the GDPR have begun to fall within the remit of competition law and the question of effective regulatory compensation regarding the economic effects in privacy should be addressed. In general, the measurement of privacy risks seems to be the first reasonable step towards empowering actors to make effective decisions.

Keywords: EU-Privacy; game-theory; GDPR; justification of data processing; information asymmetry; adverse selection; network effect; lock-in effect

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A. Introduction

1 The EU General Data Protection Regulation (GDPR) reflects a harmonised legal approach towards data protection law and the protection of personal data and privacy based on Art. 7, 8 EU-Charter in the European Union. The effectiveness of this Regulation remains to be subject to scrutiny. In general, the concept of privacy is linked to the idea of the *control* of private information¹ as the wording of recital

7 S. 2 GDPR states, “control of their own personal data”. The question is, whether individuals have full control over their privacy or – if they wish to do so – can economically exploit their own personal data with the effect of a general disclosure of the common good *privacy*?² By taking a similar line of argument as *Anderson*,³ who argues against the control concept on privacy, we reach the conclusion that markets of data processing might suffer from adverse

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1 Laura Brandimarte, Alessandro Acquisti and George Loewenstein, ‘Misplaced Confidences: Privacy and the

Control Paradox’ (2013) 4 Social Psychological and Personality Science 340.

2 Yoan Hermstrüwer, *Informationelle Selbstgefährdung* (Mohr Siebeck 2016) 134–38; Joshua AT Fairfield and Christoph Engel, ‘Privacy as a Public Good’ (2015) 65 Duke Law Journal 385.

3 Ross Anderson, ‘Why Information Security Is Hard-an Economic Perspective’, *Computer security applications conference, 2001. Acsac 2001. Proceedings 17th annual (IEEE 2001)*.

selection due to network effects. Considering the risk-based approach in Art. 25, 32 GDPR, the question of quantified and qualitative measurement of data processing risks arises and requires the application of an interdisciplinary approach towards the phases of data processing. Thus, the game-theoretical model on the GDPR should be differentiated in four phases based on the life-cycle of data processing. With this analysis we provide a method for understanding the different levels of information players acquire during the life-cycle and the foundations of the decision-making process by the participating players.

B. Game-theoretical model on the GDPR

- 2 The general idea of the game-theoretic model is that the rules of the game are already implicitly defined in the GDPR. *Hermstrüwer* applied game-theoretic modelling in order to analyse the effectiveness of the GDPR in his dissertation.⁴ However, the approach taken in the following article will point out the regulatory effects from a different angle. The model will be defined as an extensive-form game. The extensive-form means that the players carry out their actions in the game in a specific sequence. We can draw a finite extensive-form game as a tree (see for example Figure 1), where at each node a certain player has to take action and at the end of the sequence each player will receive a certain pay-out depending on the leaves as ends of the game-theoretical sequences. An important concept in game-theoretical modelling is the notion of information sets each player has. An information set is a set of nodes, which the player cannot distinguish, i.e. they do not know which actions have been taken by the other players. We can also take the beliefs of the players into account and extend the model to a dynamic Bayesian game. The players then will have beliefs about the likelihood of damages in the actual state of the game with each information set.
- 3 Games have certain types of feasible solutions, the so-called Nash-Equilibria. A Nash-Equilibrium can be seen as a stability point of the potential strategies of the players in the game, where no player has the incentive to deviate from his strategy. In the extensive-form games, where sequential actions are taken, the fact that players can change their strategy within the game has to be taken into account. The notion of Nash-Equilibrium is refined for this to subgame-perfect equilibria, or in the Bayesian-case perfect Bayesian equilibria, which are also Nash-Equilibria for every subgame.⁵

- 4 We will start defining the extensive-form game with the players. Players are of two general classes: the data subjects “D” and the controller and processor of a service “C”. It would also be reasonable to include the supervisory authorities as players, but we omit this for the sake of simplicity. This is in line with the view of new institutional economics,⁶ where the GDPR sets the rules of the game and the supervisory authorities would ensure their application rather than participating in the game, Art. 57 GDPR. Moreover, there are several supervisory authorities which may act differently as the GDPR leaves room for certain specification by the member states. The game is then divided into several phases. First, the preparation of the processing of personal data by C (B.I.), then the decision on consent and usage (B.II.), afterwards data processing under new circumstances (B.III.) will be analysed, and finally the rights of D (B.IV.) will be modelled.

I. Phase 1: Preparing the processing of personal data

- 5 To explain the basic action spaces in the game, we assume at this stage that there is only one controller and processor – C – and that they offer exactly one service. Furthermore, we assume that there is only a single data subject – D. The game starts with C setting the purpose for data processing with a service and the level of data protection to be implemented according to the state of the art, Art. 5, sec. 1 b), 25 GDPR. As the options are endless, we assume that for simplicity they have three options to set up the purpose and the level of protection, Art. 5 sec. 1 d), e), 25 GDPR.
- 6 Thus, C has to choose one of the following options:
 1. A very restricted purpose beyond what is needed to satisfy the GDPR;
 2. a purpose such that it just satisfies the GDPR; or
 3. a very broad purpose such that it breaches the rules of the GDPR.
- 7 Then C has to decide the degree to which he will implement data protection according to the state of the art:
 1. A high level of protection beyond what is needed to satisfy the GDPR;
 2. a medium level of protection such that it just

⁴ Yoan Hermstrüwer, *Informationelle Selbstgefährdung* (Mohr Siebeck 2016).

⁵ Roger B Myerson, *Game Theory* (Harvard University Press

2013).

⁶ Douglass C North, ‘Institutions, Transaction Costs and Economic Growth’ (1987) 25 *Economic Inquiry* 419.

satisfies the GDPR; or

3. a low level of protection such that it breaches the rules of the GDPR.
- 8 In general, it might be questioned whether C will optimise towards the best protection and a very restricted purpose due to the advantage of possibly discovering opportunities for financial profits with further data processing. At the same time, C will have the interest to reduce the risk of sanctions and a negative reputation. However, in case of a high-risk data processing, Art. 32 GDPR, a data protection impact assessment has to be implemented and executed. This includes the risk-based approach stating that C has to evaluate the risk of data processing regarding the rights and freedoms for natural persons in order to meet the necessary technological and organisational requirements, Art. 25 GDPR.
- 9 Due to the principle “*prohibition subject to approval*” in the GDPR, the processing of personal data requires the justification by C. Legitimised processing and the justification by C can be in particular based on:
 1. Requesting the consent of the data subject, Art. 6 sec. 1 a) GDPR;
 2. data processing is necessary for performance of a contract (e.g. terms of use), Art. 6 sec. b) GDPR; or
 3. data processing is necessary for the purposes of a legitimate interest, Art. 6 sec. f) GDPR.
- 10 These grounds of legitimisation shall be a matter of documentation, Art. 5 sec 2 GDPR, and cannot be applied together.⁷ Thus, the decision regarding legitimate grounds requires a diligent calibration of the risk involved with the processing as a compliance step.⁸ From this point of view one might argue that the risk-based approach thus weakens the principle “*prohibition subject to approval*”,⁹ as the review of the calibration might more easily lead to a justification based on the legitimate interest, Art. 6 sec. 1 f) GDPR, rather than applying legal grounds or requesting consent.

- 11 Consequently, C has to set up a privacy policy, Art. 12, 13 GDPR. Again, the model should be simplified by assuming that the players choose *write one and tell the truth*, *write one and not tell the truth*, or *do not write one at all*. If they choose to write the privacy policy, they again have a simplified choice to inform D about the purpose and the rights in a concise, easily accessible and understandable manner, recital 58, 59 GDPR:
 1. in a clear and plain language such that it is very easy to understand;
 2. in such a fashion that it just satisfies the GDPR; or
 3. in such a way that it is not in compliance with the GDPR.
- 12 Here again C is likely to optimise the privacy policy in a manner to avoid possible sanctions and deterrence of D, instead of simply providing a privacy policy with a clear and plain language.¹⁰

II. Phase 2: Decision on consent or usage

- 13 The next decision by D is to *read* or *not to read*, and whether to *consult other sources* and then *confirm* or *decline* the privacy policy of the service. It is argued that serious costs might be associated with reading privacy policies, so it might be a reasonable decision by D in the game to not read the policy at all and either give the consent or not.¹¹ If D declines to consent to the privacy policy of the service, at a later sequence of the game D might provide the consent. In the decision process D might reflect the consent process and might also try to anticipate the value of the service as well as the associated risks, recital 39 GDPR. In general, the process of considering the consent by D is characterised by the informational asymmetry towards C.¹² Consequently it is impossible for D to foresee the risks regarding his privacy in the data life-cycle, as the privacy impact assessment is likely to be treated as a company secret and not as a matter of publication. Therefore, the likelihood of non-compliance with the GDPR rules seems to be an everyday risk that D has to accept. Thus, the

7 Winfried Veil, ‘Einwilligung oder Berechtigtes Interesse?: Datenverarbeitung Zwischen Skylla Und Charybdis’ (2018) 71 Neue Juristische Wochenschrift 3337.

8 Claudia Quelle, ‘Enhancing Compliance Under the General Data Protection Regulation: The Risky Upshot of the Accountability- and Risk-Based Approach’ (2018) 9 European Journal of Risk Regulation 502.

9 Winfried Veil, ‘DS-GVO: Risikobasierter Ansatz Statt Rigides Verbotprinzip-Eine Erste Bestandsaufnahme’ (2015) 5 Zeitschrift für Datenschutz 347.

10 In the model depicted in Figure 1, we further simplify this by assuming that C tells the truth or does not write a privacy policy at all.

11 Omri Ben-Shahar, ‘The Myth of the ‘Opportunity to Read’ in Contract Law’ (2009) 5 European Review of Contract Law 1; Aleecia M McDonald and Lorrie Faith Cranor, ‘The Cost of Reading Privacy Policies’ (2008) 4 Journal of Law and Policy for the Information Society 543.

12 Yoan Hermstrüwer, ‘Contracting Around Privacy: The (Behavioral) Law and Economics of Consent and Big Data’ (2017) 8 JIPITEC 9.

consent might actually qualify as a *reluctant consent*.¹³ Assuming that the player D decides to consent and use the service, this has value for C as value might be generated through processing the personal data or the service might be acquired by another player.

14 On this basis the first game tree (Figure 1) includes the decision on the consent based on the information D received regarding the privacy policy or a prior data breach. The action of consent in the game-theoretical model consequently is the result of the reputation, the publicly available information and actions of C; namely, the information and the purpose for the processing. In general, due to the informational asymmetry D is likely to be limited in the evaluation of the potential risks.

1. Notification of a personal data breach influencing the decision

16 In case of a data breach, which can be modelled as a random event in the game (move by nature, see Figure 1), C has to notify the data breach to the supervisory authority without undue delay, Art. 33 sec. 1 GDPR. Also, C shall comprehensively document all facts of the personal data breach and in case the data breach causes a high risk to the rights and freedoms of natural persons, C shall communicate the data breach to D, Art. 34 sec. 1 GDPR, otherwise they may face fines. This mechanism also works to some extent against the information asymmetry between C and D. From our game-theoretic model (see Figure 1) we can draw the conclusion that the

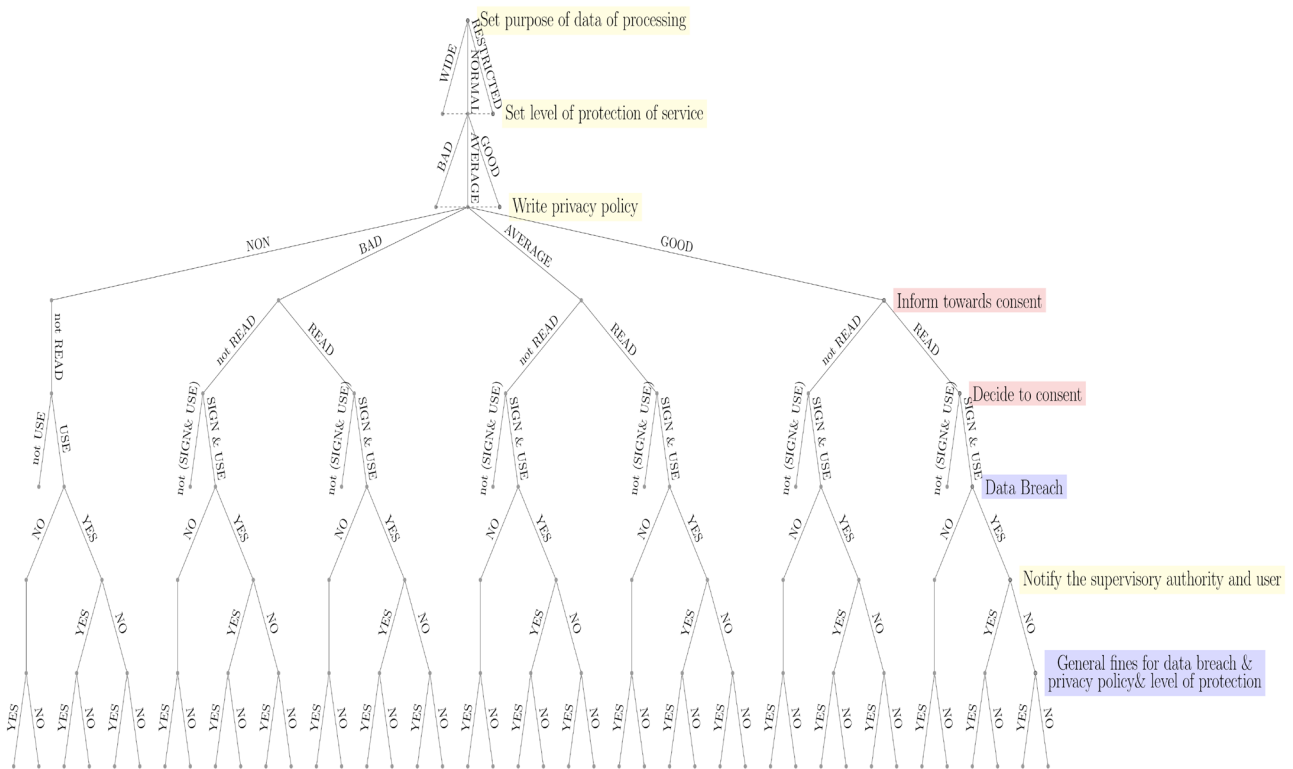


Figure 1: This depicts a further simplified game tree of the introduced model. Yellow belongs to C, red to D and blue is a move by nature.

15 In order to clarify that information regarding a data breach of C might not influence the decision-making process of D, it should be assumed from now on that multiple Ds are participating in the game.

compliance with this procedure can depend on the likelihood of the fines. In general, although a data breach and the notification of the supervisory authority might be in place, the question remains whether D might choose another service as other Ds (data subject players) keep using the previous service by C. Moreover, D might be affected by network and lock-in effects, thus a privacy preserving decision becomes even more difficult.

13 Philip Radlanski, *Das Konzept der Einwilligung in der Datenschutzrechtlichen Realität* (Mohr Siebeck, 2016) 162.

2. Network effects within the decision-making process

17 We first note that the decision of whether to accept a privacy policy and use a service or not could be interconnected with the decision of other Ds. Take the example of a messenger. Then the decision to use one messenger over another one depends on the other Ds one wants to communicate with. Based on the correlation between the number of other Ds and the influence on the decision-making process, this can explain the high value of services by some Cs. This effect is the so-called network effect. Under network effects the privacy decision of D for a service with a poor reputation on privacy settings can be based on a rational choice including the evaluation of the advantages and disadvantages ending with the consent and the usage of a service. This might even be the case if D has a high interest in protecting privacy, as the network effect can potentially outweigh any perceived negative consequence.¹⁴ This can be illustrated by the example of two messenger services with different levels of privacy and popularity; for example, one service may have poor privacy technology but it is more popular amongst your peer group and another service may have a high level of privacy technology but none of your peers use it. Then the evaluation of this boils down to whether to use the messenger with poor privacy or not. The non-usage might have significant social consequences, and on the other hand usage has a high impact on the privacy of many Ds. Considering these findings with regards to the privacy paradox phenomenon, it might be argued that the Ds are very limited in their decision-making process due to network effects, i.e., although they might have a high interest in their privacy, they may choose higher levels of social interaction over their privacy concerns.

18 The difference between GDPR rules and the criterion of effective actions can also be illustrated by applying *Shakespeare's* Romeo and Juliet to a modern setting. They love each other but their families are in serious dispute. Thus, each of them would face serious social consequences if her or his family would find out about it. As they recently began their relationship and they are not sure for now whether it would be worth it to publicly announce their love, they decide to keep it secret. Of course, they are equipped with the wonders of modern communication such as smartphones and social media, and they start to consider how their personal data could potentially reveal their relationship. They would worry about being tracked down by their relatives *via ad* targeting

14 Zsolt Katona, Peter Pal Zubcsek and Miklos Sarvary, 'Network Effects and Personal Influences: The Diffusion of an Online Social Network' (2011) 48 *Journal of Marketing Research* 425.

for surveillance.¹⁵ So now it gets tricky, as many of the services are already aware about the fact that Romeo and Juliet know each other and meet on a regular basis. Even more, they suspect – with high probability – that they are lovers.¹⁶ So special ads are placed on their social media page, such as those from local flower-shops. Sooner or later it happens that one of the members of the house of Capulet will see an advertisement on Juliet's phone and dramatic events would ensue. We ask whether this drama could have been prevented by reading the privacy policies. We suspect that this is not the case and hence view this as another example of asymmetric information towards D.

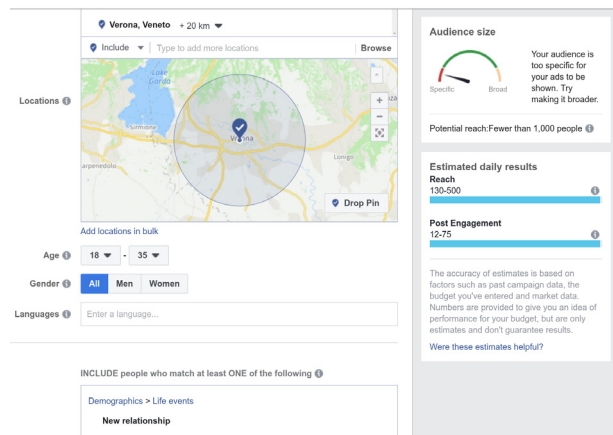


Figure 2: Facebook's advertisers' tool for defining target groups: Romeo and Juliet example

19 In the next subsection, we will focus on asymmetric information, which might lead to a market where only services with poor privacy properties prevail. This type of market behaviour is known as adverse selection.

III. Phase 3: Pursuing the data-processing under new circumstances

20 In this subsection the game-theoretic model will be simplified in order to concentrate on one problematic aspect leading to an adverse selection in the market. The simplifications we are making will be aggregated in Figure 2. Consequently, a specific

15 Paul Vines, Franziska Roesner and Tadayoshi Kohno, 'Exploring Adint: Using Ad Targeting for Surveillance on a Budget-or-How Alice Can Buy Ads to Track Bob', *Proceedings of the 2017 on workshop on privacy in the electronic society* (ACM 2017).

16 Carlos Diuk, 'The Formation of Love' <<https://www.facebook.com/notes/facebook-data-science/the-formation-of-love/10152064609253859/>> accessed 2 September 2019.

type of service processing personal data, such as a messenger, a social network or a fitness tracker, should be applied. Assuming that at the beginning of the game each service has a restricted purpose for processing personal data, a good level of data protection, and a well-written privacy policy. Also, it should be assumed that every individual has read the privacy policy. Now the usual decision has to be made by D whether or not to consent and use a particular service. As the service could reset the purpose of data processing in the new privacy policy to the more general level in a compatible manner and could also change the level of data protection applied for the processing, the protection of the rights and freedoms of the natural person might be at risk. Considering network effects or lock-in effects, D is likely to consent to the amendments made by C or continue using the service based on the legitimate interest. In these new circumstances D cannot foresee the alterations by C and the situation of information asymmetry is becoming reinforced. In particular the acquisition of an enterprise such as WhatsApp by Facebook can lead to an increase of information asymmetry and thus to adverse selection. If the costs to terminate or switch the service are too high for D (lock-in effect), then D is likely to remain with the service, even under deteriorated privacy circumstances. The case of high costs for switching services is also due to network effects. With applying the opportunity to sign and continue using the service, D cannot foresee these alterations by C and the situation of information asymmetry becomes reinforced. Other factors, such as economic necessities of the service to use the data for advertisement in order to become profitable also cannot be foreseen by the data subject D and often not even by the service provider C. Consequently, the strategy of C will likely focus on getting as many Ds as possible by potentially investing in advertisement, maybe even pointing out a high degree of privacy.¹⁷

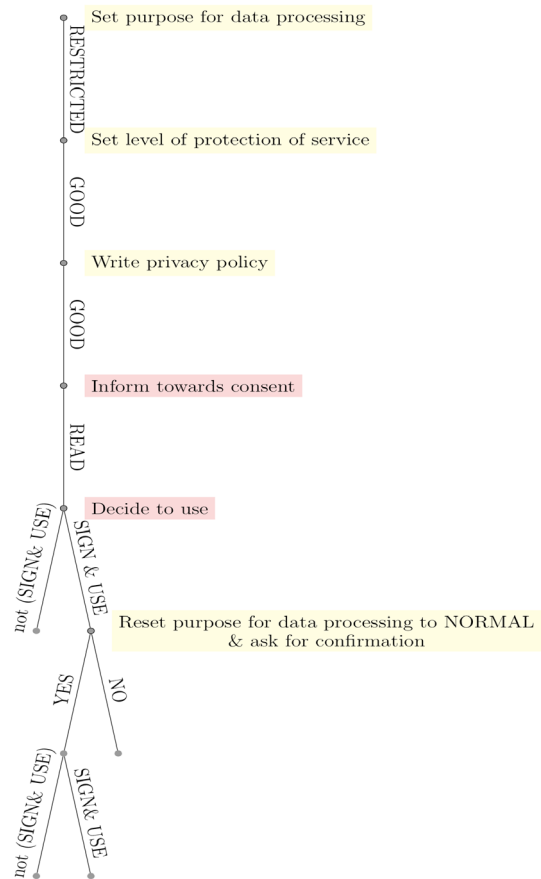


Figure 3: Actions sequence leading to adverse selection (simplified)

- 21 The phenomenon regarding the high cost of switching to another service or product is known as the lock-in effect. For example, software and software-as-a-service businesses,¹⁸ where the value of the companies is closely tied to the lock-in effect. In fact, the monetary value of a company can be estimated by summing up all of its users' switching costs.¹⁹ In addition, software can be tightly interconnected with the hardware, as it is the case with many technologies such as fitness trackers, smart TVs, speakers for virtual assistants and smartphones. The costs of the hardware are added to the switching costs, if the hardware and the data processing are tied to the software.²⁰ The software and the software-as-a-service run on these smart devices and their corresponding servers are responsible for processing the personal data of the subjects. This means that if D is locked-in to a software

17 Lifang Zhang, 'Lock-in Strategy in Network Industries: A Network Effect Perspective', 2009 6th international conference on service systems and service management (2009).

18 Sonja Lehmann and Peter Buxmann, 'Pricing Strategies of Software Vendors' (2009) 1 Business & Information Systems Engineering 452.

19 Carl Shapiro and others, *Information Rules: A Strategic Guide to the Network Economy* (Harvard Business Press 1998) 108, 116.

20 Joseph Farrell and Paul Klemperer, 'Chapter 31 Coordination and Lock-in: Competition with Switching Costs and Network Effects' in M Armstrong and R Porter (eds), vol 3 (Elsevier 2007).

and software-as-a-service, which processes personal data, then it is also locked-in to the processing of their personal data by the proprietor of the software. In order to illustrate adverse selection in these circumstances, the Akerlof's famous example of the used car market²¹ can be adapted.²² It can be shown that in some markets of services processing personal data, D is likely to be nudged to accept the privacy policy with the broader purpose of processing and thus weaken the level of privacy protection. The following questions then arise: to what extent can legal mechanisms compensate these market effects and whether the GDPR might even encourage such market effects with the explicit regulation on permitting the amendment of purposes in Art. 6 sec. 4 GDPR.

- 22 Moreover, network and lock-in effects have a strong interconnection.²³ Recently, this led to an intervention by the German Federal Cartel Office on Facebook. The Federal Cartel Office argued that only based on a voluntary consent by the data subject D, the data sets of Facebook, WhatsApp and Instagram might be connected, otherwise it must be internally unbundled.²⁴ Due to Facebook's market-dominating role, the freedom of consent was questioned by the agency and consequently, whether the consent was a result of free decision-making or if it was an illegitimate *reluctant consent*. Furthermore, it was stated that due to combining of the data, the C strengthens the market dominating role and individual data gain further significance, which the user cannot foresee.²⁵ The Federal Cartel Office essentially recognised the asymmetric information

between the players and market dominating position. This decision might set a strong precedent against market leaders and, in interaction with other authorities, lead to recognisable change regarding the interconnection between data protection law and competition law. Having demonstrated the economic effects of the GDPR and the fact that data protection law has also become a matter of interest to the authorities on competition law, attention should be drawn to Art. 20 GDPR.

IV. Phase 4: Rights of the data subject

- 23 In Art. 15-21 GDPR the rights of Ds are regulated. The primary right is the right of access stated in Art. 15 GDPR, which allows D to receive the information regarding the earlier data processing conducted by C in order to take the next steps. After obtaining the relevant information on the data processing, D might decide to make use of the right to rectify the stored information, Art. 16 GDPR, or the right to erasure, Art. 17 GDPR. The right to erasure also known as the "right to be forgotten" is based on the decision by the European Court of Justice *Google Spain SL v Gonzales*.²⁶ Even though the incorporation of this judgment in the GDPR might seem appealing, it is argued that in times of ubiquitous computing the right to erasure is burdensome to realise, thus a reversal of the burden of proof in a manner that C has to prove the erasure "with best effort" of the personal data is proposed.²⁷ Further, the perceived control could tempt the data subjects to be less sceptical and make the use of their personal data more effective.²⁸ Another option D has, is to request the restriction of processing based on Art. 18 GDPR in cases of unlawful or inaccurate processing. Also, D has the right to object to the data processing at any time based on Art. 21 GDPR. These actions might be chosen by D:

1. Right of access, Art. 15 GDPR;
2. Right to rectification, Art. 16 GDPR;
3. Right to erasure, Art. 17 GDPR;
4. Right to restriction of processing, Art. 18 GDPR;
5. Right to data portability, Art. 20 GDPR;

21 George Akerlof, 'The Market for "Lemons": Quality Uncertainty and the Market Mechanism', *Uncertainty in economics* (Elsevier 1978).

22 Details from a mathematical perspective: If the market will consist of service providers "p", the percentage of them will change the purpose of processing personal data of a smart device to *NORMAL* at some point in the future. The long-term costs for enterprises are 160 for a product with a *RESTRICTED* purpose and 80 for products with a *NORMAL* purpose, e.g. those who use the data for advertisement. Assuming that for the buyers the *RESTRICTED* product is worth 200 and the *NORMAL* 100, as the buyers cannot differentiate between services that will change their purpose for the worse and the ones that will not, the price a buyer is willing to pay is the expected value of the product. Now it is likely that the price data subjects are willing to pay is less than 160.

23 Carl Shapiro and others, *Information Rules: A Strategic Guide to the Network Economy* (Harvard Business Press 1998) 108, 116, Chapter 7; Lawrence G Sanders, *Developing New Products and Services* (Saylor Academy, Open Textbook Library 2012) Section 10.1

24 Bundeskartellamt, the German Competition agency, 'Case report, 15.02.2019, Reference Number B6-22/16' <https://www.bundeskartellamt.de/SharedDocs/Entscheidung/DE/Fallberichte/Missbrauchsaufsicht/2019/B6-22-16.pdf?__blob=publicationFile&v=4> accessed 2 September 2019.

25 *ibid* 12.

26 Judgment in *Google Spain SL v Gonzales*, C-131/12 [2014] ECJ, 13 May 2014.

27 Indra Spiecker gen. Döhm, 'Steuerung Im Datenschutzrecht - Ein Recht auf Vergessen wider Vollzugsdefizite und Typisierung' (2014) *Kritische Vierteljahresschrift* 28.

28 Catherine E. Tucker, 'Social Networks, Personalized Advertising, and Privacy Controls' (2014) 51 *Journal of Marketing Research* 546.

6. Right to object, Art. 21 GDPR.

- 24 Now if D chooses to take one or more of the stated actions, then C has to respond to them according to the terms of the GDPR. The focus now will be on effects of these rights and in particular of the right to data portability in the game-theoretical model.

1. Data Portability and lock-in effects, Art. 20 GDPR

- 25 The purpose of the right of data portability is on the one hand to limit lock-in effects in the market by providing D a right to potentially switch from one service provider to another and on the other hand to provide a higher degree of privacy and consumer protection, Art. 7, 8 EU-Charter.²⁹ Whenever switching to another service is associated with significant costs for D, then a lock-in effect is in place. In order to circumvent such a significant attachment of D to a service, the choice to switch the service should be made easier by providing a particular data portability right, Art. 20 GDPR. However, the question arises to what extent this right empowers D to “take” the personal data to another service provider. As the wording of Art. 20 sec. 1 GDPR permits the transmission of “provided” data, this might exclude personal data that is generated by C such as profiles.³⁰ Considering the impact profiles can have during a data life-cycle, the current wording of Art. 20 GDPR seems too narrow to fully compensate lock-in effects and empower the user to switch the services.

2. Ownership on data?

- 26 Applying an economic point of view,³¹ stating that in a data market the case of the “user owning data” will lead to the best equilibrium in terms of general public welfare and the public good privacy. Hence, a service provider C, that would support Ds to execute their data subject rights and additionally support Ds to offer their personal data on a market, might generate a surplus for the public good privacy. However, the concept of *ownership on personal data* is incompatible with the current data protection concept in the GDPR, based on the European concept

to protect personal data, Art. 7, 8 EU-Charter. The concept of ownership would imply an absolute right with *erga omnes* effect, which could hardly be applied to personal information as they are intangible and relative. Also, the ownership on personal data would have to be a matter of bargain and a matter of relinquishment of ownership,³² where it needs to be questioned how the legal concept could look like. Generally, in European and also in German law, the concept of privacy is directly linked with human dignity and cannot be a matter of absolute rights, which might be sold or given up as personal data are matter of a communication process and therefore relative. Even though an economic concept of ownership on data seems appealing at the first glance, after scrutiny it fogs up the legal structure and principles of the GDPR and data protection law in general.³³ Instead of the ownership concept it is widely perceived that data protection rights are a matter of access and could be transferred into a legal structure of granting and limiting access rights.³⁴

C. Mechanism of Solution: Law or Market?

- 27 The question arises regarding how a solution might look like. It can be noted that the concepts of privacy by design and security by design based on the legal principle of state of the art, Art. 25 Sec. 1 GDPR, also aim to control technological development. However, *Schallbruch*³⁵ argues that technological phenomena such as Alexa or fitness trackers as a part of the “digital household” are predominantly influenced by free market competition rather than the legal principles. Consequently, a lack of transparency and understanding on how the new technologies actually work is a result of market power. Hence, we have to acknowledge that the privacy problems associated with the use of certain services is not only a concern to privacy laws but also a subject applicable to competition laws, as argued above. These regulatory mechanisms will of course not circumvent the problem of asymmetric information in terms of the scope and security of processing personal data. Here a closer look is required, whether

29 Winfried Veil, in: Sybille Gierschmann and others, ‘Kommentar Datenschutz-Grundverordnung’ (Bundesanzeiger 2017) Art. 20 GDPR, para 3, 6.

30 Ruth Janal, ‘Data Portability-A Tale of Two Concepts’ (2017) 8 JIPITEC 59.

31 Charles Jones, Christopher Tonetti and others, ‘Nonrivalry and the Economics of Data’ (2018) <http://christophertonetti.com/files/papers/JonesTonetti_DataNonrivalry.pdf> accessed 2 September 2019.

32 Václav Janeček, ‘Ownership of Personal Data in the Internet of Things’ (2018) 34/5 Computer Law & Security Review 1039.

33 Jürgen Kühling and Florian Sackmann, ‘Rechte an Daten’, 25 <https://www.vzbv.de/sites/default/files/downloads/2018/11/26/18-11-01_gutachten_kuehling-sackmann-rechte-an-daten.pdf> accessed 2 September 2019.

34 *ibid* 31; Josef Drexler, ‘Designing Competitive Markets for Industrial Data – Between Propertisation and Access’ (2017) 4 J. Intell. Prop. Info. Tech. & Elec. Com. L. 257.

35 Martin Schallbruch, *Schwacher Staat Im Netz* (First Edition, Springer 2018) 181.

the sanctions are sufficient such that non-compliant conduct does not pay out. Another option to consider would be to legally force communication services to open up interoperability, such as telephone companies who cannot forbid users to call or be called by anyone using another provider. The same should be technically possible for most proprietary communication networks.

D. Conclusion

28 We have provided a game-theoretic model using the rules set by the GDPR. We discussed how information asymmetry affects the decision-making process on free consent. Then we concluded that together with network effects or lock-in effects this information asymmetry leads to adverse selection. Based on these findings it can be concluded that data protection law is also exposed to market effects, as it is the matter of Art. 20 GDPR. This leads to the conclusion that due to the market mechanism the public good privacy is at a higher risk than the regulations of the GDPR might be capable to compensate for. Furthermore, it could be demonstrated that legal concepts of control or ownership on data might not provide a higher degree of data protection, but attention needs to be drawn to the access of information. The multifactorial effects the consent and legitimisation might have on a service during a data life-cycle illustrates the need for interdisciplinary work on how to measure the privacy risk for individuals as the public good of privacy in the democratic process might be at stake. In particular, one could develop a method, which takes these economic aspects into account and evaluates the risk to the data subjects. Such a method might lead to an evaluation of risks for the individual, the democratic society, as well as the market of data³⁶ and provides the grounds for transparency to all players. This might be a differentiated scheme regarding access rights based on a concept of “*collaborative common*” as Rifkin³⁷ states, or *datapool* as peer based non-profit service providers³⁸ might offer. Such a concept might provide a solution on an individual behavioural basis and influence the market mechanism.

36 Stefan Drackert, *Die Risiken der Verarbeitung Personenbezogener Daten* (Duncker & Humblot 2014).

37 Jeremy Rifkin, *The Zero Marginal Cost Society: The Internet of Things, the Collaborative Commons, and the Eclipse of Capitalism* (St Martin's Press 2014).

38 Yochai Benkler, ‘Coase’s Penguin, or, Linux and “the Nature of the Firm”’ (2002) 112 *The Yale Law Journal* 369; Yochai Benkler and Helen Nissenbaum, ‘Commons-Based Peer Production and Virtue’ (2006) 14 *Journal of Political Philosophy* 394.

Big Data in the Insurance Industry

Leeway and Limits for Individualising Insurance Contracts

by Florent Thouvenin^{*}, Fabienne Suter[†], Damian George[‡] and Rolf H. Weber[§]

Abstract: With the advent of big data analytics, the individualisation of mass market insurance policies has become commercially attractive. While this development would have positive economic effects, it could also undermine the principle of solidarity in insurance. This paper aims to outline the different regulatory approaches currently in place for dealing with this fundamental challenge by analysing the insurance, anti-discrimination and data protection laws of Switzerland and the U.S./California pertaining to health, renters and automobile insurance. It will be shown that the leeway for individualising insurance contracts is vanishingly small for (mandatory) health insurance on both sides of the Atlantic. By contrast, the two legal systems pursue different regulatory approaches with regard to the other two types of insurance. Renters and automobile insurance are predominantly governed by the freedom of contract principle in Switzerland, whereas in California sector specific regulations significantly limit the informational basis of insurance companies, thereby limiting the leeway for individualisation to a large extent. While Swiss anti-discrimination law hardly restricts the individualisation of insurance contracts, U.S. and

California law prohibit such individualisation based on protected characteristics, in this way further restricting the remaining leeway. While privacy laws in the U.S. and California set some significant but rather specific limits for the individualisation of insurance contracts based on the use of personal data, the all-encompassing Swiss (and European) data protection law is clearly the most important barrier to individualisation in Switzerland. Namely, it remains unclear whether the processing of personal data for the purpose of individualising insurance contracts may be based on the legitimate interests of the insurer. As a consequence, insurance companies are advised to always obtain their customers' consent for making individual offers based on big data analytics. The authors conclude that instead of indirectly hindering the individualisation of insurance contracts through data protection law, Swiss (and European) lawmakers should initiate a dialogue involving all stakeholders to determine which sectors of insurance should be dominated by the principle of solidarity and in which sectors and on what informational basis the individualisation of insurance contracts should be allowed.

Keywords: Individualisation; Big Data; Insurance Contracts; Insurance Law; Discrimination; Data Protection Law

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A. Introduction

- 1 The individualisation of insurance contracts is not an entirely new phenomenon, but it has long been quite costly and, therefore, not very widespread. By definition, insurance is a data-rich industry; the insurance undertakings always had to base their business on accurate and relevant data for risk-based calculations.¹ The growing amount of data (big data), the increasing computing power and novel technologies (big data analytics), however, allow today's insurance companies to individualise insurance contracts in all sectors of the industry.
- 2 In most insurance markets, companies have long operated with categories of insured for which they calculated the risks and the corresponding premiums. But due to big data analytics, it has recently become commercially viable to create risk profiles for individual customers and make them corresponding individual offers.² At least from today's perspective, this applies above all to insurance premiums. Individualisation of other contractual conditions is unlikely to be commercially attractive in the near future.
- 3 The individualisation of insurance premiums raises fundamental legal questions. Given that one of the basic concepts of insurance has always been (and

continues to be) the solidarity of the insured,³ the law will need to strike an appropriate balance between the opposing concepts of solidarity and individualisation. Different legal systems will come up with different solutions and these solutions will likely not be the same for all types of insurances. This paper aims to outline possible solutions to this fundamental challenge by analysing the legal situation on both sides of the Atlantic using the jurisdictions of Switzerland (incl. partly the EU) and California as examples of two quite different approaches.

- 4 For both systems, three bodies of law need to be analysed: First, we will clarify if and to what extent the applicable insurance regulations allow for an individualisation of insurance contracts (C). Second, we will assess whether and under what conditions the individualisation of insurance contracts is compatible with the requirements of anti-discrimination law (D). Third, we will investigate whether the processing of personal data, which is carried out to calculate individual premiums, complies with the requirements of data protection law (E). In order to gain a broad picture of the phenomenon, we will analyse three types of insurances: (mandatory) health insurance, renters insurance and automobile insurance. At first, however, we will briefly outline the rationale behind the individualisation of insurance contracts (B).

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1 Rolf H. Weber, 'Big Data in the Insurance Industry' (2016) Jusletter dated 12 December 2016, para 3.

2 Cf. IBM Corporation, *Harnessing the power of data and analytics for insurance* (White Paper, 2015) 2; PricewaterhouseCoopers, *Der Insurance Monitor: Operational Excellence - Analytics als Grundlage für ein digitales Geschäftsmodell*, June 2016, <<https://news.pwc.ch/de/28303/studie-der-insurance-monitor-operational-excellence-analytics-als-grundlage-fur-ein-digitales-geschäftsmodell/>> accessed 25 September 2018, at 18 ff.; BearingPoint Institute, 'The smart insurer: more than just big data', <www.bearingpoint.com/files/BEI004-17-The-smart-insurer.pdf&download=0&itemId=389133>, accessed 25 September 2018, 58; Philip Bitter and Steffen Uphues, 'Big Data für die Versicherungsgemeinschaft', in: Thomas Hoeren (ed) *Phänomene des Big-Data-Zeitalters: Eine rechtliche Bewertung im wirtschaftlichen und gesellschaftlichen Kontext*, (Westfälische Wilhelms Universität Münster 2019) 147, 153 f.; Weber (n 1) para 8ff. For times when such individualisation was not yet possible cf: Willy Koenig, *Schweizerisches Privatversicherungsrecht: System des Versicherungsvertrags und der einzelnen Versicherungsarten* (Herbert Lang & Cie 1967) 172.

B. Individualisation of Insurance Contracts

- 5 Insurance contracts – and in particular insurance premiums – can essentially be individualised with regard to two aspects: the risk profile, defined by factors such as age, gender, health, work activity, place of residence, driving behaviour, etc., and the willingness to pay.⁴ These two aspects can easily be combined in the individualisation of an offer. Nevertheless, the rationale for individualisation in terms of the willingness to pay differs from the rationale for individualisation with regard to the risk profile. Each aspect will therefore be discussed separately.

3 E.g. Weber (n 1) para 16.

4 Moreover, prices might be individualised based on the likelihood that a policyholder will change carriers, see: Rick Swedloff, 'Regulating Algorithmic Insurance' (2019) <<http://dx.doi.org/10.2139/ssrn.3346753>>, accessed 8 April 2019, 4.

I. Risk Profile

- 6 Insurance premiums are generally calculated based on the risk profile of the insured. Most often, however, insurance companies do not calculate the risk for each customer but form groups of customers and offer premiums corresponding to the risk assessment of that group. This serves two important policy goals; namely, the reduction of adverse selection and the avoidance of moral hazard.
- 7 The notion of adverse selection⁵ refers to the phenomenon that more attractive suppliers or buyers are driven out of the market due to information asymmetries. If insurance companies were to insure a certain risk for all potential policyholders at a uniform price, taking out such insurance would be particularly attractive for persons whose individual risk is above the average risk on the basis of which the uniform premium was calculated. The offer would therefore attract comparatively unattractive customers. If only these customers were to take out the insurance offered, the insurance company would either have to accept losses because the risks associated to its customers are higher than anticipated, or it would have to increase the premiums in order to reflect the higher risks of its actual customers. Over time, this mechanism would, theoretically, increase the premiums to a point where it would no longer be worthwhile for anyone to take out insurance. In reality, however, this effect is unlikely to be observed because policyholders are unable to assess their risks accurately; rather, they are prepared to take out insurance against a risk that cannot be precisely calculated. Even if the mechanism described is hardly observed in practice, a uniform premium for all policyholders would still attract comparatively unattractive customers and may thus lead to a race to the bottom. The formation of risk groups can prevent this effect by offering insurance to members of different risk groups at different prices. This is all the more true if the offers are individualised according to the risk profile of the individual policyholders.
- 8 Moral hazard⁶ occurs when people behave irresponsibly or recklessly due to false incentives.⁷ The standard example of moral hazard is a change in

behaviour following the conclusion of an insurance contract for a particular risk.⁸ The risk of such behavioural changes can be reduced if premiums are increased after a claim and thus incentives are created for policyholders to prevent the occurrence of a claim despite the existence of an insurance contract. The individualisation of insurance contracts – and in particular of insurance premiums – opens up further possibilities for combating moral hazard. In particular, insurers can create incentives for risk-reducing behaviour by collecting data about the behaviour of their policyholders, for example, by granting discounts if an insured person demonstrably is a cautious driver or exercises regularly.⁹ These effects are positive, not only for policyholders and insurers, but also for society as a whole, since they prevent the occurrence of damage and promote the health of policyholders.¹⁰

- 9 In addition to fighting adverse selection and moral hazard, adjusting insurance premiums to the risks of individual customers or groups of customers promotes fairness by avoiding or at least limiting situations in which individuals have to pay for the risks created and the damages caused by others. It seems, however, that this only holds true for risks that can be controlled by the individual customers, e.g. by adjusting their driving behaviour. With regard to factors beyond the control of individuals – such as their genetic disposition – it would seem rather unfair if individual customers were treated differently.¹¹ As we will see, this distinction is already mirrored in the law to a large extent as the leeway to individualise insurance premiums is very limited for health care,¹² while it is predominantly permitted for other types of insurance such as renters insurance¹³ and automobile insurance.¹⁴

5 On adverse selection see also: Ronen Avraham and others, 'Understanding Insurance Antidiscrimination Laws' (2014) 87 S.Cal.L.Rev 195, 204ff. with further references; Bitter and Uphues (n 2) 155.

6 On moral hazard see also: Avraham and others (n 5) 206ff. with further references; Bitter and Uphues (n 2) 156.

7 Cf. N. Gregory Mankiw and Mark P. Taylor, *Grundzüge der Volkswirtschaftslehre* (7th edn, Schaeffer-Poeschel 2018) 363; for a more restrictive definition see Peter Zweifel and Roland Eisen, *Versicherungsökonomie* (2nd edn, Springer 2003) 295f., according to which moral hazard exists when persons adapt their behaviour due to the existence of a contract.

8 Zweifel and Eisen (n 7) 295; see also Felix Walter Lanz, *Adverse Selection und Moral Hazard in der Privat- und Sozialversicherung*, Luzerner Beiträge zur Rechtswissenschaft, vol 77 (Schulthess 2014) 39; Martin Nell, *Versicherungsinduzierte Verhaltensänderungen von Versicherungsnehmern* (VfW GmbH 1993) 4.

9 So called "Pay How You Drive"-Model, cf. Allstate Corp. 'How Telematics May Affect Your Car Insurance', December 2018 <www.allstate.com/tr/car-insurance/telematics-device.aspx> accessed 4 June 2019; Rick Swedloff, 'Risk Classification's Big Data Revolution' (2014) 21 Conn. Insurance L.J. 339, 342 ff; Peter Maas and Veselina Milanova, 'Zwischen Verheissung und Bedrohung – Big Data in der Versicherungswirtschaft' (2014) 87 Die Volkswirtschaft, 23, 24.

10 In more detail: Maas and Milanova (n 9), 24ff.

11 Cf. Swedloff (n 4) 8ff. For a discussion on the fairness of (individualised) risk classification: Avraham and others (n 5) 203ff. and 214ff.

12 See below, for Switzerland: C.II.1; for California: C.III.1.

13 See below, for Switzerland: C.II.2; for California: C.III.2.b).

14 See below, for Switzerland: C.II.2; for California: C.III.2.c).

II. Willingness to Pay

- 10 Individualisation according to the willingness to pay is based on the fact that policyholders with a uniform risk profile may have a different need for insurance coverage and different financial resources for concluding an insurance contract. Insurance companies can take this into account when determining premiums by offering higher premiums to customers with a higher willingness to pay and cheaper offers to the others. When doing so, however, insurance companies will have to bear in mind that many people find the individualisation of prices according to the willingness to pay unfair.¹⁵ This fact significantly limits the ability to price customers according to their willingness to pay, also in the insurance industry. From a purely economic point of view, however, aligning prices with the willingness to pay has positive effects, both for the insurance companies and their customers.
- 11 In economics, the individualisation of prices to absorb maximum willingness to pay is referred to as first-degree price discrimination or perfect price discrimination.¹⁶ In insurance, this type of price discrimination has two main effects: On the one hand, all insurance policyholders can skim off their full willingness to pay, which allows the insurer to increase his turnover and maximise profit. On the other hand, the insurance can also be sold to customers whose willingness to pay is below the uniform price that would be chosen by the insurer if he could not or did not wish to discriminate

15 Empirical studies have shown, in particular, that price discrimination will often be regarded as unfair if it exceeds a certain level, is clearly disadvantageous compared to a reference price, or if other consumers pay significantly less; cf. Martin Fasnacht and Jochen Mahadevan, 'Grundlagen der Preisfairness – Bestandesaufnahme und Ansätze für zukünftige Forschung' (2010) 60 *Journal für Betriebswirtschaft*, 295, 302ff., with further references; Werner Reinartz and others, *Preisdifferenzierung und -dispersion im Handel*, (White Paper, 2017) <www.marketing.uni-koeln.de/sites/marketingarea/user_upload/171130_Whitepaper_Preisdifferenzierung_und_-dispersion_im_Handel.pdf> accessed 25 September 2018, 11; Florian Engelmaier and others, *Price Discrimination and Fairness Concerns*, Munich Discussion Paper No. 2012-7 (Ludwig-Maximilians-Universität München 2012) <https://epub.ub.uni-muenchen.de/12735/1/Englmaier_Gratz_Reisinger-Price_Discrimination_and_Fairness_Concerns.pdf> accessed 3 June 2019; Simon Lee and Abdou Illia, 'Perceived price fairness of dynamic pricing' (2011) 111 *Industrial Management & Data Systems* 2011, 531; Kelly L. Haws and William O. Bearden, 'Dynamic Pricing and Consumer Fairness Perceptions' (2006) 33 *Journal of Consumer Research* 2006, 304; Matthew A. Edwards, 'Price and Prejudice: The Case against Consumer Equality in the Information Age' (2006) 10 *Lewis & Clark L.Rev.*, 559.

16 Lars A. Stole, 'Price Discrimination and Competition', in: Mark Armstrong and Robert Porter (eds) *Handbook of Industrial Organization* (Elsevier 2007), 2221, 2224 ff.

against prices.¹⁷ If it is assumed that people with a higher willingness to pay will not forego purchasing insurance despite higher individual premiums, price discrimination will also contribute to an expansion of insurance coverage in the population. The economic effect of the individualisation of insurance premiums is therefore positive.

C. Insurance Law

I. Preliminary Remarks

- 12 In Switzerland, the business of insurance is regulated by the Federal Constitution (FC)¹⁸ and several federal acts. The insurance landscape is divided into two sectors: the social or public law sector and the private law sector. In the public law sector, there are ten social insurance branches that form the basis for social security;¹⁹ mandatory health insurance is one of them. Mandatory health insurance is guided by the principle of solidarity of the insured persons²⁰ and its benefits are determined by statutory catalogue.²¹ Anyone wishing to take out insurance cover in excess of benefits granted by the statutory catalogue must assume supplementary health insurance governed by private law. Swiss health insurances are conceived as individual insurance plans, in mandatory health insurance and in supplementary health insurance, as well as in all other types of private insurance.²² Automobile insurance and insurance on contents are part of the private law sector. The supervision of mandatory health insurance is exercised by the Federal Office of Public Health,²³ whereas supervision

17 Florent Thouvenin, 'Dynamische Preise' (2016) Jusletter IT dated 22. September 2016, para 5ff.

18 E.g. Art. 98 para 3 Federal Constitution (Bundesverfassung der Schweizerischen Eidgenossenschaft vom 18. April 1999, SR 101) for private insurance or Art. 117 para 1 FC for health and accident insurance (Rolf H. Weber and Rainer Baisch, *Versicherungsaufsichtsrecht* (2nd edn, Stämpfli Verlag 2017), 41ff.).

19 Stephan Furrer, *Schweizerisches Privatversicherungsrecht* (Schulthess 2011) point 2.31.

20 Gertrud E. Bolliger, *Leitfaden schweizerische Sozialversicherung*, vol I (15th edn, Kantonale Drucksachen- & Materialienzentrale 2018) 411.

21 Stefan Felder, 'Ökonomische Überlegungen zum Kontrahierungszwang in der Obligatorischen Krankenpflegeversicherung' (2018) 62 *Schweizerische Zeitschrift für Sozialversicherung und berufliche Vorsorge*, 95, 95.

22 Ueli Kieser, 'Art. 3 KVG' in: Ueli Kieser and others (eds) *KVG/UVG Kommentar: Bundesgesetze über die Krankenversicherung, die Unfallversicherung und den Allgemeinen Teil des Sozialversicherungsrechts (ATSG) mit weiteren Erlässen* (Orell Füssli 2018) para 1.

23 Art. 56 in conjunction with Art. 34 of the Federal Act on the Supervision of Social Health Insurance

of private insurances pursuant to the Insurance Supervision Act (ISA)²⁴ is exercised by the Swiss Financial Market Supervisory Authority (FINMA).²⁵

- 13 In contrast to Switzerland, the insurance business in the U.S. is primarily regulated on a state level. Besides some federal statutes for health insurance and some limited monitoring of insurance, there is no significant federal insurance regulation.²⁶ The insurance regulation primarily emanates from the courts, the state legislatures and the state regulatory agencies.²⁷ This is particularly true for automobile insurance and insurance on contents, which is called tenant or renters insurance.²⁸ The U.S. health insurance system differs from the Swiss system as it does not distinguish between mandatory and supplementary health insurance. The U.S. has no comprehensive national health insurance programme.²⁹ Rather there are three different types of health insurance: public health care coverage, employer-provided health insurance, and individually purchased or small group insurance. The public health care insurance programmes are Medicare and Medicaid. Approximately 55-60% of health insurance policies are employer-provided through group insurance policies.³⁰ Only a small portion of health insurances are taken out as individual policies.³¹

(Bundesgesetz betreffend die Aufsicht über die soziale Krankenversicherung vom 26. September 2014, SR 832.12).

- 24 Bundesgesetz betreffend die Aufsicht über Versicherungsunternehmen vom 17. Dezember 2004, SR 961.01.
- 25 Art. 46 ISA.
- 26 John F. Dobbyn and Christopher C. French, *Insurance Law in a nutshell* (5th edn, West Academic Publishing 2016) 501; Spencer Kook and Paul Rodriguez, 'Overview of California insurance law', in: Hinshaw & Culbertson LLP and Kristina Alexander (eds) *California Insurance Law & Practice* (Matthew Bender Inc. 2018) para 1.02[1], with further references. The Federal Insurance Office has the authority to monitor all aspects of the U.S. insurance industry (31 U.S.C. § 313).
- 27 Dobbyn and French (n 26) 501.
- 28 For the sake of simplicity, only the term "renters insurance" is used in this article.
- 29 Barry R. Furrow and others, *Health Law* (3rd edn, West Academic Publishing 2015) 400.
- 30 Dobbyn and French (n 26) 40 et. seq.; Statista, 'Distribution of U.S. population with health insurance 2011-2017, by coverage' <www.statista.com/statistics/235223/distribution-of-us-population-with-health-insurance-by-coverage/> accessed 25 March 2019.
- 31 The percentage of individually (direct) purchased health insurance policies increased from 9.8% in 2011 to 16% in 2017 (*ibid*).

- 14 California's insurance laws are enforced by the Insurance Commissioner.³² His functions and duties are exercised and performed by the California Department of Insurance (CDI).³³ Furthermore, the Commissioner has the statutory right to supplement the California Insurance Code (INS)³⁴ with rules and regulations. These administrative regulations are compiled in Chapter 5 of Title 10 of the California Code of Regulations (CCR), the codification of Californian administrative law.³⁵

II. Switzerland

1. Mandatory Health Insurance

- 15 Mandatory health insurance in Switzerland is regulated by the Federal Health Insurance Act (HIA)³⁶ and the Ordinance on Health Insurance (OHI).³⁷ These laws are authoritative in determining whether health insurance premiums may be personalised. Neither the HIA nor the OHI address the personalisation of insurance contracts specifically. The premiums are determined by health insurers and not by an authority.³⁸ However, the principles governing the calculation of premiums for mandatory health insurance are set out in Art. 61ff. HIA and Art. 89ff. OHI. As a general rule and as far as the HIA does not provide for exceptions, health insurers have to charge the same premiums to all of their insured persons (unitary premium/premium per capita).³⁹ But an exhaustive list of criteria set forth by statute may be considered for adjusting the premiums to certain groups of insured and specific types of insurances. These criteria are place of residence,⁴⁰ age group (children, teenagers and adults),⁴¹ limited

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- 32 INS §§ 12900 and 12921; B.E. Witkin, 'Chapter II. Insurance' in: *Summary of California Law* (11th edn, Witkin Legal Institute 2018) para 9(2); Kook and Rodriguez (n 26) para 1.08[1].
- 33 INS § 12906; Kook and Rodriguez (n 26) para 1.08[1].
- 34 Cf. California Legislative Information, <<https://leginfo.ca.gov/faces/codesTOCSelected.xhtml?tocCode=INS&tocTitle=Insurance+Code++INS>>, accessed 1 May 2019.
- 35 Kook and Rodriguez (n 26) para 1.08[1]; Witkin (n 32) para 6(2).
- 36 Bundesgesetz über die Krankenversicherung vom 18. März 1994, SR 832.10.
- 37 Verordnung über die Krankenversicherung vom 27. Juni 1995, SR 832.102.
- 38 Ueli Kieser, 'Art. 61' in: Ueli Kieser and others (eds) *KVG/UVG Kommentar: Bundesgesetze über die Krankenversicherung, die Unfallversicherung und den Allgemeinen Teil des Sozialversicherungsrechts (ATSG) mit weiteren Erlassen* (Orell Füssli 2018) para 1.
- 39 Art. 61 para 1 KVG. Kieser (n 38) para 3.
- 40 Art. 61 para 1, 2 and 2^{bis} HIA.
- 41 Art. 61 para 3 and 3^{bis} HIA.

choice of service providers,⁴² choice of deductible⁴³ or bonus-related increases.⁴⁴ Accordingly, there is no leeway for insurance companies to personalise the premiums in mandatory health insurance.

2. Other Insurances

a.) Freedom of Contract

- 16 The question to what extent private insurers may individualise insurance contracts covering supplementary health benefits, automobile or renters insurance, is governed by the provisions of the Insurance Contract Act (ICA), the ISA and the associated Insurance Supervision Ordinance (ISO).⁴⁵ In private insurance law, the ICA supersedes the general provisions of the Code of Obligations (CO).⁴⁶
- 17 There is no provision in these insurance statutes which would standardise or even prohibit the individualisation of insurance contracts. In addition, the relationship with the insured person is governed by the freedom of contract principle, meaning there is no general obligation for insurance companies to conclude a specific insurance contract, neither for mandatory, nor for voluntary insurance.⁴⁷
- 18 However, mandatory law, public order and the right of personality set limits to freedom of contract in the area of private insurance.⁴⁸ Furthermore, insurance contracts with an impossible, illegal or immoral content are void. But, in general, the individualisation

42 Art. 62 para 1 HIA.

43 Art. 62 para 2 lit. a HIA, Art. 93ff. OHI.

44 Art. 62 para 2. lit. b HIA, Art. 96ff. OHI.

45 Bundesgesetz über den Versicherungsvertrag vom 2. April 1908, SR 221.229.1 and Verordnung über die Beaufsichtigung von privaten Versicherungsunternehmen vom 9. November 2005, SR 961.011.

46 Bundesgesetz betreffend die Ergänzung des Schweizerischen Zivilgesetzbuches (Fünfter Teil: Obligationenrecht) vom 30. März 1911, SR 220; Art. 100 para 1 ICA; Hardy Landolt and Stephan Weber, *Privatversicherungsrecht in a nutshell* (Dike 2011) 20. If an aspect is not regulated by provisions of the ICA, the general provisions of the CO are applicable, as expressly stated in the ICA (Moritz W. Kuhn, *Privatversicherungsrecht* (Schulthess 2010) 98). Cf. on micro-segmentation and contractual norms: Weber (n 1) para 41.

47 Stephan Fuhrer, *Schweizerisches Privatversicherungsrecht* (Schulthess 2011) 66; Landolt and Weber (n 46) 38.

48 Art. 19 para 2 and Art. 20 para 1 CO; Kurt Pärli and others, 'Ungleiche Prämien aufgrund von Nationalität, Alter und Geschlecht in der Motorfahrzeugversicherung – ein Diskriminierungsproblem?' (2019) *Haftung und Versicherung*, 16, 23; Lanz (n 8) 155; Bernhard Waldmann, 'Nationalitätsbedingte Erhöhung der Autoversicherungsprämien Kurzbeurteilung eines Einzelfalls von grundlegender Tragweite' (2007) *Haftung und Versicherung*, 65, 68.

of insurance contracts is neither impossible, nor a violation of public order or morality. With regard to legality, certain compelling requirements for insurance contracts are set forth by Art. 97ff ICA.⁴⁹ However, these provisions do not contain rules on individualisation either.⁵⁰ Nevertheless, it is conceivable that individualisation of policies could lead to legally relevant discrimination against policyholders and hence would interfere with their right of personality. This question will be discussed in more detail below.⁵¹

b.) Protection against abusive behaviour

- 19 Even if private insurance law does not contain any specific provisions prohibiting the individualisation of insurance contracts - at least with regard to certain types of insurances - the insurers' freedom of contract is limited by ISA's provisions on the protection of the insured against abuse. The ISA's objective is not only to protect the insured against the risks stemming from insurance companies becoming insolvent, but also to protect them against abusive practices of insurance companies.⁵² Accordingly, the protection against abuse is part of FINMA's mandate.⁵³ However, FINMA's respective supervisory competences differ for different types of insurance. While the legislator does not provide for a systematic preventive review of rates and conditions of most insurance contracts,⁵⁴ the rates as well as the general terms and conditions of occupational pension schemes and supplementary health benefits insurance have to be submitted to FINMA for prior approval.⁵⁵ For these two types of insurance, FINMA must grant the approval, if the proposed premiums do not jeopardise the solvency of the insurance company and do not lead to an abuse of the insured.⁵⁶

49 See: Fuhrer (n 47) 42.

50 For further restrictions on freedom of contract in Swiss insurance law, see: Fuhrer (n 47) 99ff.

51 See below, D.

52 Art. 1 para 2 ISA. Rolf H. Weber, 'Big Data – Rechtliche Grenzen von unbegrenzten Möglichkeiten' in: Stephan Fuhrer (ed) *Jahrbuch Schweizerische Gesellschaft für Haftpflicht und Versicherung 2018* (Schulthess 2018), 87, 94.

53 Art. 46 para 1 lit. f ISA.

54 Monica Mächler, 'Art. 1 ISA' in: Peter Ch. Hsu and Eric Stupp (eds) *Basler Kommentar Versicherungsaufsichtsgesetz* (Helbing Lichtenhahn 2013) para 51; Weber (n 52) 87. On the occasion of the revision of the ISA in 2003, there was a change from a preventive to a subsequent control of insurance products, see: Swiss Federal Council, *Botschaft vom 9. Mai 2003 zu einem Gesetz betreffend die Aufsicht über Versicherungsunternehmen (Versicherungsaufsichtsgesetz, ISA) und zur Änderung des Bundesgesetzes über den Versicherungsvertrag* (BBl 2003) 3789, 3790ff. and 3798ff.

55 Art. 4 para 2 lit. r ISA.

56 Art. 38 ISA; Bernhard Rüttsche, *Aufsicht im Bereich der Krankenzusatzversicherungen* (Schulthess 2017) point 20.

- 20 Other private insurances, such as automobile insurance or insurance on contents, are not subject to comparable rules. With regard to these types of insurances, the question whether FINMA may and must intervene depends on how the notion of “abuse” pursuant to Art. 1 ISA is construed.⁵⁷ While it is clear that FINMA has a statutory competence to protect the insured against abuse,⁵⁸ it is contested whether FINMA must take general action against abuses.⁵⁹ Narrower interpretations suggest that the overall aim of preventing abuse shall merely guide the interpretation and application of the provisions of ISA, but does not serve as a separate legal basis for intervention by FINMA.⁶⁰ If one follows this view, FINMA can merely intervene against the individualisation of rates requiring approval, i.e. the rates for occupational pension schemes and supplementary health benefits insurance.⁶¹ According to a broader interpretation, an intervention to prevent abuse is generally possible. This is the view taken by the Swiss Federal Council, who specified the notion of abuse in Art. 117 ISO and inter alia qualified legally or actuarially unjustified substantial differentiations as abusive.⁶² However, the effect of this provision is unclear as scholars rightly question the Federal Council’s competence to enshrine such substantial obligations in an implementing ordinance such as the ISO.⁶³
- 21 Even if one assumes, however, that FINMA is generally competent to take action against abuse with regard to all types of insurance, this does not preclude the individualisation of insurance contracts since varying conditions and premiums for individual customers cannot be qualified as abuse – at least as far as they are actuarially justified. This is probably always the case with individualisation according to

the risk profile.⁶⁴ While an individualisation based on the willingness to pay cannot be justified from an actuarial point of view, the concept of abuse does not imply an obligation for equal treatment. As a consequence, this form of individualisation should also be permissible under Swiss insurance law, especially since it has positive economic effects.⁶⁵

III. U.S./California

1. Health Insurance

- 22 In the U.S., health insurance is regulated on the federal level in the Patient Protection and Affordable Care Act (ACA)⁶⁶ and the Health Insurance Portability and Accountability Act (HIPAA).⁶⁷ On a Californian state level, all health insurance policies marketed, issued or delivered to a California resident are subject to the provisions of the California Insurance Code (INS).⁶⁸ The California Department of Insurance is responsible for regulating all entities engaged in the business of health insurance, with the exception of managed care plans.⁶⁹ Such managed care plans are subject to the regulatory jurisdiction of the Department of Managed Health Care (DMHC).⁷⁰

57 Cf. Rüttsche (n 56) point 62; Weber and Baisch (n 18) 143; Shelby du Pasquier and Valérie Menoud ‘Art. 46 ISA’ in: Peter Ch. Hsu and Eric Stupp (eds) *Basler Kommentar Versicherungsaufsichtsgesetz* (Helbing Lichtenhahn 2013) para 13.

58 Art. 1 para 2 ISA and Art. 46 para 1 lit. f ISA.

59 Cf. Hubert Stöckli, ‘Totalrevision VVG: Probebohrungen im Entwurf des Bundesrates’ (2012) *Schweizerische Juristen-Zeitung*, 505, 513; Fuhrer (n 47) 556; as well as du Pasquier and Menoud (n 57) para 13, 33, 37; without restrictions to Art. 46 para 1 (f) ISA: Weber and Baisch (n 18) 210; Waldmann (n 48) 65 and 75, also assumes that pursuant to Art. 46 para 1 lit. f ISA and Art. 117 para 2 ISO as well as of Art. 5 Abs. 3 FC FINMA must prevent discrimination.

60 Weber (n 52) 94. Cf. also Weber and Baisch (n 18) 44; Mächler (n 54) 53.

61 Art. 33 para 3 and Art. 38 ISA.

62 Art. 117 para 2 ISO.

63 For a discussion of this controversy cf. Florent Thouvenin, ‘Privatversicherungen: Datenschutzrecht als Grenze der Individualisierung?’, in: Astrid Epiney and Déborah Sangsue (eds) *Datenschutz und Gesundheitsrecht/Protection des données et droit de la santé* (Schulthess 2019), 15, 23; Weber (Fn. 52) 95.

64 See above, B.I.

65 See above, B.II.

66 Patient Protection and Affordable Care Act of 2010, 42 U.S.C., § 18001.

67 Health Insurance Portability and Accountability Act of 1996, 26 U.S.C., § 9801. Notably, employer-provided health insurance coverage may also be subject to ERISA (Employee Retirement Income Security Act of 1974, 29 U.S.C. §§ 1001 to 1461 [1974], which imposes various requirements considering participation, funding, vesting and enforcement of rights under employee benefit plans (cf. Justice H. Walter Croskey and others, ‘Chapter 6: First Party Coverages’, *California Practice Guide: Insurance Litigation* (The Rutter Group 2017) para 1420ff.).

68 Witkin (n 32) para 169.

69 Managed care plans do not qualify as insurance companies and they are not regulated by the INS or administrative regulations issued under it (Witkin (n 32) para 170). Managed care plans, in California characterised as health care service plans (Cal. Health & Saf.C. § 1345(f)), ensure the provision and payment of health services to its members through contracts with health care providers (e.g. doctors, hospitals, etc.). Different types of managed care contracts, like full-service managed care plans (i.e. Health Maintenance Organizations (HMOs)), Medi-Cal managed care plans, Medicare Advantage plans, Preferred Provider Organizations (PPOs) and Point of Service (POS) plans are offered by managed care plans (cf. Witkin (n 32) para 170); Croskey and others (n 67) para 900.

70 Croskey and others (n 67) para 700.5ff.

**a.) Public health care coverage:
Medicare & Medicaid**

- 23 Medicare⁷¹ is a mandatory health insurance programme for people over the age of 65 or for people with certain disabilities or an end-stage kidney disease.⁷² It consists of four programmes, parts A (hospital insurance),⁷³ B (voluntary supplemental medical insurance),⁷⁴ C (private-sector alternative to Parts A and B),⁷⁵ and D (outpatient prescription drugs).⁷⁶ Medicare is administered by the Center on Medicare and Medicaid Services (CMS), which is part of the U.S. Department of Health and Human Services (HHS).⁷⁷
- 24 Since Medicare is mostly funded by taxes on wages paid over lifetime,⁷⁸ most people in the U.S. don't pay a Part A premium when they enter retirement. The Premiums for all Medicare parts are determined⁷⁹ and depend on given factors like income, receipt of social security benefits or the Medicare part chosen (Part B, C or D).⁸⁰ Therefore, an individualisation of these health insurance “contracts” is not possible.
- 25 Anyone enrolled in Medicare can purchase a privately offered Medicare supplement insurance (also called Medigap), which is sold as group or individual policy.⁸¹ The insured pay a monthly premium for Medigap⁸² and policies may only be designed in accordance with model forms approved by the National Association of Insurance Commissioners.⁸³ In California, Medigap policies have to be approved by the Commissioner⁸⁴ and the

premiums shall be calculated in accordance with accepted actuarial principles and practices.⁸⁵ Pricing can be based on the actual age (age-rated premium), the age at the time the Medigap policy was taken out (issue age-rated premium), or may be the same for everyone living in a given territory (community rated premium).⁸⁶

- 26 Medicaid⁸⁷ is an insurance programme for people who do not have the financial means to pay for health insurance themselves, aged or blind people in need of long-term care services, and disabled persons with low incomes.⁸⁸ In California, the California Department of Health Services (DHS) is in charge of the administration of Medicaid (called Medi-Cal). As with Medicare, there is no leeway regarding the individualisation of Medicaid health insurance premiums: Eligible Californians receive Medicare respectively Medi-Cal as a benefit without paying a premium⁸⁹ and the health benefits are determined by federal and state regulation.⁹⁰

**b.) Employer-provided coverage
(group health insurance)**

- 27 The most common way to get health insurance in the U.S. is through a group plan for employees.⁹¹ Employers with more than 50 employees (large employers) are encouraged by the federal government to provide health insurance with minimum essential coverage.⁹² This so-called “employer-provided coverage” is usually purchased by the employer from an insurance company. Some large employers “self-insure” their employees.⁹³ However, even self-insuring employers often (have

71 42 U.S.C. § 1395-1395kkk-1; 42 C.F.R. Parts 405-426 and 482-498; see Furrow and others (n 29) 403.

72 Dobbyn and French (n 26) 42ff; Robert H. Jerry and Douglas R. Richmond, *Understanding Insurance Law* (6th edn, LexisNexis 2018) 420.

73 Dobbyn and French (n 26) 43; U.S. Government, ‘What Medicare Covers’ <www.medicare.gov/what-medicare-covers/what-part-a-covers> accessed 4 June 2019.

74 Furrow and others (n 29) 401.

75 So called “Medicare Advantage”. Tom Baker and Kyle D. Logue, *Insurance Law and Policy: Cases, Materials and Problems* (4th edn, Wolters Kluwer 2017) 259.

76 Furrow and others (n 29) 401 et seq.

77 Furrow and others (n 29) 403.

78 Dobbyn and French (n 26) 43.

79 See U.S. Government, ‘Medicare costs at a glance’ <www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html>, accessed 4 June 2019.

80 See Harvey L. McCormick, *Medicare and Medicaid Claims and Procedures* (4th edn, Thomson West 2017) para 1:65.

81 INS § 10192.4(m); 10 CCR § 2220.51.

82 U.S. Government, ‘What’s Medicare Supplement Insurance (Medigap)?’ <www.medicare.gov/supplements-other-insurance/whats-medicare-supplement-insurance-medigap> accessed 12 June 2019.

83 42 U.S.C. § 1395ss(p); Croskey and others (n 67) para 745.

84 INS §§ 10192.1 in connection with 10291.5, 10192.14(c) and

10191.15(c).

85 INS § 10192.14(a)(B).

86 U.S. Government, ‘Costs of Medigap policies’ <www.medicare.gov/supplements-other-insurance/whats-medicare-supplement-insurance-medigap/medigap-costs/costs-of-medigap-policies>, accessed 4 June 2019.

87 Medicaid is codified in 42 U.S.C. §§ 1396 a-f; cf. McCormick (n 80) para 22:16.

88 Dobbyn and French (n 26) 44; Jerry and Richmond (n 72) 420.

89 California Department of Insurance, ‘Overview: Healthcare Coverage in California’ <www.insurance.ca.gov/01-consumers/110-health/10-basics/overview.cfm> accessed 25 March 2019.

90 See Furrow and others (n 29) 478ff.

91 Dobbyn and French (n 26) 40; see also: 42 U.S.C. § 300gg-91.

92 Dobbyn and French (n 26) 41.

93 To self-insuring employers a different set of rules applies than to insurance policies or health plans, (California Department of Insurance, ‘Group (Employer-Based) Health Coverage’ <www.insurance.ca.gov/01-consumers/110-health/10-basics/overview.cfm> accessed 12 June 2019). Due to the length of this article, we decided not to take a closer look at these provisions for self-insuring employers.

to) use a health insurer to administer the programme and manage the health benefits.⁹⁴ Employer-provided health insurance is predominantly taken out as a group policy. Group policies are usually underwritten on the basis of factors common to the group as a whole, such as type of job, average age, etc.⁹⁵

28 Within the scope of the ACA, all products that are approved for sale in the group health insurance market must be offered to any individual or employer in the state, and the health insurer must accept any individual or employer that applies for any of those products (guaranteed availability of coverage).⁹⁶ In California, group health insurance must be offered to all the employees of an employer.⁹⁷ All group health insurance policies must be approved by the Commissioner before they are issued or delivered to any person in California.⁹⁸ The approval of the Commissioner shall among others, prevent fraud, unfair trade practices, and economically unsound insurances.⁹⁹ A group health insurance policy shall also not be approved if it contains any provision which is unintelligible, uncertain, ambiguous, or abstruse, or likely to mislead a person to whom the policy is offered, delivered or issued, or if it fails to conform in any respect with any law of California.¹⁰⁰

29 The framework of employer-provided coverage is set out in the master policy. The insurance company is bound by this master policy and can only include the factors specified therein in the risk assessment of an individual employee. Thus, the leeway for individualisation of policies will be very limited for the group health insurance.

c.) Individual and small group market

30 People who are not covered by one of the aforementioned governmental programmes or by their employer, can get health insurance from a private insurer on the individual or small group

market.¹⁰¹ On the individual market, individuals take out the insurance policy themselves, while the small group market provides group health plans maintained by a small employer.¹⁰² The policy of an individually-purchased insurance is based on the buyer's risk profile and the premium is equal to the price the insurer deems adequate to insure said risk.¹⁰³

31 Under the ACA, insurance premiums shall be "fair". As a result, the rating factors for health insurance policies on the individual or small group market are community rated and subject to limited adjustments based on age, geographic area, individual or family unit, and tobacco use.¹⁰⁴ Insurers must maintain a state-wide risk pool for both the individual market and the small group market¹⁰⁵ and are required to set an index rate for each pool for establishing the premium rates. The premium rates for individual and small group health insurance policies may only vary to a limited extent from the index rates.¹⁰⁶ Also the health insurance policies for the individual market and the respective premium rates have to be filed with and approved by the Commissioner before they are issued or delivered to any person in California.¹⁰⁷

94 Dobbyn and French (n 26) 41; California Department of Insurance (n 93).

95 Croskey and others (n 67) para 1306.

96 45 CFR § 147.104.

97 Group health insurance is regulated in INS §§ 10270-10400; Michael A.S. Newman and others, 'Group life and Disability Insurance' in: Kristina Alexander and Hinshaw & Culbertson (eds) *California Insurance Law & Practice* (Matthew Bender 2018) vol 3, para 30.30 and 30.31[1].

98 INS §§ 10270.9 and 10290; Richard B. Hopkins, 'The Health and Disability Insurance Contract' in: Kristina Alexander and Hinshaw & Culbertson (eds) *California Insurance Law & Practice*, vol 2 (Matthew Bender 2018) para 26.11; *Ellena v. Department of Ins.*, 230 Cal. App. 4th 198 [2014].

99 INS § 10291.5(a)(1).

100 INS § 10270.95 in connection with INS § 10291.5(b)(1) & (13).

101 See: Dobbyn and French (n 26) 41ff; see INS § 10753 (q) (1) for the definition of a small employer in California with regard to insurance. See also: 42 U.S.C. § 300gg-91.

102 US.legal.com, 'Small Group Market (Health Care)' <<https://definitions.uslegal.com/s/small-group-market-health-care/>> accessed 25 March 2019; see: INS § 10753 (q) (1) for the definition of a small employer in California with regard to insurance. See also: 42 U.S.C. § 300gg-91.

103 James C. Castle and Paul Rodriguez, 'The Insurance Contract' in: Kristina Alexander and Hinshaw & Culbertson (eds) *California Insurance Law & Practice*, vol 2 (Matthew Bender 2018) para 8.02[4].

104 42 U.S.C. § 300gg(a)(1)(A); 45 CFR § 147.102; Timothy Stoltzfus Jost, Special Report, 'The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010' in: Kristina Alexander and Hinshaw & Culbertson (eds) *California Insurance Law & Practice* (Matthew Bender 2018) vol 2, II[B]. In terms of age, the rate shall not vary by more than 3 to 1 for adults (42 U.S.C. § 300gg(a)(1)(A)(iii)). The rating factor for tobacco use shall not vary by more than 1.5 to 1 (42 U.S.C. § 300gg(a)(1)(A)(iv)). California, however, has prohibited the use of the rating factor for tobacco use for insurance policies on the individual or small group market (INS § 10753.14(b) for small group policies and INS § 10965.9(b) for individually purchased policies). See also: John K. DiMugno and Paul E.B. Glad, *California Insurance Law Handbook* (April 2018 Update, Thomson West) para 37A:3; 42 U.S.C. § 300gg(a)(2)(A).

105 42 U.S.C. § 18032(c). Adam M. Cole, 'Legal Opinion Pursuant to Insurance Code Section 12921.9 Regarding Premium Cross-Subsidization Across Market Segments in Health Insurance' (California Department of Insurance, 13 June, 2014) <www.insurance.ca.gov/0250-insurers/0300-insurers/0200-bulletins/bulletin-notices-commiss-opinion/opinions.cfm>, 2.

106 INS §§ 10965.3(h)(2 et seq.), 10753.05(k)(2 et seq.), quod vide: 45 CFR § 156.80(d)(2); Adam M. Cole (n 105).

107 INS § 10290; Hopkins (n 98) para 26.11.

The INS contains a long list of circumstances under which the Commissioner shall not approve health insurance policies.¹⁰⁸ Should the Commissioner find that the benefits provided under the policy are unreasonable in relation to the premium charged, he may withdraw an individual or mass-marketed policy's approval.¹⁰⁹

- 32 As with group insurance, the ACA requires that all products that are approved for sale in the individual or small group market must be offered to any individual or employer in the state, and the health insurer must accept any individual or employer that applies for any of those products (guaranteed availability of coverage).¹¹⁰ Also California has enacted a detailed review process for rates increases when implementing the respective provisions of the ACA.¹¹¹ If the CDI determines that a rate is unreasonable or not justified, the insurer shall notify the policyholder of this determination.¹¹² However, the Commissioner's authority is limited to requesting rate changes; he cannot deny or approve proposed rate changes.¹¹³
- 33 The leeway for individualisation of individually purchased health insurance or small group health insurance is very limited. Especially since individual policies have to be based on one risk pool and the rates may only be adjusted with regard to geographic region, size of family, and age. The premiums also have to be based on the approved index rate, which will hinder individualisation. The requirements of the ACA, such as the guaranteed availability and renewability of coverage, are another obstacle for individualising insurance rates. Nevertheless, the requirements in connection with unreasonable rate increases do not reduce the leeway for individualisation, at least in those cases in which individualisation is based on the risk profile. Individualisation on the basis of risk will probably not be deemed "unreasonable" as long as it is actuarially sound. In the case of individualisation based on the willingness to pay, however, the requirement to inform customers about unreasonable rate increases could hinder such individualisation, provided that the criterion of the willingness to pay would meet the "unreasonable" threshold. Affected people could regard this practice as unfair and might switch insurers upon receiving a respective-notice.

108 See INS § 10291.5(b).

109 INS § 10293 (a), see also: 10 CCR § 2222.10-19. See John A. Gebauer and others, 'Insurance Contracts and Coverage', *California Jurisprudence 3d* (February 2019 Update) para 272.

110 45 CFR § 147.104.

111 42 U.S.C. § 300gg-94; 45 CFR § 154.200 - 45 CFR § 154.230; INS §§ 10181 - 10181.13.

112 INS §§ 10181.3(g) and 10199.1(d).

113 INS § 10181.3.

2. Property Insurance

a.) Preliminary remarks

- 34 Since the business of insurance in the U.S. is primarily regulated on a state level, there are no federal regulations on property-casualty insurance.¹¹⁴ On a Californian state level, most insurance on risk and operations are regulated in Proposition 103, an amendment of the Insurance Code adopted in 1988.¹¹⁵ Proposition 103 shall, among others, protect consumers from arbitrary insurance rates and practices. For all Californians, insurance must be fair, available, and affordable.¹¹⁶ No rate which is excessive, inadequate or unfairly discriminatory shall be approved or remain in effect.¹¹⁷ By enacting Proposition 103 California has become a prior-approval state and like most insurance on risk and operations, property-casualty insurances like homeowners, renters and automobile insurance are covered by Proposition 103.¹¹⁸ Thus, all property and casualty insurance rates have to be approved by California's Insurance Commissioner prior to use.¹¹⁹
- 35 In February 2015 the Commissioner has prohibited price optimisation in his "Notice Regarding Unfair Discrimination in Rating: Prize Optimization". Prize optimisation is therein defined as "*any method of taking into account an individual's or class's willingness to pay a higher premium relative to other individuals or classes.*" The Commissioner qualifies any form of price optimisation in the ratemaking process as unfairly discriminatory and as a violation of Californian law. This assessment is based on the finding that "*Price Optimization does not seek to arrive at an actuarially sound estimate of the risk of loss and other future costs of a risk transfer.*"¹²⁰ Accordingly, there is no leeway for the personalisation of property and casualty insurance contracts based on an insured's willingness to pay.

114 The business of insurance is almost exclusively regulated by the states, see: Baker and Logue (n 75) 631ff; Dobbyn and French (n 26) 501ff.

115 Article 10, Reduction and Control of Insurance Rates, INS §§ 1861.01-1861.16. Witkin (n 32) para 11 (1).

116 Witkin (n 32) para 11(1); Richard G. De La Mora and Spencer Y. Kook, 'Property-Casualty Insurance Ratemaking and Rate Regulation' in: Hinshaw & Culbertson LLP and Kristina Alexander (eds) *California Insurance Law & Practice* (Matthew Bender Inc. 2018) para 6A.03.

117 INS § 1861.05(a).

118 Kook and Rodriguez (n 26) para 1.08[3].

119 INS § 1861.01(c); Kook and Rodriguez (n 26) para 1.03, [3] and para 1.07[3].

120 California Insurance Commissioner, *Notice regarding unfair discrimination in rating: price optimization* (Department of Insurance, State of California February 18, 2015) <www.insurance.ca.gov/0250-insurers/0300-insurers/0200-bulletins/bulletin-notices-commiss-opinion/upload/PriceOptimization.pdf>.

b.) Renters Insurance

- 36 Renters insurance in California usually consists of different insurance coverages like personal property or liability insurance. In this paper we only analyse the regulation concerning the insurance of personal property.
- 37 Neither Proposition 103, nor the INS contains specific requirements regarding property insurance and hence the general rules set forth by Proposition 103 apply. Renters insurance premiums may not be excessive, inadequate or unfairly discriminatory.¹²¹ Premiums are deemed excessive if it is expected that the insurance company will generate an excessive profit¹²² and they are considered inadequate if they are expected to prevent an efficient insurance company from generating an adequate return.¹²³ To investigate whether an insurance rate is excessive or inadequate, the Commissioner has to balance the interest of the insured in favourable prices with the insurance companies' interest in high earnings. He also has to take into account that certain insurance policies are in the general public's interest or legally prescribed.¹²⁴ A so-called "ratemaking formula" is used to distinguish appropriate from inadequate or excessive rates. The formula must be applied by all insurers and sets forth the maximum¹²⁵ and minimum¹²⁶ permitted earned premium. Rates within this range can be described as "fair and reasonable" and "constitutional".¹²⁷ Nevertheless, the Commissioner still may assess on a case-by-case basis whether a rate is "unfairly discriminatory". Notably, there are no rules and regulations specifying how this assessment shall be made in connection with property-casualty insurance.¹²⁸

c.) Automobile Insurance

- 38 The aforementioned system of pre-approval of insurance rates also applies to automobile insurance. In addition, Proposition 103 has set forth additional requirements for automobile insurance.¹²⁹ The permitted rate-making factors are determined and given a hierarchy in INS § 1861.02(a). These are in

decreasing order of importance: (1) the insured's driving safety record; (2) the number of miles driven annually; (3) the years of driving experience; and (4) other factors that have a substantial relationship to the risk of loss and that were set forth in a regulation adopted by the Commissioner. The Commissioner has specified sixteen such optional rating factors.¹³⁰ Insurers can base their premiums on these factors as well. However, these optional rating factors must not be weighted greater than the weight of the third mandatory factor, i.e. the years of driving experience.¹³¹ The use of rating factors not set forth in the CCR is prohibited.¹³² Considering any other criteria without approval would constitute unfair discrimination.¹³³

- 39 While insurers can take the insured's driving safety record into account, this does not mean that they may use crash recorder data for ratemaking, since the law sets forth clear limits with regard to what data may be used in rate-making.¹³⁴ Insurers may consider the amount of annually driven miles, but usually base this factor on an own estimation or an estimation by the policyholder. While insurers are free to offer rates that are based on verified actual mileage rather than estimated mileage, participation in these actual mileage programmes is purely voluntary.¹³⁵

121 INS § 1861.05(a).

122 10 CCR § 2642.1.

123 10 CCR § 2642.3.

124 See: 10 CCR § 2642.1; 10 CCR § 2642.3.

125 10 CCR § 2644.2.

126 10 CCR § 2644.3.

127 Cf. De La Mora and Kook (n 116) para 6A.03 and [8][f]ff; The California Supreme Court endorsed the formula, cf. *20th Century Ins. Co. v. Garamendi*, 8 Cal. 4th 216 [1994].

128 De La Mora and Kook (n 116) para 6A.04(2). But compare D.III. with regard to anti-discrimination laws.

129 De La Mora and Kook (n 116) para 6A.04, [5][a].

130 According to 10 CCR § 2632.5(d)(l)-(16) these are: type of vehicle; vehicle performance capabilities, including alterations made subsequent to original manufacture; type of use of vehicle (pleasure only, commute, business, farm, commute mileage, etc.); percentage use of the vehicle by the rated driver; multi-vehicle households; academic standing of the rated driver; completion of driver training or defensive driving courses by the rated driver; vehicle characteristics, including engine size, safety and protective devices, damageability, reparability, and theft deterrent devices; gender of the rated driver; marital status of the rated driver; persistency (only for renewal of policy, see *California Insurance Law Dictionary and Desk Reference* (2018 edn, Thomson West) para P36.5); non-smoker; secondary driver characteristics; multi-policies with the same, or an affiliated, company; relative claims frequency or relative claims severity.

131 De La Mora and Kook (n 116) para 6A.04, [5][c]; cf. *Spanish Speaking Citizens' Foundation, Inc. v. Low*, 85 Cal.App.4th 1179 [2000], 1221.

132 10 CCR § 2632.4(a).

133 INS § § 1861.02(a)(4)

134 For example, public records on convictions may be considered. Cf. 10 CCR § 2632.5(c)(1). De La Mora and Kook (n 116) para 6A.04, [5][c].

135 (10 CCR § 2632.5(c)(2)(E) & (F)). De La Mora and Kook (n 116) para 6A.04, [5][c].

IV. Findings

- 40 While Switzerland and the U.S./California apply a very different approach for providing health care insurance, both jurisdictions align with regard to the limited leeway for the individualisation of health insurance contracts. In Switzerland, the individualisation of mandatory health insurance is not allowed, while there is quite some leeway for the individualisation of supplementary health insurance if such individualisation does not qualify as an abuse. In the U.S./California, there is almost no leeway for the individualisation of insurance contracts in the health insurance market as this market is comprehensively regulated and leaves insurance companies with vanishingly little possibilities with regard to adjusting premiums on an individual level.
- 41 The regulatory approach in Switzerland and the U.S./California differs even more in other insurance markets, namely for automobile insurance and insurance on contents: In Switzerland, these types of insurance are based on the principle of freedom of contract. Therefore, insurance law does not limit the ability of insurance companies to individualise insurance contracts. One could be of a somewhat different opinion if it is assumed that FINMA is generally competent to take action against abuse and if it is argued that the individualisation of insurance contracts is to be qualified as an abuse. In our view, however, individual conditions and premiums cannot be qualified as abuse if they are actuarially justified, which should always be the case if the individualisation is based on the insured's risk profile. In addition, the notion of abuse does not imply an obligation of equal treatment. Accordingly, the individualisation of insurance contracts should also be permissible under Swiss insurance law if it is based on the insureds' willingness to pay.
- 42 In California, automobile and renters insurance are densely regulated and the rates are subject to prior approval by the California's Insurance Commissioner. While this approach limits the flexibility of insurance companies considerably, it does not exclude the personalisation of insurance contracts per se. Rather, the degree of permitted individualisation depends on the concrete specifications according to which the insurance premiums must be determined and how adjustable-rates are approved by the Commissioner. In our opinion, a personalised insurance contract cannot be deemed excessive, inadequate or unfairly discriminatory as a premium which is specifically adjusted to the risk of an individual person can hardly be deemed excessive or inappropriate. This should particularly hold true for premiums that comply with accepted actuarial standards. However, the margin for individualisation appears fairly limited as the maximum and minimum permitted premium is determined by law. In addition, the personalisation

of renters or automobile insurance based on the insured's willingness to pay is straightforwardly prohibited in California. As a consequence, insurance companies in California have hardly any leeway to individualise insurance contracts.

D. Anti-discrimination Law

I. Preliminary Remarks

- 43 The personalisation of insurance contracts leads to people paying different premiums. This creates tensions with the constitutional principle of equal treatment, according to which individuals are to be treated equally as far as they possess equal characteristics. The equal treatment principle, however, does not prohibit all forms of differentiation and does not require unequal individuals to be treated equally. Yet, discriminating against certain protected characteristics is prohibited by the Swiss and the U.S. constitution. Thus, anti-discrimination law encompasses the question to what extent private parties are bound by the constitution. But anti-discrimination law is also found on a statutory level. In Switzerland, several specific statutes, as well as the general right to protection of personality enshrined in the Civil Code, need to be observed. Californian insurers are also subject to a variety of anti-discrimination laws on both the federal and the state level. The individualisation of insurance contracts thus has to navigate the conflicted interplay between contractual freedom and statutory limitations to discrimination. When doing so, distinguishing between different types of insurances, as well as understanding the rationales for rate adjustment, is of utmost importance.¹³⁶

II. Switzerland

1. Federal Constitution

- 44 The Federal Constitution's non-discrimination principle determines that no-one may be discriminated against on the grounds of origin, race, sex, age, language, social position, way of life, religious, ideological or political conviction, or on the grounds of physical, mental or psychological disability (so-called "protected characteristics").¹³⁷ The primary addressee is the state,¹³⁸ but the

¹³⁶ Cf. Bitter and Uphues (n 2) 148ff.

¹³⁷ Art. 8 para 2 FC.

¹³⁸ Giovanni Biaggini, 'Art. 8 BV' in: Giovanni Biaggini (ed) *Bundesverfassung der Schweizerischen Eidgenossenschaft*:

non-discrimination principle is also binding on private individuals performing public functions,¹³⁹ such as insurance companies offering mandatory health insurance.¹⁴⁰ When offering such insurance, insurance companies may not take protected characteristics into account when exercising their actuarial discretion within the limits set by health insurance law.¹⁴¹

- 45 In contrast, the providers of private insurances, such as supplementary health, automobile or renters insurance are not directly bound by the constitutional non-discrimination principle.¹⁴² Nevertheless, the constitution requires authorities to ensure that fundamental rights also become effective among private individuals, to the extent that the fundamental right in question is suitable for such “horizontal” application.¹⁴³ This also applies to FINMA, the authority supervising the insurance sector. Thus, FINMA must take account of the prohibition of discrimination in the application of the laws regulating the insurance sector, particularly when interpreting legal terms.¹⁴⁴
- 46 For the individualisation of insurance contracts, this assessment could be relevant when construing and applying the concept of “abuse” in the ISA. If one follows the view that neither the ISA’s objective¹⁴⁵ nor FINMA’s statutory competences¹⁴⁶ serve as a basis for intervention by the supervisory authority,¹⁴⁷ the question of giving effect to the non-discrimination principle between private individuals arises only when examining the rates that are subject to approval; i.e. the rates for occupational pensions and supplementary health insurance.¹⁴⁸ Here, FINMA must take due account of the prohibition of discrimination when interpreting the concept of abuse.

- 47 At least in this area,¹⁴⁹ FINMA is mandated to intervene if an insurance company were to individualise the conditions based on a protected characteristic since such discrimination could be qualified as an abuse.¹⁵⁰ This applies to direct as well as indirect discrimination. As opposed to direct discrimination, which is taking place if an insurer discriminates the conditions of an insurance contract based on a protected characteristic, indirect discrimination takes place when the insurer does not account for a protected characteristic in its individualisation process, but the actual effects of individualisation would be particularly disadvantageous for people possessing a protected characteristic.¹⁵¹ However, the existence of discrimination always requires the existence of a qualified unequal treatment of a protected group of persons. According to prevailing case law, this requires that the distinguishing feature being used as discriminant constitutes an essential element of the identity of the person concerned and is impossible or very difficult to give up.¹⁵² Further, using a protected characteristic as discriminant can be justified if three conditions are met:¹⁵³ first, there must be an objective reason for the differentiation; second, it must pursue a legitimate aim; and third, the differential treatment needs to be proportionate to that aim.¹⁵⁴ As insurance companies will base the individualisation on objective reasons such as an insured’s risk profile or willingness to pay while pursuing the legitimate aim of attracting additional customers, increasing their turnover, and fighting adverse selection and moral hazard, it is likely that the individualisation based on protected characteristics will be justified on a regular basis and is therefore not to be considered as an abuse in the sense of the ISA.

Kommentar (Orell Füssli 2017) para 18.

139 Art. 35 para 2 FC.

140 See: Swiss Federal Court (unpublished case no 5P.97/2006) [2006] at 3.3.

141 See above, C.II.1.

142 See Swiss Federal Court (BGE 129 III 35) [2003] at 5.2; critical Kurt Pärli, ‘Urteil des Bundesgerichts 5P.97/2006 vom 1. Juni 2006’ (2007) *Haftung und Versicherung*, 46, 48 ff.; cf. below, D.II.4, on the protection against discrimination derived from the right to respect one’s personality.

143 Art. 35 para 3 FC.

144 Advocating an interpretation in the light of fundamental rights: Jörg Paul Müller, *Verwirklichung der Grundrechte nach Art. 35 BV* (Stämpfli Verlag 2018) 103 ff.

145 Art. 1 ISA.

146 Art. 46 ISA.

147 See above, C.II.2.b).

148 Art. 4 para 2 lit. r in conjunction with Art. 38 ISA.

149 A more extensive interpretation of FINMA’s mandate has been proposed, see above, C.II.2.b).

150 Same opinion Waldmann (n 48) 69.

151 Swiss Federal Court (BGE 139 I 169) [2013] at 7.2.1ff.; Swiss Federal Court (BGE 129 I 217) [2003] at 2.1; Biaggini (n 138) para 20, with further references; Rainer J. Schweizer ‘Art. 8 BV in: Bernhard Ehrenzeller and others (eds) *Die Schweizerische Bundesverfassung: St. Galler Kommentar* (Dike and Schulthess 2014) para 51, with further references.

152 Swiss Federal Court (BGE 141 I 241) [2015] at 4.3.2; Swiss Federal Court (BGE 139 I 169) [2013] at 8.2.1; Swiss Federal Court (BGE 135 I 49) [2009] at 4.1; Swiss Federal Court (BGE 134 I 49) [2008] at 3.1; Swiss Federal Court (BGE 126 II 377) [2000] at 6.

153 Biaggini (n 138) para 22; Schweizer (n 151) para 48; Swiss Federal Court (BGE 141 I 241) [2015] at 4.3.2; Swiss Federal Court (BGE 139 I 169) [2013] at 8.2.2.

154 Biaggini (n 138) para 26; Schweizer (n 151) para 54, with further references. However, the requirements for justification are not identical for all protected characteristics and there is no room for justification at all for certain characteristics, see: Biaggini (n 138) para 25; Schweizer (n 151) para 48.

2. Federal Act on the Elimination of Disadvantages of Persons with Disabilities (EDPD)

- 48 The Federal Act on the Elimination of Disadvantages for Persons with Disabilities (EDPD)¹⁵⁵ intends to prevent, reduce or eliminate disadvantages to which people with disabilities are exposed.¹⁵⁶ With this aim in mind, private individuals offering services to the public must not discriminate against disabled people on the basis of their disability.¹⁵⁷ This also applies to private insurances.¹⁵⁸ Discrimination occurs when people with disabilities are treated in a radically different and disadvantageous way, with the aim or the consequence of degrading them or excluding them from services.¹⁵⁹ However, the EDPD does not oblige private individuals to take certain (positive) measures to eliminate actual disadvantages, or to refrain from differentiating between customers.¹⁶⁰ In the event of discrimination, only compensation of no more than CHF 5'000 can be claimed.¹⁶¹ The Act does not confer the right to conclude a contract.¹⁶²
- 49 These requirements hardly impose any restrictions on the individualisation of insurance contracts. First of all, the legislator has made it clear that the law merely aims at preventing particularly unacceptable behaviour by private individuals lacking any tolerance that members of the society owe to each other.¹⁶³ Insurance companies do not exclude people with disabilities because of their disability, but because their disability represents a financial risk. Differentiating according to this risk is objectively justifiable.¹⁶⁴ It is therefore only questionable whether exclusion or degradation could be an (indirect) consequence of individualisation. The risk of exclusion cannot be ruled out, at least in the

155 Bundesgesetz über die Beseitigung von Benachteiligungen von Menschen mit Behinderungen vom 13. Dezember 2002, SR 151.3.

156 Art. 1 para 1 EDPD.

157 Art. 6 EDPD.

158 Similar opinion: Pärli (n 142) 50; Swiss Federal Court (unpublished case no 5P.97/2006) [2006] at 4.2, in the case of supplementary health insurance.

159 Art. 2 lit. d Federal Ordinance on the Elimination of Disadvantages for Persons with Disabilities (Verordnung über die Beseitigung von Benachteiligungen von Menschen mit Behinderungen vom 19. November 2003, SR 151.31).

160 Swiss Federal Council, *Botschaft vom 11. Dezember 2000 zur Volksinitiative «Gleiche Rechte für Behinderte» und zum Entwurf eines Bundesgesetzes über die Beseitigung von Benachteiligungen behinderter Menschen* (BBl 2001) 1715, 1780; see Swiss Federal Court (unpublished case no 5P.97/2006) [2006] at 4.1.

161 Art. 8 para 3 in conjunction with Art. 11 para 2 EDPD.

162 Swiss Federal Court (unpublished case no 5P.97/2006) [2006] at 4.1.

163 Swiss Federal Council (n 160) 1780.

164 Same opinion: Pärli (n 142) 51.

event of refusal to offer supplementary insurance. However, the access to health care as such is not at stake, as insurance companies are prohibited from excluding disabled people from mandatory health insurance. As the threshold has been set very high (particularly unacceptable behaviour), the refusal to offer supplementary insurance will hardly meet the requirements of the EDPD.

3. Federal Act on Human Genetic Testing (HGTA)

- 50 Insurers could use genetic tests for individualised risk-assessments and discriminate against individuals based on the conclusions that can be drawn from the results of genetic tests. However, the use of genetic information is constitutionally prohibited unless authorised by consent or law.¹⁶⁵ The Federal Act on Human Genetic Testing (HGTA) sets forth conditions under which human genetic testing may be performed in the context of insurance.¹⁶⁶ First and above all, insurance providers are prohibited from requiring pre-symptomatic or pre-natal genetic tests prior to providing insurance.¹⁶⁷ For certain types of insurance, such as mandatory health insurance, supplementary health insurance, and insurance for illness and maternity leave, the prohibition on utilising or requesting genetic tests is absolute.¹⁶⁸ For other types of insurance, the insurance provider may require applicants to disclose previously taken pre-symptomatic genetic tests if these tests provide reliable results and are of demonstrable scientific value from a technical and a medical practice perspective.¹⁶⁹
- 51 These provisions shall balance the interests between persons seeking out insurance and the insurance companies' interest in comprehensive information on the insured.¹⁷⁰ However, the prohibition merely covers the utilisation of pre-symptomatic and pre-natal genetic tests. Information obtained from genetic testing for diagnosis is not covered. Nevertheless, the HGTA stipulates that, in general, no one shall be discriminated against on the basis of genetic information.¹⁷¹

165 Art. 117 para 2 lit. f FC.

166 Art. 1 lit. c HGTA.

167 Art. 26 HGTA.

168 Art. 27 HGTA.

169 Art. 28 para 1 HGTA.

170 Swiss Federal Council, *Botschaft zum Bundesgesetz über genetische Untersuchungen beim Menschen vom 11. September 2002* (BBl 2002) 7361, 7438; Lanz (n 8) 23.

171 Art. 4 HGTA. Cf. Claudia Mund, *Grundrechtsschutz und genetische Information*, Basler Studien zur Rechtswissenschaft, vol 71 (Helbing Lichtenhahn 2005) 266ff.

4. Right to respect one's personality

- 52 There is no general prohibition of discrimination in Swiss private law.¹⁷² Legal scholars, however, derive such a protection from the right to respect one's personality enshrined in Art. 28 of the Civil Code (CC).¹⁷³ It is argued, for example, that this provision could act as an indirect prohibition of discrimination under private law, because unequal treatment on the basis of characteristics of a person which are protected by the right to respect one's personality constitutes a violation of personality.¹⁷⁴ Other scholars even derive a right to non-discriminatory treatment from the right to respect one's personality.¹⁷⁵
- 53 It is not immediately clear which characteristics are to be taken into account when determining discrimination as a violation of the right to respect one's personality, since the protection of this right is not limited to certain characteristics of a person but protects the personality as a whole. However, it seems logical to construe the relevant characteristics for a violation of personality with the protected characteristics mentioned in the non-discrimination principle in the Federal Constitution.¹⁷⁶ In fact, the constitutionally protected characteristics, such as gender, nationality, race, age, state of health, sexual preferences, political views or religious affiliation, are regularly referenced in the literature.¹⁷⁷ As always,

a certain severity of the impairment is required as a threshold for a violation of personality.¹⁷⁸ To give an example, the Federal Supreme Court has stated that only an offensive disregard of an employee's personality will qualify as discrimination against that employee.¹⁷⁹

- 54 It is generally accepted that a discriminatory contract formation can also be qualified as a violation of personality.¹⁸⁰ Discrimination is inadmissible not only if the conclusion of a contract is refused, but also if a contract is concluded on less favourable terms for reasons that are unrelated to the subject of the contract and that are infringing the right to respect one's personality.¹⁸¹ This may be the case when insurance contracts are individualised, in particular when the conditions are determined on the basis of gender, age or nationality.
- 55 However, personality-infringing discrimination can be justified, namely by an overriding private interest.¹⁸² This is the case if the insurance company can show objective reasons for individualisation based on protected characteristics which outweigh the interest in not being evaluated based on such characteristics.¹⁸³ If an offer is individualised on the basis of the risk profile, this should qualify as justifying overriding private interest. The same holds true when the premium is calculated with regard to the willingness to pay. In both constellations it is decisive that the individualisation is not based on a protected characteristic, but on other criteria. A mere correlation of risk profile or willingness to pay with a protected characteristic will therefore not establish an unlawful violation of personality.

172 Ruth Arnet, *Freiheit und Zwang beim Vertragsschluss* (Stämpfli Verlag 2008) para 356; Andreas Bucher, *Natürliche Personen und Persönlichkeitsschutz* (Helbing Lichtenhahn 2009) para 433; for an overview cf: Tarek Naguib, 'Diskriminierende Verweigerung des Vertragsabschlusses über Dienstleistungen Privater: Diskriminierungsschutz zwischen Normativität, Relativität und Idealität' (2009) *Allgemeine Juristische Praxis*, 993, 1005; Bettina Hürlimann-Kaup/Jörg Schmid, *Einleitungsartikel des ZGB und Personenrecht* (Schulthess 2016) para 1100; Samantha Besson, *L'égalité horizontale: l'égalité de traitement entre particuliers* (Fribourg: Editions Universitaires 1999) para 1240 ff.; Herbert Trachsler, *Das privatrechtliche Gleichbehandlungsgebot* (Dike 1991) 3ff. and 188ff.

173 Arnet (n 172) point 356; Peter Gauch and others, *OR AT: Band 1* (Schulthess 2014) para 1111; Tarkan Göksu, *Rassendiskriminierung beim Vertragsabschluss als Persönlichkeitsverletzung* (Freiburg: Universitätsverlag 2003) para 214ff.; Naguib (n 172) 1005ff.

174 Arnet (n 172) para 356.

175 Naguib (n 172) 1006; Pärli and others (n 48) 28.

176 See above, D.II.1.

177 Roger Zäch, 'Der Einfluss von Verfassungsrecht auf das Privatrecht bei der Rechtsanwendung' (1989) *Schweizerische Juristen-Zeitung*, 25, 26; Peter Gauch and others (n 173) para 1111. By referring to these criteria, specific, personality-forming and often unchangeable characteristics are qualified as relevant; some authors argue that the impairment of such characteristics is a pre-requisite for the existence of discrimination (Tarkan Göksu, 'Drittwirkung der Grundrechte im Bereich des Persönlichkeitsschutzes' (2009), *Schweizerische Juristen-Zeitung*, 89, 99).

178 Heinz Hausheer and Regina E. Aebi-Müller, *Das Personenrecht des Schweizerischen Zivilgesetzbuches* (Stämpfli Verlag 2016) point 12.06; Andreas Meili, 'Art. 28 ZGB' in: Heinrich Honsell and others (eds) *Basler Kommentar Zivilgesetzbuch I: Art. 1-456 ZGB* (Helbing Lichtenhahn 2014) para 38; Regina E. Aebi-Müller, 'Art. 28 ZGB' in: Peter Breitschmid and Alexandra Rumo-Jungo (eds), *Handkommentar zum Schweizer Privatrecht, Personen- und Familienrecht, Partnerschaftsgesetz: Art. 1-456 ZGB, PartG* (Schulthess 2016) para 3; Sibylle Hofer and Stephanie Hrubesch-Millauer, *Einleitungsartikel und Personenrecht* (Stämpfli Verlag 2012) point 20.11.

179 Swiss Federal Court (BGE 129 III 276) [2003] at 3.1.

180 Peter Gauch and others (n 173) para 1111; Göksu (n 173) point 274 ff., 312; Naguib (n 172) 1005ff; Arnet (n 172) point 357 and 363; Zäch (n 177) 25ff.; with regard to insurance law: Stephan Hartmann, 'Der Schutz der Versicherten vor Missbräuchen im revidierten Aufsichtsrecht' (2007) *Haftung und Versicherung*, 30, 33, with further references.

181 Göksu (n 173) para 199ff; Peter Gauch and others (n 173) para 1111a.

182 Art. 28 para 2 ZGB.

183 Arnet (n 172) para 371. For the balancing of interests in the context of justification see also: Hofer and Hrubesch-Millauer (n 178) para 2069; Hausheer and Aebi-Müller (n 178) para 12.23; Aebi-Müller (n 178) 32.

- 56 If, however, there is no justification, the person whose personality has been infringed is not only entitled to injunctive relief, damages and satisfaction,¹⁸⁴ but also to the conclusion of a contract on non-discriminatory terms.¹⁸⁵

III. U.S./California

1. Federal Anti-discrimination Law

- 57 In the U.S., the constitutional prohibition of discrimination is only binding on governmental units and officers and does not apply to private insurers.¹⁸⁶ However, next to this constitutional prohibition, there is a variegated body of anti-discrimination laws consisting of federal laws and state regulations applying to businesses and legal entities.¹⁸⁷ Some of these laws are pertinent to the business of insurance as they limit the types of permitted discrimination. These are ACA, HIPAA and the Genetic Information Nondiscrimination Act (GINA).¹⁸⁸ These acts are the only federal laws expressly forbidding insurers from engaging in any form of discrimination in the underwriting process. On the federal level, there is no general prohibition for insurance companies to take, for example, race, religion, or national origin into account.¹⁸⁹ Moreover, employers offering health insurance to their employees have to comply with the Civil Rights Act¹⁹⁰ and the Americans with Disabilities Act (ADA),¹⁹¹ which prohibit discrimination based on various protected characteristics.¹⁹² Each of these Acts enumerates some prohibited grounds for discrimination (e.g. race, gender, health status), but there is no centralised agency for enforcing respective discriminatory cases.¹⁹³

184 Art. 28a para 1 no. 1 f. and para 3 ZGB.

185 Peter Gauch and others (n 173) para 1111; Arnet (n 172) para 417ff; Göksu (n 173) para 660.

186 Julie C. Suk and Fred L. Morrison, 'The United States', in: Marie Mercat-Bruns (eds) *Comparative Perspectives on the Enforcement and Effectiveness of Antidiscrimination Law* (Springer 2018) 513, 513.

187 Avraham and others (n 5) 216; Suk and Morrison (n 186) 513ff.

188 The Genetic Information Nondiscrimination Act of 2008, 42 U.S.C. § 2000ff.

189 Avraham and others (n 5) 199.

190 Civil Rights Act of 1964, 42 U.S.C. § 1981.

191 Americans with Disabilities Act of 1990, 42 U.S.C. § 12101.

192 Cf. Croskey and others (n 67) para 706 and 710.

193 Suk and Morrison (n 186) 514.

a.) U.S. Constitution

- 58 Under the U.S. constitution, a common characteristic of a group, such as skin colour, gender, or sexual orientation, ought not to form the basis for unequal treatment. This principle is enshrined in the Equal Protection Clause of the Fourteenth Amendment to the U.S. Constitution.¹⁹⁴ Equally there are various other guarantees against certain types of discrimination found in the several Amendments of the U.S. Constitution.¹⁹⁵

- 59 With the exception of Part C, Medicare health care coverage is managed by the federal government.¹⁹⁶ All governmental units are bound by the constitutional prohibition of discrimination. This includes those involved in Medicaid administration on a state level, such as CMS, which is responsible for review and approval of the state plans.¹⁹⁷

b.) Patient Protection and Affordable Care Act (ACA)

- 60 The Patient Protection and Affordable Care Act (ACA), among others, aims at guaranteeing non-discrimination in connection with programmes funded under the ACA.¹⁹⁸ Therefore, the ACA prohibits discrimination on the basis of race, colour, national origin, sex, age, or disability in certain health programmes and activities.¹⁹⁹ The ACA also prohibits discriminatory premium rates for health insurance in the individual or small group market. Rating is limited to age, geographic area, individual or family unit, and tobacco use.²⁰⁰ Only these listed factors may be taken into account in setting health insurance premiums, while the maximum premium variations that an insurer can charge for these factors are also determined by the ACA.²⁰¹ For

194 U.S. Constitution Amendment XIV. Peter J. Rubin, 'Equal Rights, Special Rights, and the Nature of Antidiscrimination Law' (1998) *Michigan L.Rev.* 97:564, 568; Avraham and others (n 5) 216.

195 Barbara J. Van Arsdale and others, 'Civil Rights', *American Jurisprudence* (2nd edn, August 2018 Update) para 3.

196 U.S. Government, Department of Health & Human Services, *Medicare & You* (2019, Centers for Medicare & Medicaid Services) <www.medicare.gov/Publications/>. Cf. above, C.III.1.a), for a general explanation of Medicare and Medicaid.

197 Cf. Furrow and others (n 29) 490.

198 42 U.S.C. § 18116; Stoltzfuss Jost (n 104) para II[HH][6].

199 45 C.F.R. §§ 92.1-92.303; Robert E. Anderson and others, 'Insurance', *American Jurisprudence* 2d (February 2019 Update) para 544.

200 42 U.S.C. § 300gg.

201 Avraham and others (n 5) 198 Fn. 6; In terms of age, the rate shall not vary by more than 3 to 1 for adults (42 U.S.C. § 300gg(a)(1)(A)(iii)). The rating factor tobacco use shall not

example, the factor “gender” is not on this list and therefore cannot be considered by health insurers.²⁰² Moreover, the insurers also have to consider all insureds of the individual and small group market to be members of the same risk pool.²⁰³

- 61 With respect to group or individual health insurance coverage, the exclusion based on pre-existing conditions or the discrimination of those who have been sick in the past is also explicitly prohibited under the ACA.²⁰⁴ Hence, private health insurers must accept all applicants without regard to pre-existing conditions.²⁰⁵ Furthermore, group health plans must not discriminate against individuals based on health status, medical conditions, medical history, genetic information or the like²⁰⁶ or discriminate in favour of higher salaries.²⁰⁷
- 62 When interpreting the ACA’s underlying race and sex statutes, courts have held that they only bar direct but not indirect discrimination. Nevertheless, district courts have been unwilling to completely dismiss the viability of indirect disability discrimination.²⁰⁸ Accordingly, it is not yet excluded that ACA’s anti-discrimination provision might also protect individuals against indirect discrimination.

c.) Health Insurance Portability and Accountability Act (HIPAA)

- 63 The Health Insurance Portability and Accountability Act (HIPAA) limits insurance companies’ discretion in considering pre-existing conditions in the underwriting process for group health insurance coverage.²⁰⁹ However, only some provisions of HIPAA are still relevant, due to fact that the ACA largely supersedes HIPAA.²¹⁰ To give an example, HIPAA’s prohibition of discrimination based on health status in eligibility for coverage or premiums in older group health plans is still of relevance.²¹¹

vary by more than 1.5 to 1 (42 U.S.C. § 300gg(a)(1)(A)(iv)), see above, C.III.1.c).

202 Avraham and others (n 5) 198 Fn. 6.

203 42 U.S.C. § 18032(c); see above, C.III.1.c).

204 42 U.S.C. § 300gg-3.

205 DiMugno and Glad (n 104) para 37A:3.

206 42 U.S.C. § 300gg-4.

207 42 U.S.C. § 300gg-16(a); see: Anderson and others (n 199) para 544.

208 Cf. *Briscoe v. Health Care Services Corporation*, 2017 WL 5989727 (N.D.Ill. Dec. 4 2017); *Express Scripts v. Anthem ERISA Litigation*, No. 16 Civ. 3399 (ER) 2018 WL 339946 (S.D.N.Y. Jan. 5, 2018), appeal filed.

209 29 U.S.C. § 1181; Avraham and others (n 5) 198ff. with further references.

210 Furrow and others (n 29) 351.

211 Furrow and others (n 29) 351.

d.) Genetic Information Nondiscrimination Act (GINA)

- 64 The Genetic Information Nondiscrimination Act (GINA) prohibits discrimination in health insurance coverage and employment based on genetic information.²¹² Health insurance providers are prohibited from requiring or requesting genetic information of the person insured or the individual’s family members and may not use such information for fixing rates, decisions on granting coverage or to infer on pre-existing conditions.²¹³ Therefore denying coverage or charging different premiums to insureds based on genetic information is prohibited in group health insurance.²¹⁴ But disparate impact claims, i.e. cases involving indirect discrimination, are not included in GINA.²¹⁵

e.) Civil Rights Act

- 65 The 1964 Civil Rights Act’s Title VII²¹⁶ prohibits employers from imposing discriminatory terms and conditions upon employees. If employers provide health care coverage for employees, discrimination based on various protected characteristics is prohibited.²¹⁷ These protected characteristics are race, colour, religion, sex (including gender and pregnancy) and national origin.²¹⁸ Title VII of the Civil Rights Acts bars both direct and indirect discrimination.²¹⁹

f.) Americans with Disabilities Act (ADA)

- 66 People with disabilities are guaranteed the full and equal enjoyment of the goods, services, facilities, privileges, advantages, or accommodations of any place of public accommodation. Notably, insurance

212 29 U.S.C. § 1182(b)(3); Thomas Wm. Mayo, ‘Bioethics’, in: American Health Lawyers Association (ed) *Health Law Practice Guide* (December 2018 Update, Clark Boardman Callaghan) para 15:16.

213 Mayo (n 212) para 15:16.

214 Avraham and others (n 5) 199; see: 29 U.S. Code § 1182; 42 U.S.C. § 300gg-1.

215 42 U.S.C. § 2000ff-7; Jennifer K. Wagner, ‘Disparate impacts and GINA: Congress’s unfinished business’ (2018) 5 JLB 527, 530.

216 42 U.S.C. § 2000e et seq.

217 Croskey and others (n 67) para 706.

218 42 U.S.C. § 2000e-2; Tracy Bateman Farrell and others, ‘Job Discrimination’ *American Jurisprudence* (2nd edn, February 2019 Update) para 2.

219 42 U.S.C. § 2000e-2; Sara Rosenbaum, ‘Insurance Discrimination on the Basis of Health Status: An Overview of Discrimination Practices, Federal Law, and Federal Reform Options’ (2009) 37 J.L.Med.& Ethic, 101, 108.

offices, offices of health care providers, hospitals and other service establishments are, among others, qualified as public accommodation.²²⁰ However, it is not clear whether the provisions of the Americans with Disabilities Act (ADA) apply to insurance policies and the underwriting practices of insurance companies.²²¹ If interpreted narrowly, insurance companies merely have to provide physical access to their service infrastructure. Such an interpretation would not impact the business model of an insurance company. By contrast, a broader interpretation would have a significant effect, as the respective provisions would apply to the goods and services offered by a public accommodation, meaning that disparate treatment of disabilities in an insurance policy's provisions or an insurer's underwriting decisions could be subject to scrutiny under the ADA. However, the literature notes that case law and the Justice Department's position on this matter have been inconsistent.²²²

2. Californian Anti-discrimination Law

67 The federal laws are supplemented by Californian state laws, which can be administered by state agencies.²²³ Californian anti-discrimination regulations pertaining to the insurance business are found in the Constitution of California, the California Civil Code (CIV) and the California Insurance Code (INS).

a.) California Constitution

68 California's constitutional anti-discrimination regulation overlaps but is not identical with the equal protection principle of the U.S. Constitution.²²⁴ The U.S. Constitution permits but does not require the state to grant preferential treatment to suspect classes,²²⁵ whereas the Constitution of California prohibits the state from treating any individual or group differently in a positive or negative sense on the basis of race, sex, colour, ethnicity, or national origin in the operation of public employment,

public education, or public contracting.²²⁶ The notion of "state" includes political subdivisions and any department, division or sub-division of the state Government.²²⁷ Therefore, any governmental agency has to comply with the constitutional anti-discrimination principle. This regulation is particularly important for the state administration of Medi-Cal and the CDI. Private insurers in California are not bound by this principle.

b.) California Civil Code (CIV)

69 According to the California Civil Code (CIV) all persons within the jurisdiction of California are free and equal.²²⁸ Matters of sex, race, colour, religion, ancestry, national origin, disability, medical condition, genetic information, marital status, sexual orientation, citizenship, primary language, or immigration status shall not play any role with regard to entitlements to full and equal accommodations, advantages, facilities, privileges, or services in all business establishments of every kind whatsoever. This provision applies to property-casualty insurances in California.²²⁹ Therefore the aforementioned characteristics must not be considered when calculating automobile or renters insurance premiums.

c.) California Insurance Code (INS)

70 In Californian insurance law, discrimination on grounds of specific protected classes is prohibited.²³⁰ By law, Californian insurance companies are prohibited from denying insurance coverage based on sex, marital status, race, ancestry, colour, religion, national origin, disability, medical condition, physical or mental impairment, genetic characteristics or sexual orientation.²³¹ The California Insurance Code (INS) expressly bars health insurers from discriminating on the basis of these

220 42 U.S.C. § 12181(7)(F).

221 Justice H. Walter Croskey and others, 'Chapter 11: Extracontractual Liability', *California Practice Guide: Insurance Litigation* (The Rutter Group 2017) para 351.

222 Cf. DiMugno and Glad (n 104) para 5:5; Croskey and others (n 221) para 351ff.

223 Suk and Morrison (n 186) 514.

224 B.E. Witkin, 'Chapter X. Constitutional Law' in: *Summary of California Law* (11th edn, Witkin Legal Institute 2018) para 1088(5)(c), with further references.

225 Witkin (n 224) para 1088(5)(c) and para 1089(a); cf. Rachel M. Kane, 'Public Works and Contracts', *California Jurisprudence 3d* (February 2019 Update) para 14.

226 Cal. Const., art. I, § 31(a)); Kane (n 225) para 14.

227 Witkin (n 224) para 1088(1).

228 § 51(b) CIV.

229 INS §§ 679.70 and 679.71 as well as 1861.03(a); DiMugno and Glad (n 104) para 66:18.

230 Kristina Alexander and others 'Issuance of Insurance Policies', in: Hinshaw & Culbertson LLP and Kristina Alexander (eds) *California Insurance Law & Practice* (Matthew Bender 2018) para 9.08[2][b].

231 Cf. INS § 679.71 for renters insurance, INS §§ 11628-11629.5 for automobile liability insurance, INS § 10140 for health insurance, INS §§ 10192.11(a)(1), 10192.11(h)(1), 10192.12(a)(2) and 10192.24(a). for Medicare supplement insurance and 10 CCR § 2560.3 which applies to all classes of insurance. Kristina Alexander and others (n 230) para 9.08[2][b].

characteristics.²³² Considering sexual orientation as an underwriting criteria or using it to determine whether to require an HIV-test is also prohibited. Even if insurers were to infer sexual orientation from marital status, living arrangements, occupation, sex, beneficiary designation, ZIP Codes or other territorial classification, this would qualify as an unlawful discrimination.²³³ However, charging differing health insurance premiums for different sexes is allowed if it is based on objective, valid, and up-to-date statistical and actuarial data or sound underwriting practices.²³⁴ Furthermore, adjusting health insurance rates for the same coverage, solely because of a physical or mental impairment, is prohibited unless the differentiation is based on sound actuarial principles or is related to actual and reasonably anticipated experience.²³⁵

- 71 For property-casualty insurances, Proposition 103 prohibits unfairly discriminatory insurance rates.²³⁶ But there are no rules that specify how the “unfairly discriminatory” nature of rates shall be determined, since this concept is neither defined in the INS, nor in other regulations.²³⁷ Therefore the CDI must make a case-by-case assessment.²³⁸ Rates are deemed unfairly discriminatory whenever price differentials fail to reflect the difference in expected losses and expenses in an equitable manner.²³⁹

IV. Findings

- 72 In Switzerland, the prohibitions of discrimination in the Federal Constitution and various statutes set certain limits to the individualisation of insurance contracts. Also, insurance companies are barred from utilising pre-symptomatic or pre-natal genetic tests in their underwriting procedures. Other forms of discrimination could be present if the individualisation is based on protected characteristics – such as age, gender or origin – and the differentiation cannot be justified on objective grounds. However, insurance companies individualise their conditions primarily according to the risk profile of the insured, and sometimes according to their willingness to pay.

²³² INS §§ 10140, 10143 and 10144.

²³³ INS § 10140(e).

²³⁴ INS § 10140(a).

²³⁵ INS § 10144.

²³⁶ See above, C.III.2.

²³⁷ De La Mora and Kook (n 116) para 6A.04(2), (4).

²³⁸ De La Mora and Kook (n 116) para 6A.04(2)-(4).

²³⁹ INS § 11732.5. In its assessments of rates, rating plans, and rating factors, the CDI applies a definition of “unfairly discriminatory” which was originally laid down in the law for workers compensation rates (De La Mora and Kook (n 116) para 6A.04(4)).

These factors do not usually align with protected characteristics. If they do so (as in the case of gender), insurance companies should be able to justify the individualisation on a regular basis as it will be based on objective reasons (e.g. higher risks of male drivers) and most often on actuarially sound criteria such as a different risk profile. Thus, there are hardly any relevant restrictions to the individualisation of insurance contracts arising from the general prohibition of discrimination.

- 73 In contrast to Swiss law, U.S. and Californian law provide strong and extensive protection against discrimination. These provisions are also applicable in horizontal relationships, i.e. they also govern contractual relationships between individuals and businesses. Californian insurance law prohibits discrimination and the use of certain protected characteristics for the insurer’s risk classification. This regulation is in line with federal law, which prohibits discrimination in many sectoral laws for specific areas of insurance. Accordingly, the individualisation of insurance contracts must not be based on protected characteristics, further restricting the leeway for the individualisation of insurance contracts, which is already severely limited by insurance law. However, anti-discrimination law only rules out individualisation based on protected characteristics, thereby leaving (very limited) room for an individualisation based on other features.

E. Data Protection Law

I. Preliminary Remarks

- 74 For the individualisation of insurance contracts, insurers rely on data on their current or potential policyholders. The sources from which this data can be obtained are very diverse. Insurers have always demanded pre-contractual disclosure of information directly from the potential policyholder. But with the possibilities offered by new technologies, they can now increasingly rely on data collected during the term of the insurance contract (e.g. by using tracking tools) and on data bought from third parties, such as providers of social networking sites or apps.

- 75 The data analysed for the individualisation of insurance contracts will always be personal data and hence raise questions with regard to privacy and data protection law. The European approach to informational privacy has been and still is all-encompassing. European data protection laws apply to any processing of personal data in the public and the private sector,²⁴⁰ thereby trying to establish

²⁴⁰ Art. 2 para 1 GDPR; Art. 2 para 1 DPA.

rules and safeguards for all means and aims of processing personal data. The U.S. does not enact such all-encompassing data protection regulations, but rather pursues a sector-specific approach to safeguard informational privacy.²⁴¹

- 76 In the past years, the data protection landscape has undergone significant changes, in particular due to the EU enacting the GDPR.²⁴² Switzerland is not an EU member state and under no formal obligation to implement the GDPR. However, Switzerland is a signee of the Council of Europe Convention 108 and when modernising the Convention 108 (Convention 108+) the Council of Europe ensured consistency with the GDPR.²⁴³ Since Switzerland aims at signing the Convention 108+, it is set to adapt rules that align with the standard of the GDPR.²⁴⁴ Furthermore, the GDPR claims to apply to processing activities outside of EU territory and hence businesses in Switzerland are often advised to ensure compliance with the GDPR. For these reasons, we will not limit the analysis of data protection law to the Swiss Data Protection Act (DPA),²⁴⁵ but also include the GDPR.
- 77 The principles applied to the processing of personal data in Switzerland and the EU are only marginally different. However, there is one important (but often neglected) difference with regard to the regulatory approach: Under the GDPR every processing of personal data must have a lawful basis, such as consent of the data subject²⁴⁶ or a legitimate interest of the controller;²⁴⁷ in addition, the processing must be carried out in accordance with the applicable data protection principles.²⁴⁸ In Switzerland, the processing of personal data is lawful if the data protection principles are respected and a lawful basis is only required if the handling of personal data

is infringing these principles.²⁴⁹

II. Switzerland & the European Union

- 78 In Europe, data protection law is historically rooted in the right to respect for one's private and family life, his home and his correspondence.²⁵⁰ The 1981 Council of Europe Convention for the protection of individuals with regard to the processing of personal data (Convention 108) established harmonised rules for electronic data processing. Nowadays, the right to data protection enjoys the status of a fundamental right in the EU²⁵¹ and, according to the predominant doctrine in Switzerland, the (fundamental) right to informational self-determination can be derived from the Swiss Federal Constitution.²⁵² The fundamental rights approach has led to European lawmakers enacting all-encompassing data protection laws, which apply to any handling of data relating to an identified or identifiable person.²⁵³

1. Data protection principles

- 79 European data protection laws set forth conditions for every processing of data that relates to an identified or identifiable person (personal data).²⁵⁴ The notion of "processing" encompasses any handling of personal data one can think of.²⁵⁵ Whoever, alone or jointly with others, determines the purposes and means of the processing of personal data is a "controller" and, among others, has to ensure being compliant with the principles relating to the processing of

241 Lothar Determann, 'Adequacy of data protection in the USA: myths and facts' (2016) 6 IDPL, 244, 246.

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

243 Council of Europe, *Explanatory Report to the Protocol amending the Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data* (Council of Europe, 2018) Treaty Series - No. 223, 1.

244 Swiss Federal Council, *Botschaft zum Bundesgesetz über die Totalrevision des Bundesgesetzes über den Datenschutz und die Änderung weiterer Erlasse zum Datenschutz vom 15. September 2017* (BBl 2017) 6941, 6969ff.

245 Bundesgesetz über den Datenschutz vom 19. Juni 1992, SR 235.1.

246 Art. 6 para 1. lit. a GDPR.

247 Art. 6 para 1 lit. f GDPR.

248 Art. 5 GDPR.

249 Art. 12 para 2 lit. a DPA.

250 Art. 8 ECHR.

251 Art. 13 FC and Art. 8 Charter of Fundamental Rights of the European Union [2012] OJ C326/02.

252 Swiss Federal Court (BGE 138 II 346) [2012] at 8.2; Rainer J. Schweizer, 'Art. 13 BV' in: Bernhard Ehrenzeller and others (eds) *Die Schweizerische Bundesverfassung: St. Galler Kommentar* (Dike and Schulthess 2014) para 72; David Rosenthal, 'Art. 1 DSG' in: David Rosenthal and Yvonne Jhōri (eds) *Handkommentar zum Datenschutzgesetz* (Schulthess 2008) para 3ff. Critical: Eva Maria Belser, 'Zur rechtlichen Tragweite des Grundrechts auf Datenschutz: Missbrauchsschutz oder Schutz der informationellen Selbstbestimmung?', in: Astrid Epiney and others (eds) *Instrumente zur Umsetzung des Rechts auf informationelle Selbstbestimmung/Instruments de mise en oeuvre du droit à l'autodétermination informationnelle* (Schulthess 2013) 19.

253 Cf. Chris Jay Hoofnagle and others, 'The European Union general data protection regulation: what it is and what it means' (2019) 28 Info.&Comm.Tech.L., 65, 72ff.

254 Insurance companies have access to a variety of data sets and since the data can often be linked to individuals, it will qualify as personal data (cf. Weber (n 1) para 6).

255 Hoofnagle and others (n 253) 72ff.

personal data.²⁵⁶ These principles are deemed the core of European data protection law.²⁵⁷ As a general rule, every processing of personal data has to comply with all the data protection principles.²⁵⁸

- 80 Regarding the individualisation of insurance contracts based on big data analytics, the principles of purpose limitation,²⁵⁹ data minimisation and storage limitation are of particular relevance.²⁶⁰ Furthermore, questions with regard to the principles of fairness (translated as good faith in Switzerland) and transparency of processing arise.²⁶¹ Lastly, data quality can play a role in any data analysis.²⁶²

a.) Transparency and Purpose Limitation

- 81 The principle of transparency obliges controllers to be transparent with regard to their processing operations.²⁶³ This principle is closely connected to the principle of purpose limitation as it requires the controller to provide information on the purpose of its processing.²⁶⁴ The transparency of data processing is arguably not only the single most

important principle of data protection law, but also the reason for the broad information duties of data controllers²⁶⁵ and the right of access.²⁶⁶

- 82 The principle of purpose limitation is a key principle of data protection law and consists of two aspects: first, the purposes for which the controller intends to process the data need to be specified (purpose specification); and second, these purposes set the limits for the controller's processing operations (use limitation).²⁶⁷ The purposes have to be clearly and unambiguously specified pursuant to the GDPR and a controller's processing operations are limited to what is compatible with these specified purposes. Swiss law allows processing for purposes that are specified or merely obvious due to the circumstances of the collection of the data. But in turn, a controller's operations are strictly limited to these purposes.²⁶⁸

- 83 In order to meet the requirements of transparency and purpose specification, insurance companies must ensure that their customers are aware of the fact that their personal data is processed for providing an individual offer, taking into account their personal risk profile and/or their willingness to pay. This should not cause particular problems with regard to data obtained directly from the (potential) policyholder in the context of a specific insurance contract. But insurance companies may want to use data that has not been obtained for the purpose of running big data analytics to calculate individual premiums, e.g. data on treatments and therapies collected for billing and reimbursement purposes. Such use would have to be classified as data repurposing²⁶⁹ and would trigger the insurance companies' duty to inform the data subject accordingly. While informing their customers about such repurposing should not be a problem, it might be difficult or even impossible for insurance companies to comply with this requirement if their analysis includes data about individuals who are not their customers. As in other cases, the principle of transparency and purpose limitation appear to be in a fundamental conflict with big data analytics' idea of gaining new insights from existing data.²⁷⁰

256 Cf. Art. 5 para 2 GDPR; Switzerland currently employs a different terminology, yet it is expected that this will change.

257 Cf. Peter Hustinx, 'EU Data Protection Law: The Review of Directive 95/ 46/ EC and the General Data Protection Regulation' in: Marise Cremona (ed) *New Technologies and EU Law* (OUP 2017) 127 and 131.

258 Art. 5 GDPR; Art. 4 and 5 DPA. Peter Carey, 'Data Protection Principles' in: Peter Carey (ed) *Data Protection: A Practical Guide to UK and EU Law* (5th edn, OUP 2018) 32, 32.

259 Art. 5 para 1 GDPR; Art. 4 para 3 DPA.

260 Art. 5 para 1 lit. c and e GDPR; in Switzerland data minimisation and storage limitation are derived from the general principle of proportionality enshrined in Art. 4 para 2 DPA. Cf. Weber (Fn. 52) 101; Rolf H. Weber, 'Big Data: Rechtliche Perspektive' in: Rolf H. Weber and Florent Thouvenin (eds) *Big Data und Datenschutz - Gegenseitige Herausforderungen* (Schulthess 2014) 17; Philippe Meier, *Protection des données* (Stämpfli Verlag 2011) para 673; Yvonne Prieur, 'Datenschutz und «Big Data-Geschäfte» auf dem Prüfstand' (2015) *Allgemeine Juristische Praxis*, 1643, 1649; Bruno Baeriswyl, 'Art. 4 DSG', in: Bruno Baeriswyl und Kurt Pärli (eds) *Stämpflis Handkommentar Datenschutzgesetz* (Stämpfli Verlag 2015) para 23; Florent Thouvenin, 'Forschung im Spannungsfeld von Big Data und Datenschutzrecht: eine Problemskizze' in: Volker Boehme-Nessler and Manfred Reh binder (eds) *Big Data: Ende des Datenschutzes? Gedächtnisschrift für Martin Usteri*, (Stämpfli Verlag 2017) 27, 34.

261 Art. 5 para 1 lit. a GDPR; Art. 4 para 2 and para 4 DPA.

262 Art. 5 para 1 lit. d GDPR; Art. 5 DPA.

263 Art. 5 para 1 lit. a GDPR; Art. 4 para 4 DPA.

264 Art. 13 para 1 lit. c and Art. 14 para 1 lit. c GDPR; Florent Thouvenin, 'Erkennbarkeit und Zweckbindung: Grundprinzipien des Datenschutzrechts auf dem Prüfstand von Big Data', in: Rolf H. Weber and Florent Thouvenin (eds) *Big Data und Datenschutz - Gegenseitige Herausforderungen* (Schulthess 2014) 61, 64.

265 Art. 13ff. GDPR; Art. 14 and Art. 18a DPA.

266 Art. 15 GDPR; Art. 8 DPA.

267 Art. 5 para 1 lit. b GDPR; Art. 4 para 3 DPA; Carey (n 258) 34; Bart Custers and Helena Uršič 'Big Data and data reuse: a taxonomy of data reuse for balancing big data benefits and personal data protection' (2016) 6 *IDPL*, 4, 8; Thouvenin (n 264) 67.

268 Thouvenin (n 264) 67ff.

269 Custers and Uršič (n 267) 8.

270 Thouvenin (n 264), *passim*; cf. Paul MacDonnell, 'The European Union's Proposed Equality and Data Protection Rules: An Existential Problem for Insurers?' (2015) 35 *Ec.Aff.*, 225, 233, stating that insurance companies using data mining techniques do not know what they will find until it is too late.

b.) Data Minimisation and Storage Limitation

84 According to the data minimisation principle, as few data as necessary, for the purposes of the processing shall be processed.²⁷¹ Similarly, the principle of storage limitation's objective is to ensure that controllers do not keep data longer than necessary for the initial purpose of the processing.²⁷² Thus, as few data as needed for the purposes specified at the initial collection shall be processed and as soon as the initial purpose of the collection is fulfilled, the personal data has to be deleted. As seen already, it is arguably impossible to be specific about the purposes of big data analysis. Since the data would have to be deleted as soon as the initial purpose is fulfilled, data reuse would be generally impossible according to these principles. Thus, if interpreted strictly, the data minimisation and storage limitation principles go head to head with big data analytics and many other data processing practices, since the data would have to be deleted and be lost for future analysis.²⁷³ These challenges also affect the processing of personal data by insurance companies. Namely, the principles of data minimisation and storage limitation may have a negative impact on the accuracy of the data analysis carried out to determine individual risk profiles and willingness to pay, but they do not hinder the individualisation of insurance contracts as such.

c.) Data Quality

85 An important aspect of any data analysis is data quality. Data protection laws in Switzerland and the EU incorporate a data accuracy principle, according to which personal data must be accurate and, where necessary, kept up to date.²⁷⁴ The principle intends to prevent decisions made on the basis of poor data. However, the controller should only alter and update data when it is necessary to mitigate potential dangers to the fundamental rights of the data subjects.²⁷⁵ Whenever this danger cannot be

271 Art. 5 para 1 lit. c GDPR; Art. 4 para 2 DPA, where the principle of data minimisation is derived from the more general principle of proportionality; see Thouvenin (n 63) 31.

272 Art. 5 para 1 lit. e GDPR; Art. 4 para 2 DPA, where the principle of storage limitation is derived from the more general principle of proportionality; see Thouvenin (n 63) 31; for an EU perspective see also Tjimen H.A. Wjisman, 'Privacy, Data Protection and E-Commerce', in: Arno R. Lodder and Andrew D. Murray (eds) *EU Regulation of E-Commerce: A Commentary* (Edward Elgar 2017) point 12.13.

273 MacDonnell (n 270) 233; Hoofnagle and others (n 253) 78.

274 Art. 5 para 1 lit. d GDPR; Art. 5 DPA.

275 Cf. Thomas Hoeren, 'Big Data und die Datenqualität – ein Blick auf die DSGVO' (2016) 6 ZD, 459, 461ff.

identified, there is no need to "correct" or update the data. While ensuring data quality might be as difficult for insurance companies as for other data controllers, this principle does not hinder the individualisation of insurance contracts.

d.) Fairness and Good Faith

86 The principle of fairness or good faith²⁷⁶ has a catch-all function.²⁷⁷ It is understood as a duty to safeguard the interests of the data subject in good faith and not to interfere unnecessarily with his protected interests. Clandestine data processing as well as data processing which the data subject did not need to expect, often conflict with the principle of good faith.²⁷⁸ Even though the principle of good faith might be affected in many constellations, its importance should not be overestimated. Scholars rightly argue that it should only be used restrictively to correct disturbing results that would otherwise be in accordance with the law.²⁷⁹ Thus, the principle also has little steering effect regarding the interpretation of legal norms.²⁸⁰ In particular, good faith should not be equated with an obligation to equal treatment or a general prohibition of differential treatment. Rather these prohibitions need to be specified in statutes.²⁸¹ Hence the principle of good faith does not hinder individualisation of insurance contracts.

2. Lawful basis

87 In the EU, data processing must always be based on (at least) one of six reasons for the lawfulness of processing.²⁸² In Switzerland, such reasons are only needed if the principles relating to the processing of personal data are violated.²⁸³

276 Art. 5 para 1 lit. a GDPR; Art. 4 para 2 DPA.

277 Lee A. Bygrave, *Data Privacy Law* (OUP 2014) 146; Tobias Herbst, 'Art. 5 DS-GVO' in: Jürgen Kühling and Benedikt Buchner (eds) *Datenschutz-Grundverordnung/BDSG* (2nd edn, C.H. Beck 2018) para 17; David Rosenthal, 'Art. 4 DSG' in: David Rosenthal and Yvonne Jhøri (eds) *Handkommentar zum Datenschutzgesetz* (Schulthess 2008) para 14.

278 Aurelia Tamò-Larrieux, *Designing for Privacy and its Legal Framework* (Springer 2018) 88; Baeriswyl (n 260) para 19.

279 Thouvenin (n 63) 34; Herbst (n 277) para 17; Philipp Reimer, 'Art. 5 DSGVO' in: Gernot Sydow (ed) *Europäische Datenschutzgrundverordnung* (2nd edn, Nomos, Manz and Dike 2018) para 14; Alexander Roßnagel, 'Art. 5 DSGVO' in: Simitis and others (eds) *Datenschutzrecht: DSGVO mit BDSG* (Nomos 2019) para 47.

280 Roßnagel (n 279) para 48.

281 Thouvenin (n 63) 35.

282 Art. 6 GDPR.

283 Thouvenin (n 63) 36.

a.) Consent

- 88 Most often, the data subject's consent serves as a legal basis.²⁸⁴ Consent must be freely and unambiguously given after adequate information on specified purposes of the processing operation.²⁸⁵ Notably, consent to processing may be withdrawn by data subjects at any time without having to specify any reasons.²⁸⁶ While this makes it difficult for controllers to rely on consent, the processing on other lawful bases remains possible.
- 89 Swiss and EU law contain hardly any formal requirements regarding consent. Neither law requires it to be given in writing. However, since a controller has the burden of proof when relying on consent for processing, he or she is advised to obtain consent in writing or another documentable form.²⁸⁷ Unambiguous consent means that insurance companies may not rely on opt-out mechanisms, but actually require their customers to opt-in to the processing of their personal data.²⁸⁸
- 90 Regarding substantive requirements, the requirement of freely given consent is the one that limits controllers the most. In this context so-called bundling, i.e. making the performance of a contract conditional upon consent to the processing of personal data that is not necessary for the performance of that contract, is discussed controversially.²⁸⁹ Some scholars argue that take-it-or-leave-it choices do not qualify as a freely given consent.²⁹⁰ However, one may also take the view that whenever providing personal data is part of the data's subject's main obligation, such processing is necessary and not prohibited by data protection law.²⁹¹
- 91 With regard to insurance contracts, providing information that enables assessing risks in underwriting procedures is part of the insured's main obligation. The same can be said for data collected during the term of the contract. While data on the insured's behaviour related to the risks which are covered by the insurance contract may not be strictly necessary for the performance of the contract, this data is so closely linked to the insurance contract that requesting consent to collecting such data can hardly be qualified as bundling. The same is true for data on the data subject's willingness to pay. While there is no direct connection to the performance of the contract, such data is used to provide an individualised offer for entering into a specific contract and is thus so closely related to the contract that requesting consent for the processing of such data cannot be qualified as bundling. There might be bundling and no freely given consent, however, if the insurance company requests consent for collecting of data which is neither related to the risks covered by the insurance contract, nor to the insured's ability or willingness to pay.
- 92 Since consent is only valid with regard to the specific purpose for which it was given, controllers need to get renewed consent if they want to process personal data for other purposes than the one it had been collected for.²⁹² As mentioned above,²⁹³ this emanation of the principle of purpose limitation goes head to head with the idea of big data analytics to analyse data for other purposes than the ones initially intended. However, the limitation is not strict. While the GDPR allows the processing for compatible purposes, the DPA allows processing for purposes that were indicated by the controller or obvious from the circumstances.²⁹⁴ While it remains unclear what purposes would qualify as "obvious" under Swiss law, the GDPR states which criteria must be taken into account to assess the compatibility of a new purpose.²⁹⁵ As the repurposing of data does not always need consent, the controller may use the data for big data analytics as far as the new purpose is compatible with the one for which the data was collected for.
- 93 The purposes for which insurance companies use personal data will most often be closely connected – at least as long as the data is used in the realm of one specific insurance contract; e.g. the processing of personal data to decide on whether the insurance company has to pay for an insured event (e.g. a car

284 Art. 13 para 1 DPA; Art. 6 para 1 lit. a GDPR.

285 Cf. Art. 4 para 11 GDPR and Art. 6 para 1 lit. a GDPR ; Art. 4 para 4 DPA. Corrado Rampini, 'Art. 13 DSGVO' in: Urs Maurer-Lambrou and Gabor P. Blechta (eds) *Basler Kommentar Datenschutzgesetz, Öffentlichkeitsgesetz* (3rd edn, Helbing Lichtenhahn 2014) para 3ff.

286 Art. 7 para 3 GDPR. Rampini (n 285) para 14.

287 Tobias Fasnacht, *Die Einwilligung im Datenschutzrecht* (Freiburg: Universitätsverlag 2017), Rn. 250 f.; Benedikt Buchner and Jürgen Kühling, 'Art. 7 DS-GVO' in: Jürgen Kühling and Benedikt Buchner (eds) *Datenschutz-Grundverordnung/BDSG* (2nd edn, C.H. Beck 2018), para 27. Notably, the GDPR states that if consent is obtained in the context of a written declaration, it must be clearly distinguished from other matters, using clear and plain language (Art. 7 para 2 GDPR).

288 Hoofnagle and others (n 253) 79.

289 Art. 7 para 4 GDPR. For Switzerland cf. Rampini (n 285) para 8.

290 Article 29 Working Party, 'Guidelines on consent under Regulation 2016/679' (WP 259 rev.01, 28. November 2017) at 9ff.

291 Cf. C-673/17, *Planet 49*, Opinion of Advocate Szpunar [2019] (ECLI:EU:C:2019:246) at 99. As different notions of freedom

could be applied in practice, it is to be seen from enforcement what courts deem acceptable "freedom" (Hoofnagle and others (n 253) 80).

292 Custers and Uršič (n 267) 8.

293 See above, E.II.1.a).

294 Art. 5 para 1 (b) and Art. 6 para 4 GDPR; Art. 4 para 3 DPA.

295 Cf. Art. 6 para 4 GDPR.

accident) and the use of such data for estimating the insured's (future) risk (e.g. his or her driving behaviour) are closely connected and these purposes should therefore be considered compatible. In addition, the data would remain in the controller-data subject relationship, so that the latter has a reasonable expectation of an insurance company using data on an insured event to amend and alter the terms of this relationship. Such forms of re-use would therefore not trigger the need to get renewed consent. It would be different, however, if data collected in connection with one contract (e.g. automobile insurance) is used for assessing the risks covered by a different contract (e.g. health insurance). In these cases, the insurance company would need to get the data subject's specific consent.

b.) Performance of a contract

94 Processing is lawful if it is necessary for the performance of a contract that the data subject is a party to, or to take steps to enter into a contract that the data subject has requested.²⁹⁶ "Necessity" means that the purpose of the processing could not be fulfilled with anonymous information.²⁹⁷ If the data is merely useful, this lawful basis shall not apply.²⁹⁸ Controversially, the European Data Protection Board (EDPB) stated that only objectively necessary processing operations may be based on this legal ground and the contract cannot "artificially expand" the categories of personal data or processing operations beyond the data subject's reasonable expectations.²⁹⁹ However, other scholars highlight that data may be processed if the purpose of the contract cannot "reasonably" be fulfilled by other means. Thus, they argue against a restrictive understanding of necessity and state that reducing costs and fostering efficiency are reasonable and hence necessary aspects of performing a contract.³⁰⁰

296 Art. 6 para 1 lit. b GDPR; Art. 13 para 2 (a) DPA.

297 Cf. C-524/06, *Huber* [2008] (ECLI:EU:C:2008:724) at 62ff; Estelle Dehon and Peter Carey 'Fair, Lawful and Transparent Processing', in: Peter Carey (ed) *Data Protection: A Practical Guide to UK and EU Law* (5th edn, OUP 2018), 42, 50.

298 Horst Heberlein, 'Art. 6 DS-GVO' in: Eugen Ehmann and Martin Selmayr (eds) *DS-GVO: Kommentar*, (2nd edn, C.H.Beck and LexisNexis 2018), para 13; Benedikt Buchner and Thomas Petri, 'Art. 6 DS-GVO' in: Jürgen Kühling and Benedikt Buchner (eds) *Datenschutz-Grundverordnung/BDSG* (2nd edn, C.H. Beck 2018), para 15.

299 European Data Protection Board, 'Guidelines 2/2019 on the processing of personal data under Article 6(1)(b) GDPR in the context of the provision of online services to data subjects, version for public consultation' (EDPB, 9 April 2019) at 8ff.

300 These scholars reference GDPR, recital 39. Cf. Kai-Uwe Plath, 'Art. 6 DSGVO' in: Kai-Uwe Plath (ed) *DSGVO/BDSG: Kommentar* (3rd edn, Verlag Dr. Otto Schmidt 2018) para 20ff; Dehon and Carey (n 297) 55. Cf. Sebastian Schulz, 'Art. 6 DS-

95 Certainly, insurers need comprehensive, granular and accurate data in order to assess the data subject's risks accurately. Thus, on the one hand it could be argued that the processing of any data facilitating the risk analysis is objectively necessary for the performance of the contract. On the other hand, business transactions can be performed in situations of uncertainty and such uncertainty is the very reason customers are willing to conclude insurance contracts. An insurer, it could therefore be argued, initially bears the risk of imperfect information and performing data analysis in order to reduce that risk with regard to individual customers could be deemed "unreasonable", since the insurer can always rely on risk groups and does not necessarily have to individualise insurance contracts. As establishing the necessity of processing for a contractual obligation comes with considerable uncertainties, controllers are advised to rely on other grounds for the lawfulness of processing.³⁰¹

c.) Legitimate interests

96 In Switzerland and the EU, data processing can be based on an interest analysis.³⁰² Despite explicit interest analysis being regarded as a tool that would allow a judge to do the specific case justice,³⁰³ in practice it is the controller who has to perform this balancing exercise.³⁰⁴ In this interest analysis, the legitimate interests pursued by the controller are at the heart of the reasoning. But the interests of a third party may be taken into account as well.³⁰⁵ These interests have to be legitimate, meaning that they shall be in accordance with the law in the broadest sense.³⁰⁶ The controller's or a third party's interests

GVO' in: Peter Gola (eds) *Datenschutz-Grundverordnung: DS-GVO, VO (EU) 2016/679: Kommentar* (2nd edn, C.H. Beck 2018) para 38.

301 Hoofnagle and others (n 253) 80.

302 Art. 13 para 1 DPA; Art. 6 para 1 lit. f GDPR. Cf. above, E.I for the systematic differences between the two approaches.

303 Swiss Federal Council, *Botschaft zum Bundesgesetz über den Datenschutz (DSG) vom 23. März 1988* (BBl 1988) vol II, 413, 460.

304 Cf. Andreas Sattler, 'From Personality to Property: Revisiting the Fundamentals of the Protection of Personal Data', in: Mor Bakhoun and others (eds) *Personal Data in Competition, Consumer Protection and Intellectual Property Law Towards a Holistic Approach?* (Springer 2018) MPI Studies on Intellectual Property and Competition Law, vol. 28, 27, 36.

305 Irene Kamara and Paul de Hert, 'Balancing and the Controller's Legitimate Interest' in: Evan Selinger and others (eds) *The Cambridge Handbook of Consumer Privacy* (CUP 2018) 331; Dehon and Carey (n 297) 58; Constantin Herfurth, 'Interessenabwägung nach Art. 6 Abs. 1 lit. f DS-GVO' (2018) 8 ZD, 5144; David Rosenthal, 'Art. 13 DSGVO' in: David Rosenthal and Yvonne Jhōri (eds) *Handkommentar zum Datenschutzgesetz* (Schulthess 2008) para 7; Rampini (n 285) para 21.

306 Herfurth (n 305) 514; Paolo Balboni and others, 'Legitimate

have to be balanced against the interests of the data subject. In a first step, the necessity of the processing in question has to be ascertained. In the literature, necessity is usually defined negatively, meaning one has to ask whether it would be possible to pursue the legitimate interests in a less interfering manner with the data subject's right to data protection.³⁰⁷ Once it has been established that the legitimate interest in question cannot be fulfilled by less-invasive means, the interests have to be balanced against in a second step.

- 97** Insurers have an interest in collecting and processing comprehensive, granular and accurate data on the insured's characteristics and behaviour related to the risks covered by the insurance contract and on their ability and willingness to pay. As this interest is backed by the controller's fundamental freedom to conduct business³⁰⁸ and since it may be assumed that neither Switzerland nor the EU member states prohibit the processing of data for these purposes, the interest of the controller in having access to that data can be considered legitimate.
- 98** While many scholars and data protection authorities (implicitly) base the pondering of interests on the assumption that data subjects have a general interest in not having their data collected and processed, a person seeking out insurance may actually have an interest in the processing of his or her personal data for the purpose of individualisation as they may get a better offer if their risk profile and/or their willingness to pay is below average. Therefore, the balancing of interests must be nuanced: On the one hand, the portion of policyholders whose individual risks are smaller than the average risk of the group they would be part of actually benefits from the data processing. Their personalised premiums should be lower than the premiums they would have to pay when classified in a risk group. On the other hand, policyholders whose risks are higher than the average risk of their group have no interests in a personalised risk profile and insurance contract. Furthermore, persons who are not part of the data-controller-data-subject relationship would benefit from another individual's data being analysed as long as the analysed individual has a higher risk than they do. The more high-risk individuals pay individualised premiums, the more likely it is that the low risk individuals pay lower premiums and eventually benefit from the data processing. The same argument applies to the willingness to pay.

interest of the data controller New data protection paradigm: legitimacy grounded on appropriate protection' (2013) 3 IDPL, 244, 254; Dehon and Carey (n 297) 57; Rampini (n 285) para 22.

307 Kamara and de Hert (n 305) 332.

308 Art. 16 EU Charter of Fundamental Rights; Art. 26 Swiss Federal Constitution.

- 99** Following this train of thought leads to a situation where the interests of individuals that would pay more due to individualisation outweigh the controller's legitimate interests in analysing the data, whereas the processing of data relating to policyholders that are better off with individualised premiums could be justified with the legitimate interests of the controller and the concurring interests of these data subjects. Such an interpretation, however, cannot solve the issue at stake and must be rejected for two reasons: First, it merely focuses on an analysis of the potential advantages or disadvantages of the data processing and does not take into account the general interest of (some) data subjects in not having their data analysed, irrespective of the effect of such analysis. Second – and this is the crucial point – in order to determine whether a (potential) policyholder actually benefits from the analysis of his or her data, the policyholder's data would have to be analysed. Hence an a priori differentiation between “winners” and “losers” is impossible, and the lawfulness of the processing can thus only be determined after the data has already been processed. As a consequence, the lawfulness of processing of personal data for the individualisation of insurance contracts cannot be based on such a pondering of interests.

- 100** As mentioned above, public interests should be taken into consideration as well³⁰⁹ – and in this case they could actually help to solve the dilemma. From this perspective, the individualisation of insurance contracts based on the processing of personal data is a meaningful way to help solve the problems of adverse selection and moral hazard.³¹⁰ Since the processing of personal data allows for the offering of individual premiums, insurance companies should now be able to also attract policyholders with a low risk profile, thereby gaining additional customers and making insurance coverage attractive to low risk individuals as well. This would help tackle the problem of adverse selection much better than the mere sorting of policyholders into different risk groups. The problem of moral hazard could be significantly mitigated if the collection and processing of personal data gathered after the conclusion of the insurance contract (e.g. by using driving or fitness trackers) is considered legitimate, since the risk of having to pay higher premiums due to risky behaviour would provide powerful incentives to policyholders to behave more carefully.³¹¹ Finally, from a public policy perspective, it is hard to dispute the fact that the individualisation of insurance premiums has positive effects on the economy as a whole.³¹²

309 Herfurth (n 305) 515.

310 See above, B.I.

311 See above, B.I.

312 See above, B.II.

101 In sum, there are good arguments for an overriding legitimate interest of the insurance companies which would ensure the lawfulness of processing of the insured's personal data. Nevertheless, since the balancing of interest analysis requires a case-specific assessment, it may be argued that a universal interest analysis is impossible. After all, an interest analysis should do justice to specific cases. As a consequence, insurance companies would run a considerable risk if they base the lawfulness of processing on their legitimate interests alone.

3. Special Categories of Data

102 In Switzerland, special categories of data enjoy additional protection as this data relates to the data subject's personality in a particularly sensitive way.³¹³ Such sensitivity is given if data relates to religious, ideological, political or trade union-related views or activities, health, the intimate sphere or the racial origin, social security measures, administrative or criminal proceedings, and sanctions.³¹⁴ However, the DPA does not prohibit the processing of such data per se. The aforementioned general conditions for lawfulness apply to special categories of data as well. While the controller may process such data in compliance with the data protection principles and he may rely on legitimate interests for justifying such processing if needed, there are some variations.³¹⁵ In particular, consent to processing special categories of data has to be express and, by statute, there is no legitimate interest in including special categories of data in creditworthiness checks.³¹⁶

103 The GDPR prohibits the processing of special categories of data as defined in Article 9 of the GDPR, under the assumption that what is unknown cannot be used to discriminate.³¹⁷ Special categories of data are: data revealing racial or ethnic origin, political opinions, religious or philosophical beliefs, or trade union membership, genetic data, biometric data, data concerning health or data concerning a natural person's sex life or sexual orientation.³¹⁸ However, the law provides exemptions for neutral or desirable processing of these special categories of data, and allows the processing of such data with the data

subject's explicit consent. While EU member states may enact further derogations,³¹⁹ neither legitimate interests nor necessity for the performance of a contract are a legitimate ground for the processing of special categories of data.³²⁰

104 These requirements and restrictions do not specifically relate to the individualisation of insurance contracts. But obviously they also have to be considered and met by insurance companies processing data that falls within one (or several) of these special categories.

III. U.S./California

1. Sector-Specific Data Protection Laws on a Federal Level

105 The situation with data privacy law in the U.S. is comparable to the situation regarding insurance law: the U.S. does not have a comprehensive data protection or data privacy law or any law regulating all issues of information privacy or security.³²¹ Also there is no direct expressed right of privacy in the U.S. Constitution or the Bill of Rights. But according to the U.S. Supreme Court, privacy is implicitly protected by the Constitution.³²² Moreover, the U.S. has many sector-specific federal laws regulating financial or health data or children's privacy.³²³ Governmental agencies and industry groups also develop (self-regulatory) guidelines - so-called "best practices" - but in general these are not legally binding.³²⁴ Notably, Section 5 of the Federal Trade Commission (FTC) Act declares unfair and deceptive acts or practices unlawful, with deception being the primary vehicle for privacy enforcement.³²⁵ However, the FTC also enforces other privacy regulations.³²⁶

313 Gabor P. Blechta, 'Art. 3 DSG' in: Urs Maurer-Lambrou and Gabor P. Blechta (eds) *Basler Kommentar Datenschutzgesetz, Öffentlichkeitsgesetz* (3rd edn, Helbing Lichtenhahn 2014) para 27.

314 Art. 3 lit. c DPA.

315 Rosenthal (n 305) para 15.

316 Art. 4 para 5 DPA and Art. 13 para 2 lit. c DPA.

317 Benedikt Buchner, 'Art. 1 DS-GVO' in: Jürgen Kühling and Benedikt Buchner (eds) *Datenschutz-Grundverordnung/BDSG* (2nd edn, C.H. Beck 2018), para 14.

318 Art. 9 para 1 GDPR.

319 Art. 9 para 2 lit. g GDPR.

320 Cf. Art. 9 para 2 GDPR and Art. 22 para 2 GDPR.

321 Denis T. Rice, 'Challenges of Privacy Compliance and Litigation' in: Elizabeth M. Johnson and Jean Magistrale (eds) *Privacy Compliance and Litigation in California* (September 2017 update, Cal CEB) para 1.2.

322 *Griswold v. Connecticut*, 381 US 479 (1965); Clara Ruyan Martin and David B. Oshinsky, 'Privacy Law and Privacy Policy' in: Suzanne L. Weakley (ed) *Internet Law and Practice in California* (July 2017 update, Cal. CEB) para 9.7. See *Lawrence v. Texas*, 539 US 558 [2003]; *Roe v. Wade*, 410 US 113 [1973].

323 Kurt Wimmer, 'United States' in: Monika Kuschevsky (ed) *Data Protection & Privacy: International Series* (3rd edn, Thomson Reuters 2016), 1093, 1093.

324 Peter Swire and DeBrae Kennedy-Mayo, 'U.S. Private-Sector Privacy' (2nd edn, IAPP 2018) 58.

325 15 U.S.C. § 41.

326 See Swire and Kennedy-Mayo (n 324) 42ff.

- 106** In contrast to the EU, the U.S. does not have a default prohibition of data processing. Accordingly, the processing of personal data is allowed unless a sector-specific restriction or prohibition applies.³²⁷ In addition to the sector-specific federal regulations, the individual states have laws of their own, many of them mapping respective federal laws. As a result, U.S. data privacy law is a complex patchwork of federal and state regulations, which covers different jurisdictions and different sectors.³²⁸
- 107** On the federal level, the Health Insurance Portability and Accountability Act (HIPAA),³²⁹ the Gramm Leach Bliley Act (GLBA),³³⁰ the Fair Credit Reporting Act (FCRA)³³¹ and the Genetic Information Nondiscrimination Act (GINA),³³² are relevant for insurers.³³³

a.) Health Insurance Portability and Accountability Act (HIPAA)

- 108** The Health Insurance Portability and Accountability Act (HIPAA), which was supplemented by the Health Information Technology for Economic and Clinical Health Act (HITECH Act) in 2009,³³⁴ provides for national standards to protect the privacy and security of healthcare information. The HIPAA regulations regarding information privacy are set forth in the HIPAA Privacy and Security Rule.³³⁵ HIPAA regulates the use and disclosure of “protected health information” by covered entities.³³⁶ Protected health information is defined as “individually identifiable health information”.³³⁷ The information has to be created or received by a health care provider, relate to health or the provision of health care,

and there has to be reasonable grounds to believe that a person can be identified through the data.³³⁸ HIPAA’s Privacy Rule does not apply to de-identified data, meaning such information may be shared freely. Nevertheless HIPAA provides protection to a lesser degree with respect to data that is largely de-identified but may contain data which could enable re-identification (limited data set).³³⁹ By regulation, limited data sets can only be shared for research, public health, and health care operations, but no other purposes.³⁴⁰ Covered entities are health plans, health care clearinghouses and some health care providers.³⁴¹ The notion of “health plan” refers to an individual or group plan that provides or pays the cost of medical care. Health plan includes group health insurance and health insurance issuers, which are defined as a licensed and state-level regulated insurance company, as well as insurance service providers, and insurance organisations.³⁴² Most insurance companies are covered by this notion³⁴³ and accordingly, health insurance policies are subject to HIPAA.

- 109** Covered entities have to comply with certain administrative, physical, technical and organisational security standards. For example they must ensure the confidentiality, integrity, and availability of electronic protected health information.³⁴⁴ A covered entity may not use or disclose protected health information, unless permitted or required by the privacy rule or with written authorisation by the individual who is the subject of the information.³⁴⁵ Protected health information may be used with the consent of the individual or for treatment, for payment, and for health care operations.³⁴⁶ Generally, underwriting, enrolment, premium rating, and other activities in connection with health insurance contract formation or renewal, as well as with health

³²⁷ Lothar Determann, *California Privacy Law* (3rd edn, IAPP 2018) 38.

³²⁸ Wimmer (n 323), 1093; Rice (n 321) para 1.2.

³²⁹ Health Insurance Portability and Accountability Act of 1996, 26 U.S.C., § 9801.

³³⁰ The Gramm–Leach–Bliley Act (GLBA), also known as the Financial Services Modernization Act of 1999, 15 U.S.C. § 6801.

³³¹ The Fair Credit Reporting Act, 15 U.S.C. § 1681.

³³² The Genetic Information Nondiscrimination Act of 2008, 42 U.S.C. § 2000ff., 42 U.S.C. § 2000ff.

³³³ The Federal Trade Commission Act (FTCA, 15 U.S.C. §§ 41–58.) would prohibit unfair or deceptive practices and is applied to consumer’s offline and online privacy and data security policies. But, due to the McCarran Ferguson Act, the business of insurance is only within the FTCA’s jurisdiction as far as it is not regulated by state law (15 U.S.C. § 1012).

³³⁴ Wimmer (n 323) 1100.

³³⁵ 45 C.F.R. Part 160 and 164. Cf. Swire and Kennedy-Mayo (n 324) 167ff; Wimmer (n 323), 1100.

³³⁶ 45 C.F.R. § 164.502(a). John T. Soma and others, *Privacy Law in a nutshell* (2nd edn, West Academic Publishing 2014) 114.

³³⁷ 45 C.F.R. § 160.103.

³³⁸ Wimmer (n 323) 1094.

³³⁹ Determann (n 327) 148ff; see: 45 C.F.R. § 164.514(b) for the requirements for de-identification of protected health information and 45 C.F.R. § 164.514(e) for the requirements regarding limited data sets.

³⁴⁰ 45 C.F.R. § 164.514(E)(3).

³⁴¹ 45 C.F.R. § 160.102(a).

³⁴² Cf. 45 C.F.R. § 160.103. The notion of “health plan” also includes federal and state government health benefit plans, such as Medicare and Medicaid (Medi-Cal), but excludes workers’ compensation insurers (Paul T. Smith, ‘Health Information Privacy’, in: Elizabeth M. Johnson and Jean Magistrale (eds) *Privacy Compliance and Litigation in California* (September 2017 update, Cal CEB) para 7.25).

³⁴³ Daniel J. Solove and Paul M. Schwartz, *Privacy Law Fundamentals* (2017 edn, IAPP 2017) 99.

³⁴⁴ 45 C.F.R. § 164.306 (general security standards); 45 C.F.R. § 164.308 (administrative safeguards), 45 C.F.R. § 164.310 (physical safeguards); 45 C.F.R. § 164.312 (technical safeguards); 45 C.F.R. § 164.314 (organizational safeguards); Determann (n 327) 150.

³⁴⁵ 45 C.F.R. § 164.502(a).

³⁴⁶ 45 C.F.R. § 164.502.

benefits, qualify as such health care operations.³⁴⁷ While use, disclosure and requests of protected health information shall be limited to the minimum necessary to accomplish the intended purposes of said operation, the use and disclosure of genetic information for underwriting purposes is entirely prohibited.³⁴⁸ Finally, under HIPAA an individual has a right to be adequately notified (notice of privacy practice) of the possible uses and disclosures of its protected health information, as well as of its rights and the covered entity's legal duties with respect to protected health information.³⁴⁹ In this notice of privacy practice, a health plan that uses protected health information for underwriting must include a statement that it is prohibited from using or disclosing genetic information for this purpose.³⁵⁰

b.) Gramm-Leach-Bliley Act (GLBA)

110 The Gramm-Leach-Bliley Act (GLBA) limits the disclosure of non-public personal information collected by a financial institution,³⁵¹ i.e. an institution engaging in activities which are financial in nature.³⁵² By statute, insuring against loss, harm, damage, illness, disability, or death is qualified as financial activity.³⁵³ Therefore, insurance companies are subject to the GLBA. With regard to its material scope of application, the GLBA protects personally identifiable financial information that is provided by, results from, or is otherwise obtained in connection with consumers and customers who obtain financial products.³⁵⁴ However, the Act is neither applicable to information in the public domain, nor to non-public financial information. With regard to substantive provisions, the GLBA imposes privacy and data security obligations on financial institutions. The Financial Privacy Rule foresees that privacy notices need to be provided to customers who obtain a financial product or service. Furthermore, certain restrictions on a financial institution's information sharing practices, as well as a duty to safeguard customer information (Safeguard Rule), are imposed.³⁵⁵ The customer must be informed about the institution's privacy policies and practices *ab initio*

and kept up-to-date at least annually.³⁵⁶ In particular, information on the disclosure and protection of non-public information must be given.³⁵⁷ The customers must also be informed about the possibility that their non-public personal information may be disclosed to a non-affiliated³⁵⁸ third party and they must be given the opportunity to opt-out of having their non-public personal information shared with non-affiliated third parties, except for fraud prevention or the processing of consumer transactions.³⁵⁹ Additionally, the financial institutions have to ensure the security of the customer's information and records. The latter must be protected against anticipated security threats or hazards and unauthorised access or use.³⁶⁰

111 Besides the relatively detailed rules on privacy policies and information sharing, the GLBA does not restrict the use of personal information and hence does not limit the possibilities of personalising insurance contracts based on big data.

c.) Fair Credit Reporting Act (FCRA)

112 The Fair Credit Reporting Act (FCRA)³⁶¹ shall protect consumers from inaccurate or unfair uses of their personal information in credit reports.³⁶² The Act regulates the disclosure and use of personal information supplied by Consumer Reporting Agencies (CRA),³⁶³ and in particular the use of consumer reports³⁶⁴ for adverse action.³⁶⁵ Insurance companies might have an interest in consumer reports when individualising insurance contracts with regard to the willingness to pay. By statute, denial, cancellation, or other adverse

347 45 C.F.R. § 164.501.

348 45 C.F.R. § 164.502(a)(5) and 45 C.F.R. § 164.502(b)(1).

349 45 C.F.R. § 164.520(a)(1).

350 45 CFR §§ 164.502(a) in connection with 164.520(b).

351 John T. Soma and others (n 336) 94.

352 15 U.S.C. § 6809(3)(A) and 12 U.S.C. § 1843(k).

353 Cf. 15 U.S.C. § 6809(3); 12 U.S.C. § 1843(k)(4)(B). 'Financial Data Privacy' in: Elizabeth M. Johnson and Jean Magistrale (eds) *Privacy Compliance and Litigation in California* (September 2017 update, Cal CEB) para 6.4.

354 15 U.S.C. § 6809(4), 16 C.F.R. § 313.3(o); Wimmer (n 323) 1094.

355 Wimmer (n 323) 1101.

356 15 U.S.C. § 6803.

357 15 U.S.C. 6803(a)(1)&(2) and 15 U.S.C. 6803(a)(3).

358 "The term "affiliate" means any company that controls, is controlled by, or is under common control with another company." (15 U.S.C. § 6809(6)).

359 15 U.S.C. § 6802; Determann (n 327) 94.

360 15 U.S.C. § 6801(b). Johnson and Magistrale (n 353) para 6.13.

361 Fair Credit Reporting Act, 15 U.S.C. §§ 1681-1681x.

362 15 U.S.C. § 1681.

363 Johnson and Magistrale (n 353) para 6.15; Pauline T. Kim and Erika Hanson, 'People Analytics and the Regulation of Information under the Fair Credit Reporting Act' (2016) 61 St. Louis U.L.J. 17, 21.

364 A consumer report is defined as "any written, oral, or other communication of any information by a consumer reporting agency bearing on a consumer's credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living", which is used for determining the eligibility for credit, insurance, employment or other authorized purposes (15 U.S.C. § 1681a(d)).

365 Swire and Kennedy-Mayo (n 324) 188ff; Johnson and Magistrale (n 353) para 6.38.

or unfavourable change of coverage, as well as unfavourable changes of the charged amount of any insurance, are considered such adverse actions.³⁶⁶ Thus the use of consumer reports by insurers would have to comply with the FCRA.³⁶⁷

- 113** A CRA may only furnish a consumer report in accordance with the instructions of the consumer, or when it has reason to believe that the requesting person has a permissible purpose to obtain a consumer report.³⁶⁸ By statute, the underwriting of insurance is such a permissible purpose.³⁶⁹
- 114** Where an adverse action is taken based on information contained in a consumer report, the user of the report shall inform the consumer about this fact.³⁷⁰ Whenever consumer reports are used for big data analytics and such analysis leads to an insurer taking an adverse action, the insurer has to inform the consumer. However, the FCRA does not apply to companies when they use data derived from their customer-relationship in their decision-making processes.³⁷¹ As long as all the data in the insurer's database is derived directly from the consumer and not from a consumer reporting agency, the FCRA would not prevent performing big data analytics.

d.) Genetic Information Nondiscrimination Act (GINA)

- 115** The Genetic Information Nondiscrimination Act (GINA) prohibits employers and health insurance companies from discriminating against individuals on the basis of genetic information.³⁷² Therefore companies should refrain from collecting genetic information unless it is absolutely necessary and permitted by law.³⁷³ Health insurers, in particular, are not allowed to request or purchase genetic information for underwriting purposes or prior to an individual's enrolment under a plan or coverage in connection with this enrolment.³⁷⁴ They may also not request an individual's family member to undergo

genetic testing.³⁷⁵ Furthermore, premiums may not be adjusted on the basis of genetic information.³⁷⁶

2. Californian Data Protection Law

- 116** As on the federal level, the state of California does (not yet)³⁷⁷ have a comprehensive data protection or (informational) privacy law. So far, California has only enacted harms-based privacy legislation, meaning that merely statutory protection against specific threats as well as rules relevant to certain industries and groups of data subjects exist.³⁷⁸

a.) Californian Constitution

- 117** The Californian constitution grants all people certain inalienable rights, one of them being a right to privacy.³⁷⁹ This right applies to the local government, to private entities and to individuals.³⁸⁰ But neither the wording, nor its interpretation by courts, impose concrete compliance obligations on companies.³⁸¹ A cause of action based on a violation of the right to privacy is possible if three elements are present: a legally protected privacy interest; a reasonable expectation of privacy; and a serious invasion of the privacy interest.³⁸² Thus, companies should keep the constitutional right to privacy in mind, even if intrusive invasions of personal privacy are in line with specific statutes and common law principles.³⁸³

b.) Insurance Information and Privacy Protection Act (IIPPA)

- 118** The personal information of insurance applicants or policyholders is strictly regulated in California, in particular by the Insurance Information and Privacy

³⁶⁶ 15 U.S.C. § 1681a(k)(1)(B)(i).

³⁶⁷ Cf. Determann (n 327) 101.

³⁶⁸ 15 U.S.C. § 1681b; see: Determann (n 327) 103.

³⁶⁹ 15 U.S.C. § 1681b(a)(3)(C).

³⁷⁰ 15 U.S.C. § 1681m(a)(1).

³⁷¹ 15 U.S.C. § 1681a(d)(2)(A)(i).

³⁷² See above, D.III.1.d). GINA expressly made genetic information protected health information under HIPAA, thus GINA violations are treated and enforced as an unauthorised use or disclosure under HIPAA (cf. John T. Soma and others (n 336) 133).

³⁷³ Determann (n 327) 145.

³⁷⁴ 29 U.S.C. § 1182(c)(4)(C); 29 U.S.C. § 1182(d); Determann (n 327) 146.

³⁷⁵ 29 U.S.C. § 1182(c).

³⁷⁶ 29 U.S.C. § 1182(b)(3)(A).

³⁷⁷ See below, E.III.2.f).

³⁷⁸ Determann (n 327) 37. An overview of some of California's major privacy laws can be found here: State of California Department of Justice, 'Privacy laws' <<https://oag.ca.gov/privacy/privacy-laws>> accessed 12 June 2019.

³⁷⁹ 1972 Cal. Const. Art. I, § 1.

³⁸⁰ Determann (n 327) 44; Roy G. Weatherup, 'Common Law and Constitutional Privacy Protection' in: Elizabeth M. Johnson and Jean Magistrale (eds) *Privacy Compliance and Litigation in California* (September 2017 update, Cal CEB) para 2.6; *Hill v. National Collegiate Athletic Assn.* 7 Cal.4th 1 (1994), 18-20.

³⁸¹ Determann (n 327) 45.

³⁸² *Hill v. National Collegiate Athletic Assn.* 7 Cal.4th 1 (1994), 35-3. *Witkin* (n 224) para 643(c); Determann (n 327) 46.

³⁸³ Determann (n 327) 45.

Protection Act (IIPPA).³⁸⁴ The IIPPA’s purpose is to establish standards for the collection, use, and disclosure of information gathered in connection with the insurance business, and to maintain a balance between the insurers’ need for information and the public’s need for fairness in insurance information practices.³⁸⁵ The regulations apply to health and property-casualty insurance³⁸⁶

119 Among others, the act contains provisions regarding the notice of information practices to all applicants and policyholders in connection with insurance transactions,³⁸⁷ the disclosure of personal or privileged information,³⁸⁸ the right to access recorded personal information,³⁸⁹ and the right to have recorded information corrected or a portion of it deleted.³⁹⁰ Notably, the IIPPA restricts on what basis an adverse decision may rest.³⁹¹ By statute, declination and termination of insurance coverage as well as charging higher rates for property or casual insurance or offering higher than standard rates in health insurance qualify as adverse actions.³⁹² Information on preceding adverse underwriting decisions, the information that an individual previously obtained insurance coverage through a residual market mechanism, and information possibly stemming from insurance-support organisations shall not be used as a basis for an adverse action.³⁹³ Thus the information an insurance company can base an adverse underwriting decision on is limited. Furthermore, IIPPA also vests the insured with a right to receive reasons for an adverse underwriting decision.³⁹⁴

c.) California Confidentiality of Medical Information Act (CMIA)

120 The California Confidentiality of Medical Information Act (CMIA)³⁹⁵ protects the privacy of California residents’ medical information.³⁹⁶ Any individually identifiable information regarding a patient’s medical history, mental or physical condition, or treatment in possession of or derived

from a provider of health care, health care service plan, pharmaceutical company, or contractor, is protected.³⁹⁷ The CMIA applies to providers of health care and their contractors and to health service plans.³⁹⁸ Health insurers must comply with the Act.³⁹⁹ In 2014 the CMIA was amended to cover providers of software and hardware that allow customers to manage their health,⁴⁰⁰ making it applicable to wearables.

121 The use or disclosure of health information “for any purpose not necessary to provide health care services to the patient,” is prohibited unless the individual has given his consent, or it is otherwise permitted by the CMIA. For example, the disclosure to an insurer for the payment of services is permitted by statute.⁴⁰¹ If an insurance company receives medical information from a person or company that is subject to the CMIA, it may not further disclose this information except in accordance with a new authorisation that meets the requirements of the CMIA.⁴⁰² However, the CMIA does not prevent the disclosure of medical information by a provider of health care to an insurance institution subject to the IIPPA, provided the institution has complied with all requirements for obtaining the information set forth by IIPPA.⁴⁰³

d.) California Financial Information Privacy Act (CFIPA)

122 The California Financial Information Privacy Act⁴⁰⁴ (CFIPA) makes use of the GLBA’s reservation for states wishing to expand and tighten its rules on financial privacy protection.⁴⁰⁵ The CFIPA requires financial institutions⁴⁰⁶ to obtain written consent from a customer before disclosing said customer’s non-public personal financial information.⁴⁰⁷ In some cases, CFIPA mandates that this consent must be provided by an affirmative action (opt-in),

384 INS §§ 791-791.29.

385 INS § 791.

386 INS § 791.01.

387 INS § 791.04.

388 INS §§ 791.06, 791.13.

389 INS § 791.08.

390 INS § 791.09.

391 INS § 791.12; Witkin (n 32) para 541.

392 INS § 791.02(a)(1)(A), (B), (D) and (E).

393 INS § 791.12.

394 INS § 791.10.

395 CIV §§ 56-56.37.

396 Cf. Determann (n 327) 156.

397 CIV § 56.05(j).

398 Determann (n 327) 156; see: CIV §§ 56.05(m) in connection with 56.06. Cf. Fn. 69.

399 Determann (n 327) 157.

400 CIV §§ 56.06; Determann (n 327) 157.

401 CIV §§ 56.10; cf. Paul T. Smith (n 342) para 7.4.

402 CIV § 56.13; cf. Determann (n 327) 158.

403 CIV § 56.10(c)(11).

404 California Financial Code (FIN) §§ 4050 – 4060.

405 FIN §§ 4051.5(a); Swire and Kennedy-Mayo (n 324) 204; Johnson and Magistrale (n 353) para 6.47.

406 Financial institution is defined as it is in the GLBA, 15 U.S.C. § 6809(3)(A) as well as FIN § 4052(c) refer to 12 U.S.C. § 1843(k).

407 Non-public personal financial information is defined the same way as under the GLBA, compare: 15 U.S.C. § 6809(4) and FIN § 4052(a).

whereas, in general, opt-out consent would be sufficient pursuant to the GLBA.⁴⁰⁸ The written consent (opt-in) of the consumers must be obtained, if financial information shall be disclosed to third parties that are neither affiliates nor financial institutions for the purpose of offering non-financial products and services.⁴⁰⁹ However, when disclosing non-public personal information to an affiliate, a health insurer must only provide the insured with an opt-out option and remind them annually in writing that the information is being disclosed.⁴¹⁰ An opt-out notice must also be sent if a financial institution wants to share financial information with another (non-affiliated) financial institution for the purpose of offering financial products or services.⁴¹¹ However, under the CFIPA financial institutions are not required to obtain a consumer's consent for sharing non-medical, non-public information with their fully owned subsidiaries, as long as they are engaged in the same line of business and regulated by the same functional regulator.⁴¹²

123 Insurers would be interested in non-public financial information for individualising insurance contracts in accordance with the willingness to pay. In such a scenario the CFIPA's requirements regarding the disclosure of non-public personal information need to be observed. Opt-out and opt-in requirements do limit the information on which the individualisation of insurance contracts may be based with regard to individuals that object to their information being shared. But as far as the individualisation is based on non-public financial information already in possession of an insurer or its subsidiaries, the CFIPA does not limit the leeway for individualisation.

e.) Consumer Credit Reporting Agencies Act (CCRAA) and Investigative Consumer Reporting Agencies Act (ICRAA)

124 The Consumer Credit Reporting Agencies Act (CCRAA)⁴¹³ and the Investigative Consumer Reporting Agencies Act (ICRAA)⁴¹⁴ govern how consumer credit reporting agencies furnish information and reports for the needs of commerce. They require that such agencies need to adopt reasonable procedures and

contain provisions concerning the confidentiality, accuracy, relevancy, and proper utilisation of such information.⁴¹⁵ While the CCRAA regulates consumer credit reports⁴¹⁶ and thus concerns a person's creditworthiness,⁴¹⁷ the FCRA also applies to reports regarding a consumer's character, i.e., general reputation, personal characteristics, or mode of living.⁴¹⁸ To a large extent both Acts, the CCRAA and the ICRAA, duplicate federal law, while in addition many provisions may be pre-empted by the FCRA.⁴¹⁹ Thus the relationship between CCRAA and FCRA is very complex.

125 A consumer credit report under the CCRAA is any written, oral, or other communication of any information by a consumer credit reporting agency bearing on a consumer's credit worthiness, credit standing, or credit capacity, which is among others, used for insurance underwriting.⁴²⁰ Overall the CCRAA defines terms similarly to the FCRA and contains similar obligations for reports regarding someone's creditworthiness.⁴²¹ As is the case under the FCRA, whenever a CRA has reason to believe that a person intends to use a consumer report in connection with the underwriting of insurance, it may furnish said report to that person.⁴²² If information in a consumer credit report leads to adverse action with respect to any consumer, he or she also has to be provided with an adverse action notice.⁴²³

126 Investigative consumer reports as regulated in the ICRAA are reports in which information is obtained on a consumer's character, general reputation, personal characteristics, or mode of living.⁴²⁴ This definition is broader than the definition of investigative consumer reports contained in the FCRA, since it includes information obtained "through any means"⁴²⁵, while under the FCRA, the information is obtained through personal interviews only.⁴²⁶

127 The ICRAA's rules are stricter than the CCRAA rules pertaining to consumer credit reports.⁴²⁷ An investigative consumer report may only be

⁴⁰⁸ Johnson and Magistrale (n 353) para 6.47.

⁴⁰⁹ FIN § 4053; Determann (n 327) 97.

⁴¹⁰ FIN § 4053(b); Johnson and Magistrale (n 353) para 6.48.

⁴¹¹ Determann (n 327) 99. This financial product must be offered by at least one of the institutions, the receiving institution must be clearly identified and maintain the information confidentiality (cf. Johnson and Magistrale (n 346) para 6.48).

⁴¹² FIN § 4053(c); Determann (n 327) 98ff.

⁴¹³ CIV §§ 1785.1-1785.36.

⁴¹⁴ CIV §§ 1786 - 1786.60.

⁴¹⁵ CIV § 1785.1(d) and CIV § 1786 (f).

⁴¹⁶ CIV § 1785.3(c).

⁴¹⁷ Johnson and Magistrale (n 353) para 6.50.

⁴¹⁸ CIV § 1786.2(c).

⁴¹⁹ Johnson and Magistrale (n 353) para 6.50.

⁴²⁰ CIV § 1785.3(c) in connection with CIV § 1785.11(a)(3)(C).

⁴²¹ 15 U.S.C. § 1681 a(e); Johnson and Magistrale (n 353) para 6.52.

⁴²² CIV § 1785.11(a)(3)(C).

⁴²³ CIV § 1785.20.

⁴²⁴ CIV § 1786.2(c).

⁴²⁵ CIV § 1786.2(c).

⁴²⁶ Johnson and Magistrale (n 353) para 6.54.

⁴²⁷ Johnson and Magistrale (n 353) para 6.54.

prepared when a need for a specific purpose can be demonstrated, e.g. for determining eligibility or rates for insurance.⁴²⁸ In general, the consumer needs to be informed a priori when an investigative consumer report is requested by the user.⁴²⁹ Also a consumer has to give his consent if an investigative report that contains medical information shall be sent to an insurer.⁴³⁰ If an insurance for personal, family, or household purposes increases the charge for insurance, or denies the consumer insurance based on a consumer's investigative consumer report, the insurance must inform the consumer and supply the name and address of the investigative consumer reporting agency that made the report.⁴³¹

f.) Outlook: California Consumer Privacy Act (CCPA)

128 In 2018 a Californian ballot initiative for a comprehensive consumer privacy act enforced through litigation had received sufficient signatures to cast a vote. Since laws enacted through ballot initiatives are almost impossible to revise, the legislature was under pressure to present an indirect counter-proposal, which would make the initiators withdraw the ballot initiative. It was not until the last day of possible withdrawal that the Californian legislature hastily enacted the California Consumer Privacy Act (CCPA).⁴³² The CCPA will enter into force 1 January 2020 and will be supplemented by regulations issued by the Californian Attorney General on or before 1 July 2020.⁴³³ This guidance will likely determine the scope of how the law is to be enforced in practice, since it is expected to elaborate on key definitions such as “personal information” and “unique identifiers”, as well as procedures companies must have in place to effectuate the CCPA's consumer rights.

129 The CCPA protects “consumers”, which are defined as California residents and the act thus applies to personal information relating to any California resident.⁴³⁴ Companies that do business in California

and either: (i) have an annual gross revenue of more than \$25 million; (ii) receive or share personal information of more than 50,000 consumers, households, or devices; or (iii) derive more than 50 percent of their annual revenues from selling consumers' personal information have to comply with de CCPA.⁴³⁵

130 The CCPA regulates the selling of personal information and provides consumers with various rights. Selling is defined as “selling, renting, releasing, disclosing, disseminating, making available, transferring, or otherwise communicating orally, in writing, or by electronic or other means, a consumer's personal information by the business to another business or a third party for monetary or other valuable consideration”.⁴³⁶ However, businesses can claim that they are covered by one of several complexly specified exemptions from the definition of “selling”.⁴³⁷

131 Consumers will have a right to be informed, to receive a privacy notice, and they will have access rights.⁴³⁸ The information to be provided includes *inter alia* the categories of personal information collected about the consumer, the categories of sources and the categories of recipients.⁴³⁹ Unlike the ballot initiative, consumers do not have a right to receive the name and identity of the data recipients.⁴⁴⁰ Furthermore, consumers are vested with opt-out options, whereas minors have to opt-in to the collection of personal information.⁴⁴¹ The CCPA prescribes certain means of communication; for example, it requires businesses to communicate the opt-out option with consumers via a clear and conspicuous link on the business's Internet homepage, titled “Do Not Sell My Personal Information”.⁴⁴² Furthermore, consumers have a right to get their data deleted.⁴⁴³ Also companies must not discriminate against California residents on the basis of them exercising their rights under the CCPA by denying goods or services, charging different prices, or providing a different service quality. However, differing prices, rates or quality may still be applied, if these differences are

428 CIV § 1786.16(d) in connection with CIV § 1786.12(d)(2).

429 Johnson and Magistrale (n 353) para 6.54; CIV § 1786.16.

430 CIV § 1786.12(f).

431 CIV § 1786.40; Johnson and Magistrale (n 353) para 6.54.

432 CIV §§ 1798.100 -1798.199. Cf. Ian C. Ballon, ‘Chapter 26 Data Privacy: 13A: Litigation Risks and Compliance Obligations under the California Consumer Privacy Act’, in: Ian C. Ballon (ed) *E-Commerce and Internet Law: Legal Treatise with Forms* (2nd edn, 2019 Update, Thomson Reuters/West Publishing) vol 3, 26-401, Fn. 3; cf. Nicholas Confessore, ‘The Unlikely Activist Who Took Silicon Valley – and Won’ *NY Times Magazine*, (New York 14 August 2018) <www.nytimes.com/2018/08/14/magazine/facebook-google-privacy-data.html>.

433 CIV 1798.185(a); Ballon (n 432) 26-402.

434 Lothar Determann, ‘New California Law Against Data

Sharing’ (2018) 19 CRI, 117, 118; CIV § 1798.140(g).

435 CIV 1798.140(c). Christin McMeley and others, ‘California Consumer Privacy Act: A Rapid Q&A’ (2018) 23(7) *Cyberspace Lawyer NL*, 3.

436 CIV §§ 1798.140(t)(1).

437 Cf. Determann (n 434) 119; CIV §§ 1798.140(t)(2)A-D.

438 CIV §§ 1798.100, 1798.110, 1798.115.

439 CIV § 1798.110(a)(1), (2) and (3).

440 Thomas Hoeren and Stefan Pinelli, ‘Das neue kalifornische Datenschutzrecht am Maßstab der DS-GVO: Auswirkungen des CCPA auf global agierende europäische Unternehmen’ (2018) *MMR*, 711, 712.

441 CIV § 1798.120. Ballon (n 432) 26-406.

442 CIV 1798.135(a)(1).

443 CIV § 1798.105. Ballon (n 432) 26-406.

reasonably related to the value of the consumer's data.⁴⁴⁴

- 132** California Civil Code (CIV) § 1798.175 provides that in the event of a conflict, the law that provides the greatest privacy protection takes precedence. However, the CCPA appears to prevent some of these conflicts by clarifying that it neither applies to medical information governed by the Medical Information Act nor to protected health information that is collected by a covered entity or business associate governed by the privacy, security, and breach notification rules issued pursuant to HIPAA and the HITECH Act.⁴⁴⁵ Further reservations concern the FCRA, the GLBA and the CFIPA.⁴⁴⁶

IV. Findings

- 133** All data processing operations in Switzerland and in the EU have to comply with applicable data protection law. Swiss data protection law makes the analysis of special (i.e. sensitive) categories of data subject to additional safeguards and the GDPR prohibits the processing of similar categories of data as a matter of principle. However, while both jurisdictions recognise a fundamental right to data protection, they also recognise that such right is by no means absolute. Hence, data processing in general, as well as profiling with the use of special categories of data in particular, is permitted with the data subject's consent. The main restriction here is that this consent has to be given freely and may be withdrawn without further ado. The processing of personal data for the personalisation of insurance contracts could also be deemed legitimate as far as it is necessary for the performance of such contracts or for pursuing a legitimate interest of the insurance company. In addition, insurance companies must ensure that their (potential) policyholders are aware that their personal data is processed to calculate individual offers based on their individual risk profile and/or their willingness to pay.
- 134** The restrictions these requirements impose on the individualisation of insurance contracts mainly depend on how the notions of "transparency", "freely given consent" and "legitimate interest" are understood. While there are convincing reasons to acknowledge that the lawfulness of processing personal data for offering individual insurance contracts can be based on the legitimate interests
- of insurance companies or should be considered compatible with the initial purpose of the insurance contract in most cases, it is hard to predict whether data protection authorities and courts would actually accept this reasoning. As a consequence, insurance companies are well advised to always ask for the specific consent of their (potential) policyholders prior to processing their data for providing an individual offer.
- 135** In California, a patchwork of privacy laws needs to be observed when individualising insurance contracts. Some federal laws set significant limits to individualisation based on certain categories of data, such as HIPAA's prohibition to disclose and GINA's prohibition to request or purchase genetic information for underwriting purposes. The majority of the rules, however, require transparency and security about data processing operations, without setting specific boundaries to individualisation. On the state level, most notably the IIPPA vests consumers not only with a right to have recorded information corrected or a portion of it deleted, but actually limits the informational basis for adverse action taken against the insured. The CFIPA also restricts information sharing between insurance companies and non-affiliates, but does not limit personalisation based on information in possession of the insurance or fully owned subsidiaries. While the novel CCPA will grant consumers the possibility to opt-out from having their information sold, the personalisation of insurance contracts appears to still be possible, since it is arguably reasonably related to the value of the consumer's data.
- 136** In sum, the all-encompassing Swiss and European approach to data protection law operates with very abstract concepts which leaves insurance companies with a great margin of interpretation and a remarkable amount of legal uncertainty. However, using big data analytics for the individualisation of insurance contracts is not prohibited by data protection law and should be compliant as long as the correct safeguards are in place, notably by requesting the data subject's consent. In California, data may be used for big data analytics in principle. But since rate increases qualify as adverse actions by statute under the IIPPA and the CCRAA, these regulations limit an insurer's informational basis. Thus, Californian data privacy laws set forth some significant and specific boundaries to the individualisation of insurance contracts.

⁴⁴⁴ CIV § 1798.125(a)(1); Determann (n 434) 120.

⁴⁴⁵ CIV § 1798.145(c)(1)(1). However, Determann states that the CCPA does not address any overlaps or inconsistencies with any of California's existing privacy laws (Determann (n 434) 117).

⁴⁴⁶ Ballon (n 432) 26-422.

F. Conclusion

137 The aim of this paper is to outline possible solutions for dealing with the individualisation of insurance contracts, namely with regard to individually calculated insurance premiums. It does so by analysing the legal situation on both sides of the Atlantic, using the jurisdictions of California and Switzerland as examples for two quite different approaches. The individualisation of insurance contracts has become technically possible and economically feasible in most insurance sectors thanks to novel technologies such as big data analytics. In order to provide a broad picture, this paper does not focus on one specific type of insurance, but includes three different types; namely, mandatory health insurance, renters insurance and automobile insurance. In addition, we analyse individualisation based on the two most important criteria in the insurance sector: individualisation based on the risk profile of the insured and individualisation with regard to his or her willingness to pay. Obviously, these two criteria can be combined when calculating the individual premium of a customer, but it seems that (until now) insurance companies have been rather reluctant to individualise their contracts according to their customers' willingness to pay.

138 Whether insurance companies should be allowed to individualise their contracts and premiums or whether the principle of solidarity should prevail, is being debated in various disciplines. While ethical considerations may speak in favour of solidarity at least for some types of insurance,⁴⁴⁷ an economic analysis would reach the conclusion that the individualisation of insurance contracts is beneficial for most individuals and the society at large. Given these different perspectives and the importance of the respective arguments, there is certainly no simple answer on how to deal with the individualisation of insurance contracts. Accordingly, it may come as no surprise that the two jurisdictions we have chosen to analyse – Switzerland and California – do not only rely on very different approaches to deal with the phenomenon, but they also come to quite different conclusions. Perhaps surprisingly, the leeway for individualisation is much smaller in California than in Switzerland for renters and automobile insurance, while the results are very similar for mandatory health insurance.

139 In Switzerland, the insurance sector is regulated as well, but less densely than in California and there are also important variations between different types of insurance. While there is strictly no leeway

for individualising mandatory health insurance contracts in Switzerland, an insurer is free to do so with regard to supplementary health insurance policies. As opposed to health insurance, renters and automobile insurance are generally governed by the principle of freedom of contract, thereby allowing almost unlimited choices to insurance companies. Although Switzerland prohibits discrimination on a constitutional level and also through the Civil Code as well as other regulations, anti-discrimination law does not restrict the ability to individualise insurance contracts as long as factoring in a protected characteristic such as age, gender and the like is based on a sound actuarial risk-assessment is based on a sound actuarial risk-assessment. The most important restrictions for the individualisation of insurance contracts stem from data protection law, from the Swiss Data Protection Act (DPA) as well as from the EU's General Data Protection Regulation (GDPR). These bodies of law contain important barriers for analysing personal data about the potential customers and the population at large. As a result, the individualisation of insurance contracts is only clearly allowed if the customer's specific consent is obtained, while justifying the individualisation with legitimate interests comes with considerable legal uncertainties.

140 In the U.S. and California, the insurance sector is densely regulated. Individualisation based on the willingness to pay is straight-forwardly excluded in California by way of a notice enacted by the Insurance Commissioner. The leeway to individualise offers based on the risk assessment of individual customers is very limited in all three insurance sectors considered. This is especially true for the comprehensively regulated health insurance market. While there is a little more leeway for the individualisation of automobile and renters insurance, the scope is still very limited as the rates for these types of insurance are subject to prior approval by the California Insurance Commissioner and the maximum and minimum permitted premium is determined by law. As a consequence, insurance law limits the ability of insurance companies to individualise their insurance contracts to a minimum. In addition, U.S. and California law contain strict rules with regard to anti-discrimination, which further restrict the remaining leeway if protected characteristics such as age, gender, race, or place of residence are factored into the calculation individual premiums. As a consequence, the leeway for the individualisation of insurance contracts in California is so small that it is doubtful whether running big data analytics to individualise insurance premiums is commercially feasible. As opposed to Switzerland and Europe, however, data privacy laws establish no relevant restrictions for the individualisation of insurance contracts in the U.S. and California.

⁴⁴⁷ Michele Loi and Markus Christen, 'Choosing how to discriminate: fair algorithms and risk prediction with big data in the insurance sector', unpublished manuscript.

141 Given the restrictions on both sides of the Atlantic and the potential benefits of the individualisation of insurance contracts, both on an individual and a societal level, the result of the analysis is hardly satisfying, especially with regard to Switzerland (and Europe). Instead of directly or indirectly hindering the individualisation of insurance contracts through data protection law, Swiss (and European) lawmakers should initiate a dialogue involving all stakeholders to determine which sectors of insurance should be dominated by the principle of solidarity and in which sectors the individualisation of insurance contracts should be allowed. It is to be expected that there will be no uniform answer for all types of insurances. Rather, there may be sectors in which solidarity should prevail to ensure that no one is excluded from insurance coverage; the most important case in point being mandatory health insurance. By contrast, automobile insurance might be a sector in which the individualisation of insurance contracts should be allowed to ensure the benefits of the incentives provided by individual premiums that are calculated based on individual risk profiles of very prudent or more hazardous drivers.

142 While this approach should be able to provide nuanced and convincing results, it is obvious that such a process will need time. For the time being, a meaningful step forward would be to allow for factoring in the public interest when assessing the lawfulness of processing of personal data based on the legitimate interest of the controller. This would allow insurance companies to at least use readily available data for calculating and offering individual insurance premiums. The consent of their customers would then only be needed if insurance companies wanted to collect additional data, e.g. on driving behaviour or the physical activity of their customers, by using driving or fitness trackers, or other means to collect additional data.

(application no. 407540_167218/1). With the exception of some last minute developments, literature on U.S. and Californian law is updated until August 2018. Literature and case law on Swiss and European law has been considered until May 2019.

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Access to Data in Connected Cars and the Recent Reform of the Motor Vehicle Type Approval Regulation

by **Wolfgang Kerber and Daniel Gill***

Abstract: The need for regulatory solutions for access to in-vehicle data and resources of connected cars is one of the most controversial and unresolved policy issues. Last year the EU revised the Motor Vehicle Type Approval Regulation which already entailed a FRAND-like (fair, reasonable, and non-discriminatory) solution for the access to repair and maintenance information (RMI) to protect competition on the automotive aftermarkets. However, the transition to connected cars changes the technological conditions for this regulatory solution significantly. This paper analyzes the reform of the type approval regulation and shows that the regulatory solutions for access to RMI are thus far only very insufficiently

capable of dealing with the challenges that come along with increased connectivity; e.g. with regard to the new remote diagnostic, repair and maintenance services. Therefore, an important finding of the paper is that the transition to connected cars will require further reform of the rules for the regulated access to RMI (especially with regard to data access, interoperability, and safety/security issues). However, our analysis also suggests that the basic approach of the current regulated access regime for RMI in the type approval regulation can also be a model for developing general solutions for the currently unsolved problems of access to in-vehicle data and resources in the ecosystem of connected driving.

JEL classification: K23, K24, L62, L86, O33

Keywords: Data access; Internet of Things; connected cars; aftermarkets; digital economy

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A. Introduction

1 The current transition to connected and increasingly automated cars has led to a policy discussion regarding the problem of access to in-vehicle data and resources for independent service providers in the ecosystem of connected driving. In Europe, car manufacturers (OEMs: original equipment manufacturers) have exclusive control over this access through the application of the “extended vehicle concept”, which implies that all in-vehicle data are directly transmitted to a proprietary server of the respective OEM. There are wide-spread concerns that the OEMs can use this exclusive (“monopolistic”) position to impede and distort competition on all markets in the ecosystem of connected driving that require

access to these input factors. Therefore, independent service providers demand regulatory solutions that ensure fair and undistorted competition on the markets for aftermarket and other complementary services, based on a level playing field regarding access to in-vehicle data and resources. Otherwise, impeded access might lead to less competition and innovation, as well as higher prices and less choice for consumers.¹

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1 See FIGIEFA, Commission Communication on “Free Flow

- 2 The problem of foreclosure strategies of OEMs in the automotive industry, especially on the aftermarket services (including spare parts), is a well-known competition problem. European competition policy has long established sector-specific regulations in order to ensure fair and undistorted competition on the aftermarket.² This includes provisions about access to technical repair and maintenance information (RMI). Since 2007 the obligation of OEMs to make RMI accessible for independent service providers has been included in the EU type approval regulation for motor vehicles.³ Triggered by the emission scandal, the type approval regulation, including the rules on access to RMI, were reformed. After controversial discussions within the trilogue process, the new Regulation (EU) 2018/858 was enacted on 30 May 2018 and will enter into force on 1 September 2020.⁴ Even though the main objective was emission related, also the rules about access to RMI were subject to this reform process.
- 3 The objective of this article is to analyze and assess the reform of the motor vehicle type approval regulation regarding access to RMI. A particularly interesting question is how this specific reform fits into the new and much more general policy discussion about “access to in-vehicle data and resources” for independent service providers in the ecosystem of connected driving.⁵ Therefore,

of Data” – Input from the Independent Automotive Aftermarket, 2016, available at https://www.figiefa.eu/wp-content/uploads/Free-Flow-of-Data-FIGIEFA-Input-2016_12_23.pdf last accessed 22.03.19, and AFCAR, Manifesto for fair digitalization opportunities, 2018, available at <https://www.direct-access.eu/policy-event-2018> last accessed 22.03.2019.

- 2 For the first sector-specific block exemption regulation see Regulation (EEC) No 123/85 on the application of Article 85 (3) of the Treaty to certain categories of motor vehicle distribution and servicing agreements, Official Journal of the European Union No L 15/16, 18.1.85.
- 3 Regulation (EU) 715/2007 of 20 June 2007 of the European Parliament and of the Council on type approval of motor vehicles with respect to emissions from light passenger and commercial vehicles (Euro 5 and Euro 6) and on access to vehicle repair and maintenance information, Official Journal of the European Union, L 171/1, 29.06.2007.
- 4 Regulation (EU) 2018/858 of the European Parliament and of the Council of 30 May 2018 on the approval and market surveillance of motor vehicles and their trailers, and of systems, components and separate technical units intended for such vehicles, amending Regulations (EC) No 715/2007 and (EC) No 595/2009 and repealing Directive 2007/46/EC, Official Journal of the European Union, L 151/1, 14.06.2018.
- 5 See for this policy discussion C-ITS Platform, Final Report, 2016, available at <https://ec.europa.eu/transport/sites/transport/files/themes/its/doc/c-its-platform-final-report-january-2016.pdf> last accessed 22.03.2019, TRL, Access to In-vehicle Data and Resources – Final Report, 2017, available at <https://ec.europa.eu/transport/sites/transport/files/2017-05-access-to-in-vehicle-data-and-resources.pdf> last accessed 22.03.2019, the position papers of important stakeholders ACEA, ACEA Position

a key focus of the analysis will be on whether the new rules can deal properly with the transition from traditional cars to connected cars. This current technological evolution offers new innovative services in the automotive aftermarket, especially remote services, but also enables new strategic options for foreclosing competition. Important results of our analysis demonstrate that on the one hand, the new rules regarding access to RMI entail a number of minor improvements of the current (rather well-functioning) access regime, but on the other hand, they encompass only first, very preliminary and insufficient steps to tackle the recent and upcoming challenges, particularly with regard to access to in-vehicle data and resources. Therefore, the regulated access regime to RMI has to be further developed (especially with regard to data access and interoperability, as well as safety and security issues) in close connection with future solutions to the thus far unresolved problems of the governance of in-vehicle data and resources in the ecosystem of connected driving.

- 4 The article is structured as follows. Section B offers a brief overview of the current RMI access regulation, its rationale from a competition economics perspective, and the experiences with this system. In section C, the challenges of the technological transition to connected cars are analyzed in the context of the general controversial new policy discussion regarding access to in-vehicle data. Section D encompasses an overview of the changes to the rules for access to RMI in the Regulation and an in-depth assessment of these changes, especially with regards to the technological development. It concludes with highlighting the unresolved problems and providing recommendations for the necessary evolution of the regulated access regime for protecting competition and innovation in the automotive aftermarket. Section E summarizes the above and offers further perspectives on the potential role of this access regime for RMI in the general policy discussion on “access to in-vehicle data and resources” of connected cars.

Paper – Access to vehicle data for third-party services, 2016, available at <https://www.acea.be/publications/article/position-paper-access-to-vehicle-data-for-third-party-services> last accessed 22.03.2019, VDA, Position – Access to the vehicle and vehicle generated data, 2016, available at <https://www.vda.de/en/topics/innovation-and-technology/network/access-to-the-vehicle.html> last accessed 22.03.2019, FIGIEFA (n 1), AFCAR (n 1), and in the academic debate Martens/Mueller-Langer, Access to digital car data and competition in aftersales services, Digital Economy Working Paper 2018-06, JRC Technical Reports, 2018, 7-10, and Kerber, Data Governance in Connected Cars: The Problem of Access to In-Vehicle Data, JIPITEC 9, 2018, 310-330.

B. Access to Repair and Maintenance Information: Background and Experiences

- 5 After purchasing a durable product, such as a car from a specific brand, the consumer will need repair and maintenance services (including car-specific spare parts) for the entire lifespan of the vehicle. Since the provision of these aftermarket services through authorized service providers in the distribution systems of the OEMs have proved to be very profitable, the car manufacturers have tried, for a long time, to impede competition from independent service providers through different kinds of business practices.⁶ Due to the increasing technical complexity of cars (e.g. software, telematics) independent service providers, as well as spare part producers, can only offer their services and products if they have access to the necessary technical information. This information can refer to technical specifications, identification of spare parts, blueprints, diagnostic data, repair instructions, and training materials. Refusing access to this information would allow the OEMs to exclude independent service providers from the ability to offer their services, impede competition and innovation, and might even monopolize large parts of the brand-specific aftermarkets. The existing rules concerning access to RMI in the old type approval regulation (2007) oblige the OEMs to make necessary technical information available to independent service providers.⁷
- 6 The problem of competition on aftermarkets emerges in many markets with durable products and is well-known in competition economics.⁸ From an economic perspective it is clear that refusing access to information that is exclusively held by the OEM

and which is essential for providing independent services, would foreclose independent firms from these markets and could allow the OEMs to control these aftermarkets with potentially negative effects on consumer welfare in the form of higher prices, lower quality of services, less innovation, and less choice for consumers.⁹ Foreclosing independent service providers through exclusionary strategies can be seen as a de facto bundling strategy, i.e. that the purchasers of cars have no choice but to buy the entire bundle of car and aftermarket services from the OEMs, without the possibility to choose other, independent firms to provide repair and maintenance services. The economic theory of aftermarkets, however, would also ask whether looking only directly at the aftermarkets is the right approach, or whether we have to analyze the problem as competition between the systems of the OEMs, i.e. the entire bundles of cars and aftermarket services.¹⁰ If systems competition works very well, then OEMs would have no incentives for offering inefficient bundles of cars and services with too high prices. It is however very doubtful whether systems competition in the automotive sector is effective enough to solve the competition problems on the aftermarkets.¹¹ Therefore, from an economic perspective, a regulatory solution for the non-discriminatory access to necessary information for providing repair and maintenance services (under FRAND [fair, reasonable, and non-discriminatory] conditions) can be an appropriate solution for protecting competition on the markets for these aftermarket services.

- 7 The current regulation (before the reform) stipulates that OEMs “shall provide unrestricted and standardized access to vehicle repair and maintenance information to independent operators...”¹² It is important that this access is always available in a standardized format and that it is non-discriminatory compared to the access of authorized dealers and repairers. In Art. 6 and Annex XIV of the regulation, the information that should be made available is specified in greater detail. It also encompasses rules for the access to security-relevant

6 See, e.g., DaimlerChrysler (COMP/E-2/39.140), 14.12.2007, Opel (COMP/E-2/39.143), 15.12.2007.

7 Regulation (EC) No 715/2007 (n 3), implemented and amended by Regulation (EC) No 692/2008, Official Journal of the European Union, L 199/1, 28.07.2008.

8 For the economic theory of aftermarkets and its discussion in competition law, see Shapiro/Teece, Systems Competition and Aftermarkets: An Economic Analysis of Kodak, The Antitrust Bulletin, 1994, 135-162, Shapiro, Aftermarkets and Consumer Welfare: Making Sense of Kodak, Antitrust Law Journal, 1995, 482-511, Borenstein/MacKie-Mason/Netz, Exercising Market Power in Proprietary Aftermarkets, Journal of Economics & Management Strategy, 2000, 57-188, Bauer, Antitrust Implications of Aftermarkets, The Antitrust Bulletin 52, 2007, 31-51, Bechtold, Die Kontrolle von Sekundärmärkten: Eine juristische und ökonomische Untersuchung im Kartell- und Immaterialgüterrecht, 2007, Hawker, Automotive aftermarkets: A case study in systems competition, The Antitrust Bulletin 56, 2011, 57-79, and OECD, Competition Issues in Aftermarkets – Background note by the Secretariat, 2017, available at <<https://www.oecd.org/competition/aftermarkets-competition-issues.htm>> last accessed 19.08.2019.

9 In addition to the direct refusal to give access, foreclosure strategies could also include discriminatory access, too high fees or impeding access through uncommon formats.

10 See Shapiro/Teece (n 8) and Shapiro (n 8), as well as Hawker (n 8) for applications to the automotive industry.

11 See Hawker (n 8) 74; OECD (n 8) 22; Kerber (n 5) 321. This question emerges in competition law also in respect to market definition, i.e. whether a “systems market” should be defined or whether there are brand-specific markets for aftermarket services. Both in European and German competition law, the courts are reluctant to accept systems markets, especially if there are independent service providers on these aftermarkets (Schweitzer/Haucap/Kerber/Welker, Modernisierung der Missbrauchsaufsicht für marktmächtige Unternehmen, 2018, 174-177).

12 See Regulation (EC) No 715/2007 (n 3) Art. 6 (1).

information, with specific rules for approval and certification of independent operators. An important part of this access regime is the OBD (on-board diagnostic) port,¹³ which allows the direct retrieval of (diagnostic) data from the car via a physical or WLAN connection (e.g. in a repair shop). Other information is made available through websites of the OEMs. Much emphasis is laid on standardization of technical specifications for facilitating exchange of information between OEMs and service providers. A particularly important feature of this access regime is that the entire supply-chain of the car repair shops, such as part distributors, wholesalers, manufacturers of (diagnostic) tools (especially also multi-brand tools), and publishers of technical information, have access to it. Without the necessary inputs of these firms, independent repair and maintenance services could not be offered. OEMs do not need to make this information available for free, but can charge “reasonable and proportionate fees” for the access provided on their websites. In that respect the already existing regulated access regime to RMI also entails important features of a FRAND solution.

- 8 What were the experiences with the old regulation for access to repair and maintenance information? To what extent did it succeed in protecting competition between authorized and independent service providers? An extensive evaluation by the EU Commission confirmed that overall, the system of access to vehicle RMI succeeds in preserving competition and consumer benefits.¹⁴ Although the study identified a number of specific problems and made recommendations to solve them, the authors of the study saw no reasons to question the basic regulatory approach. The problems refer primarily to the need for further clarifications and guidance, e.g. about standards of interfaces for OEM websites, the definition of security-related data, the size of “reasonable” fees, “best practice” guidelines for contracting between OEMs and independent operators, and procedural issues with regard to compliance and enforcement. There are also still problems with the interpretation of the principle of non-discriminatory access.¹⁵ Despite

these issues, there is, however, a broad consensus among main stakeholders (vehicle manufacturers and independent service providers) as well as experts in competition law and economics that this regulated access regime to RMI is a suitable and overall rather well-functioning regulatory solution.¹⁶ This is also confirmed by the thus far stable market share of independent providers on the markets for aftermarket services, in comparison to the market share of the authorized dealers and repairers of the OEMs.¹⁷

C. Technological Change to Connected Cars: New Challenges for the Aftermarkets

- 9 The current transition to connected, automated (and later autonomous) cars will revolutionize the entire automobile industry. In connected cars a huge amount of data is generated (especially through sensors) that can be processed in the car and exchanged via mobile communication with other actors, e.g., the OEMs, other vehicles, or the infrastructure. The produced data can be technical data about manifold vehicle functions, data about the weather, road and traffic conditions, data about driving behavior or the health status of drivers, as well as data about the use of entertainment and online shopping behavior of the car passengers.

the Council on the operation of the system of access to vehicle repair and maintenance information established by Regulation (EC) No 715/2007 on type approval of motor vehicles with respect to emissions from light passenger and commercial vehicles (Euro 5 and Euro 6) and on access to vehicle repair and maintenance information, 2016, available at <<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52016DC0782>> last accessed 22.03.2019.

16 See European Commission (n 15).

17 See Quantalyse Belgium/Schönenberger Advisory Services, The automotive digital transformation and the economic impact of existing data access models, Technical Report, 2019, available at <https://www.fiaregion1.com/wp-content/uploads/2019/03/The-Automotive-Digital-Transformation_Full-study.pdf>, last accessed 15.04.2019: On the European level, between 2012 and 2016, OEMs and independent service providers share the market by ca. 50% each (revenue), with significant deviations on individual country level (from 70%-30%, to 40%-60%) and regarding the age of vehicles (from ~75% OEM market share for vehicles of up to 3 years age, to ~5% OEM market share for vehicles of 12 years age and older). Assuming an average price difference of 50% between OEM and independent service providers (which is confirmed by several empirical studies) the study finds that, despite having approximately the same revenues, independent service providers service about 2/3 of the total vehicle park. This market share has been stable over the past few years and corresponds also to the ‘rule of thumb’ that OEMs predominantly service vehicles during the first 3 to 4 years (warranty period) of the average 11 years lifespan of a vehicle in Europe.

13 The OBD system was introduced in 1988 for the purpose of monitoring vehicle emissions during operation. Over time an increasing number of additional important electronic control units were added to the system. The system recognizes malfunctions, reports them to the driver and stores them. These diagnostic trouble codes are standardized in ISO norm 15031-6 since the further development of the system to OBD-2.

14 See Ricardo-AEA, Study on the operation of the system of access to vehicle repair and maintenance information - Final Report, 2014, 133-134, available at <<https://publications.europa.eu/en/publication-detail/-/publication/c2c172a5-3f49-4644-b5bb-c508d7532e4a>> last accessed 22.03.2019.

15 See Ricardo-AEA (n 14), European Commission, Report from the Commission to the European Parliament and

Therefore, the connected car is an example for the “Internet of Things”, in which smart and connected devices produce, process and exchange data. These data can be valuable for a large number of firms within this ecosystem of connected driving that would like to offer services to the users of the car (aftermarket services, navigation, insurance, online shopping, etc.), but they can also be valuable for public authorities (traffic regulation etc.) and for the data economy in general. There is a broad consensus that this technology will offer many benefits for the users, the environment, and public policy, but will also lead to new risks (e.g. cybersecurity, privacy). It is expected that the entire structure of the automobile industry will deeply change, particularly the relationships between OEMs, component suppliers, and independent providers of repair and maintenance services. Moreover, new players (like Google) will enter the ecosystem of connected driving.¹⁸ The current controversial policy discussion in the EU about access to in-vehicle data and resources should be seen in this context.

- 10 With regard to the automotive aftermarkets, the new technology of connected cars allows for a broad spectrum of new innovative services that can be developed and offered to the users. Particular important regarding vehicle repair and maintenance is remote monitoring of the operation of vehicles with remote and even predictive maintenance and repair services for the prevention of defects or in case of a breakdown on the road.¹⁹ In order to be capable of offering these and other innovative services, the service providers must get access to the

relevant in-vehicle data and the vehicle IT system for performance directly in the car. This might also encompass not only “reading”, but also “writing” data, e.g. in the case of updating or reconfiguring of software.²⁰ For many of these services it is crucial that the service providers can get direct real-time access to the data and the car during driving in comparison to the traditional access in the premises of a repair shop via OBD.²¹ Besides these emerging new services, there might also be some kinds of repair and maintenance services that may not be necessary any more. From a theoretical perspective, this implies a huge technological challenge for the regulated access to RMI for independent service providers, because (1) the relevant set of repair and maintenance services, and (2) the set of information and resources to whom access is necessary, are changing.

- 11 The independent service providers are very concerned that the OEMs can utilize the technological possibilities to deploy new foreclosure strategies.²² Since the OEMs apply the “extended vehicle” concept in their connected cars, which implies that the OEMs have the exclusive technical control over access to in-vehicle data and the car IT-system, the independent service providers cannot offer such innovative services directly to the drivers without the permission of the OEMs. Even if the OEMs offered the necessary in-vehicle data via their proprietary servers to the independent service providers, the technically inevitable time-lag would jeopardize such real-time services to the connected car.²³ Another problem is that the OEMs would always have privileged immediate access to all in-vehicle data, whereas the independent service providers would get access only to data in a filtered and aggregated form.²⁴ Other concerns refer to the problem that OEMs can observe what kind of data are accessed by whom on their proprietary servers, which allows a monitoring of business transactions between independent service providers and car users.²⁵ An additional concern is that the new

18 See generally about connected cars and the related policy discussions OECD, *Data-Driven Innovation: Big Data for Growth and Well-Being*, 2015, OECD Publishing, Paris, available at <<http://dx.doi.org/10.1787/9789264229358-en>> last accessed 15.04.2019, Alonso Raposo et al., *The r-evolution of driving: from Connected Vehicles to Coordinated Automated Road Transport (C-ART)*, 2017, available at <<doi:10.2760/225671>> last accessed 15.04.2019, Federal Ministry of Transport and Digital Infrastructure, *Strategy for Automated and Connected Driving: Remain a lead provider, become a lead market, introduce regular operations*, 2015, available at <https://www.bmvi.de/SharedDocs/EN/publications/strategy-for-automated-and-connected-driving.pdf?__blob=publicationFile> last accessed 22.05.19, McKinsey, *Automotive revolution – perspective towards 2030: How the convergence of disruptive technology-driven trends could transform the auto industry*, 2016, available at <<https://www.mckinsey.com/~media/mckinsey/industries/high%20tech/our%20insights/disruptive%20trends%20that%20will%20transform%20the%20auto%20industry/auto%202030%20report%20jan%202016.ashx>> last accessed 22.05.2019, European Commission, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions On the road to automated mobility: An EU strategy for mobility of the future*, 2018, COM(2018) 283 final, Brussels, 17.5.2018.

19 See e.g. FIGIEFA (n 1) 3.

20 Therefore, it is important to also get access to certain “resources“ of the car, which encompass the vehicle IT system, including the different sensors, the telematics system, and the human-machine-interface (dashboard).

21 See FIGIEFA (n 1) 8.

22 See FIGIEFA (n 1), as the association representing the interests of European national trade associations of automotive aftermarket distributors, and AFCAR (n 1), which represents a broad coalition of independent service providers far beyond the traditional aftermarket service providers (as automotive data publishers, motor vehicle inspectors, garage equipment producers and mobility services operators, insurers and leasing companies).

23 See AFCAR (n 1) 1; TRL (n 5) 48.

24 For innovation of new services, it is very important to also get access to the raw data, because access to processed and aggregated data might lead to less information.

25 See C-ITS Platform (n 5), 79.

technology – through the HMI (human-machine-interface) – can lead to a much closer and direct customer relationship of the OEMs with the car users, endangering the access of independent service providers to their potential customers.²⁶ A further important consequence of the new technology is that the current technological solution of access to data in the car, the OBD interface, is technically not necessary anymore, because all in-vehicle data can be transmitted more easily directly through the telematics system of the car. Therefore, the entire OBD interface as a technically independent gateway can be eliminated and replaced through online access to the servers of the OEMs.²⁷

- 12 Despite these challenges there is a broad consensus in the current general discussion about “access to in-vehicle data and resources”, that the regulated access to RMI for independent service providers should also exist in the future ecosystem of connected driving.²⁸ However, the OEMs insist on defining the scope of the data that is made available to independent service providers as narrowly as possible, i.e. only those data should be made available under the terms of this regulation that are necessary for clearly defined “use cases” in respect to repair and maintenance services.²⁹ Vice versa, in this general discussion a broad coalition of independent service providers in the ecosystem of connected driving demands far-reaching regulatory access solutions beyond RMI.³⁰ One short-term proposal is the “shared server” concept, which would eliminate the privileged position of the OEMs through the governance of the external data server by a neutral entity, which then could provide non-discriminatory access. In the long run, the preferred technical architecture for the independent service providers would be an open, interoperable telematics system, the “on-board application platform”. This system would technically

enable drivers to decide directly who is getting access to in-vehicle data and the IT system of the car. The basic idea of both solutions is the elimination of the exclusive “monopolistic” control of the OEMs regarding access to in-vehicle data and resources. Without this control, foreclosure options of the OEMs on the markets for aftermarket and complementary services would be significantly reduced. It is claimed that such a regulated solution will lead to more competition, innovation, and consumer choice than the currently applied “extended vehicle concept”.³¹

- 13 Although research regarding the question of regulatory solutions for access to in-vehicle data and resources is still in its infancy, the few existing studies come to the preliminary conclusion that the extended vehicle concept is not a suitable concept, suggesting the need for a regulatory solution.³² A market failure analysis with regard to this access problem comes to the result that the extended vehicle concept can indeed impede competition and innovation on the markets for aftermarket and other complementary services in the ecosystem of connected driving. Additionally, the OEMs might not have proper incentives for choosing an optimal level of interoperability and standardization, i.e. their choice of closed proprietary ecosystems instead of developing open interoperable telematics systems, might be a wrong technological choice (based upon misaligned incentives).³³ However, so far no clear comprehensive proposal for such regulatory solutions for the access problems in the ecosystem of connected driving has been developed. But, in any case, the specific question of the regulated access to RMI will be closely linked to this general regulatory

26 See AFCAR (n 1) 1; TRL (n 5) 83.

27 There are already complaints that the OEMs are shifting available data points away from the OBD system to their own proprietary system and are limiting the available data from the OBD to the legal minimum of necessary RMI. See Quantalyse Belgium/Schönenberger Advisory Services (n 17) 40, and Martens/Mueller-Langer (n 5) 12.

28 See ACEA (n 5) 8; AFCAR, Vehicle Type Approval Framework Regulation COM (2016) 31 Automotive Repair and Maintenance Information (RMI) AFCAR Position Paper – Final, 2016, available at <<https://www.figiefa.eu/wp-content/uploads/Reg-201631-AFCAR-Position-on-RMI-2016-07-04-WA.pdf>> last accessed 22.03.2019, 1; C-ITS Platform (n 5) 88.

29 See VDA (n 5) 2-3; C-ITS Platform (n 5) 86.

30 For a broad overview of the position of stakeholders in this discussion, see Specht/Kerber, Datenrechte – Eine rechts- und sozialwissenschaftliche Analyse im Vergleich Deutschland – USA, 2018, 169-192, available at <<http://www.abida.de/de/blogitem/gutachten-datenrechte-eine-rechts-und-sozialwissenschaftliche-analyse-im-vergleich>> last accessed 03.06.2019.

31 See for this policy discussion generally TRL (n 5) 11-16.

32 See e.g. TRL (n 5), Kerber/Frank, Data Governance Regimes in the Digital Economy: The Example of Connected Cars, 2017, available at <<https://ssrn.com/abstract=3064794>>, Kerber (n 5), Martens/Mueller-Langer (n 5); for an overview about various studies on different aspects of the extended vehicle see Quantalyse Belgium/Schönenberger Advisory Services (n 17) 53-55.

33 See Kerber (n 5) for a detailed analysis of these market failure problems (and an additional potential market failure about the problems of consent to contractual terms about data between OEMs and car owners) as well as why the exclusive control of the in-vehicle data by OEMs cannot be justified through safety and security concerns. For the current discussion in competition policy about the importance of interoperability and data access/portability with regard to digital ecosystems see Crémer/de Montjoye/Schweitzer, Competition policy for the digital era – Final Report, 2019, 76-91, available at <<http://ec.europa.eu/competition/publications/reports/kd0419345enn.pdf>> last accessed 15.04.2019, Furman et al., Unlocking digital competition – Report of the Digital Competition Expert Panel, 2019, 64-74, available at <www.gov.uk/government/publications> last accessed 03.06.2019, and with specific regard to the example of connected cars Kerber, Data-sharing in IoT Ecosystems from a Competition Law Perspective: The Example of Connected Cars, 2019, available at: <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3445422>.

problem in the transition to connected driving.

D. The New Type Approval Regulation: The Rules on Access to RMI

14 Since the main reason for the reform of the type approval regulation was the urgent need to strengthen the compliance of the rules for emissions of vehicles, the revision of the rules of regulated access to RMI were not in the main focus of the EU Commission, when it published its proposal in January 2016. Therefore, only very limited changes to the current rules were proposed, especially with regard to the challenges through telematics technologies. However, the European Parliament proposed a number of amendments, which picked up the concerns of the independent service providers with regard to access problems.³⁴ In particular, a controversial discussion concerning remote services developed, which highlighted the conflict between OEMs and independent service providers regarding the adaptation of the rules for this regulated access to RMI to the new technology. After several compromises in the trilogue procedure between the EU Commission, European Parliament, and EU Council, the new Regulation was passed in May 2018. The following section D.I. offers a brief overview of the new and modified rules of the regulated access regime, which will be followed by an analysis and assessment of these rules with respect to past experiences and the current and future challenges in section D.II. Section D.III. discusses the necessity to further develop the rules and provides some recommendations.

I. The New Rules: An Overview

15 The new Regulation offers a number of adapted and new rules that can be relevant for the access problem on the aftermarkets. Still rather similar to the old regulation, Recital 50 states that “unrestricted access to vehicle repair and maintenance information via a standardized format that can be used to retrieve the

technical information, and effective competition in the market for services providing such information, are necessary for the functioning of the internal market...”.³⁵ This is followed by Recital 51 which emphasizes that “technical progress introducing new methods or techniques for vehicle diagnostics and repair, such as remote access to vehicle information and software, should not weaken the objectives of this Regulation with respect to access to repair and maintenance information for independent operators.”³⁶ Especially important is also the new Recital 52 (proposed by the European Parliament): It clarifies (1) that the independent vehicle repair and maintenance market as a whole should be capable of competing with the respective services of the OEMs, and emphasizes (2) that it is no more important whether the OEMs have given this information to their authorized dealers or whether they are using it only for themselves. Next, Recital 54 focuses on the common structured process for the exchange of vehicle component data between OEMs and independent service providers. Such a process should be developed by the European Committee for Standardization (CEN) and should reflect the interests and needs of OEMs and independent service providers alike. As long as this standard does not exist, principles for the exchange of data should be developed.³⁷

16 With regard to the articles of the Regulation the following changes are important: Art. 3 (definitions) entails slightly updated definitions of “independent operators”, “authorized repairers”, and “independent repairers”, but also new definitions of “vehicle repair and maintenance information” (Art. 3 (48)) and “vehicle on-board diagnostic (OBD) information” (Art. 3 (49)). The latter now explicitly mentions remote diagnostic support of a vehicle. The main rules about the obligations of the OEMs to provide RMI can be found in Art. 61. The already existing obligation to provide unrestricted and standardized access to vehicle OBD information etc. has been clarified

34 See for the proposal of the EU Commission: EU Commission, Proposal for a Regulation of the European Parliament and of the Council on the approval and market surveillance of motor vehicles and their trailers, and of systems, components and separate technical units intended for such vehicles 2016/0014 (COD) (2016), and for the proposed amendments of the European Parliament, ***I Report on the proposal for a regulation of the European Parliament and of the Council on the approval and market surveillance of motor vehicles and their trailers, and of systems, components and separate technical units intended for such vehicles, 2017.

35 See Regulation (EU) 2018/858 (n 4), Recital 50. The second part states that all rules concerning regulated access to RMI are now consolidated in this Regulation.

36 Ibid. Recital 51. This is combined with Art. 65 para.3 and para.10, which gives the Commission the task of establishing clearer rules about the technical specifications and empowering it to amend and supplement Annex X for doing this.

37 See in this context also European Commission, Commission Staff Working Document Guidance on sharing private sector data in the European data economy Accompanying the document Communication from the Commission to the European Parliament, the Council, the European economic and social Committee and the Committee of the Regions “Towards a common European data space” SWD(2018) 125 final, Brussels, 25.4.2018, Guidance on sharing private sector data in the European data economy SWD (2018) 125 fin.

further through the explicit additional requirement of “non-discriminatory” access, and expanded in the way that independent service providers should also have access to remote diagnostic services used by OEMs and their authorized dealers and repairers. These clarifications have been initiated through the European Parliament (amendment 246).³⁸ Moreover, Art. 61 provides a number of specific rules about these obligations, e.g. that the information should be always and easily accessible, in a machine readable format, and updated. Additionally, access should be guaranteed to repair and maintenance records of vehicles in a central database of the OEMs. The details of the technical requirements for access are laid down in Annex X. Most importantly, the Commission is explicitly empowered to amend this Annex to take account of technical and regulatory developments and prevent misuse by updating these requirements. In that respect, the Commission should also consider “repair and maintenance activities supported by wireless wide area networks”, the future CEN standards for data exchange, ISO standards, and developments in information and vehicle technology (para. 11).

- 17 The other articles on access to RMI are either dealing with aspects of compliance, or do not entail significant changes. For example, Art. 63 on the fees for access to vehicle RMI has not been changed; it still states that the fees have to be reasonable and proportionate, and should be structured in a way that is not discouraging access.³⁹ Art. 66 refers to the Forum on Access to Vehicle Information that deals with security-related issues of access to RMI. This forum should help to reduce the risk of misuse of vehicle security features. The tasks of this forum have been clarified by limiting it to access to vehicle OBD information and RMI, through explicitly connecting it to vehicle theft, and giving advice to the Commission regarding the approval of independent operators to access vehicle security information by accredited organizations.⁴⁰ The important Annex X encompasses the detailed technical requirements for access to OBD information and RMI, among others, a list of information included in this obligation, provisions on the accessibility of the vehicle data stream over the OBD port, and requirements for the availability of information through websites and access to vehicle security features.

38 Furthermore, manufacturers shall provide a standardized, secure, and remote facility to enable independent repairers to complete operations that involve access to the vehicle security system (Art. 61, para.1).

39 In particular, access shall be granted on an hourly, daily, monthly, and yearly basis with accordingly gradual fees. National authorities, the Commission and technical services can get access to RMI free of charge.

40 Regulation (EU) 2018/858 (n 4), Annex X, 6.2.

II. Analysis and Assessment

1. Compliance and Clarifications

- 18 The reform is, to some extent, a clear step forward with respect to the enforcement of the rules for regulated access, because new articles regarding compliance and remedies in case of compliance problems have been included.⁴¹ Also the specific rules about the kinds of information that should be made available have been further clarified. Other helpful clarifications (also in the form of updating) can be found in the definitions of article 3. Unfortunately, the suggestions of the evaluation studies have only been partly considered. Especially the recommendations about better clarifying what reasonable fee structures are and giving guidance on practical and mutually acceptable contract negotiation practices about access to technical information⁴² have not been considered in the new regulation. This is a significant problem, because in any mandatory access regulation the lack of clear rules concerning the contractual provisions of a negotiated access (including the fees) can raise considerable problems for the effective implementation of the non-discriminatory character of the access and the objective of a reasonable and proportionate fee level. The next two sub-sections will show that there still is need for more clarification. The experiences and problems of the current access regime – as described in the evaluation studies – will also be very relevant for any future access regime under the new technological conditions.

2. Non-Discriminatory Access to RMI

- 19 A very important change of the rules to the access regime to RMI can be found in recital 52.⁴³ Whereas the current rules about obligatory access to RMI use the criterion that the independent service providers should have the same access to RMI as the

41 See Art. 64 and 65, which stipulate that the manufacturers have to provide proof of compliance with these rules as part of their application for type approval, and lay down rules about appropriate measures to the approval authority in the case of non-compliance of manufacturers.

42 This also includes the assessment of cancellation and territorial clauses, appropriate fee levels and metrics on which to base these fees. The Commission considers these recommendations as not falling under the scope of RMI regulation. See European Commission (n 15) 11.

43 It was initiated by the European Parliament and also proposed by the Council.

authorized service providers, the new rules clarify that independent service providers have a right to access RMI also in cases where the OEMs do not make this information available to their authorized dealers but use this information themselves for repair and maintenance purposes. This is a huge step with regard to the access regulation. First, it closes a possible loophole for strategic behavior of OEMs, because shifting certain kinds of repair and maintenance services from their authorized dealers back to the OEM would not allow them to deny access to the necessary information anymore. This is crucial, because especially the new remote services might be performed at least as easily by the OEMs themselves than by their authorized dealers.⁴⁴ Still more important, is that this changes the entire character of the access regulation, because now the set of RMI that has to be made available is based upon an objective definition by the regulator regarding what the necessary set of RMI is, making it independent from decisions of the OEMs concerning the information they provide to their authorized dealers.

- 20 One question is to what extent the regulated access solution to RMI already has the characteristics of a genuine FRAND access solution. Despite the above-mentioned remaining problems regarding fees and contractual provisions, the provision of “fair and reasonable” access did already exist in the old regulation. However, the important criterion of non-discrimination has been strengthened further by the explicit introduction of “non-discriminatory” access in the key provision of Art. 61 (1), and by the extension of the meaning of non-discrimination to repair and maintenance services directly provided by the OEMs (as described in the last paragraph). A clear FRAND solution certainly does not only require an objective definition of the RMI that has to be made available, but also a precise definition of the range of services that should be enabled through the regulated access solution. Although the term “repair and maintenance services” seems to offer a clear notion of this scope, the huge technological change to connected and automated cars with the possibility of new (and also thus far unknown future) innovative services render the definition of the set of these services an open question. Therefore, in the next section we will discuss as an example the inclusion of the new possibilities of remote repair and maintenance services in this regulated access regime.

⁴⁴ Especially software updates or purely diagnostic tasks can now be done “over-the-air” directly by the OEM. There is no need for drivers to go to the authorized repairer for such services anymore. This shows that the new technology might also change the relationship between the OEMs and their authorized dealers.

3. Remote Services and the Problem of Remote Access

- 21 Through the initiative of the European Parliament, the issue of how to deal with the new possibilities of remote repair and maintenance services has entered into the legislative discussion. From an innovation economics perspective it is very important to understand that in the ecosystem of connected driving very different kinds of firms (and especially also start-ups) can develop new innovative repair and maintenance services, and not only the OEMs with their system of component suppliers and authorized dealers. In the policy discussion, the independent service providers, in particular, emphasized the possibility to develop new and innovative services themselves, as well as the need for adapting the access solutions in the type approval regulation for enabling this kind of innovation.⁴⁵ The Commission’s initial approach to the new technological opportunities was purely defensive: the OEMs should not be able to use the new technologies to weaken the competitive position of the independent operators. However, the explicit inclusion of remote services in the type approval regulation acknowledges that these new services can be part of the set of repair and maintenance services that fall under the regulated access solutions. The following analysis will show that decisive problems about the access to necessary resources for innovating and offering these kinds of remote services are still without a satisfactory solution.
- 22 What exactly has been decided in the new type approval regulation regarding remote repair and maintenance services? Besides the inclusion of “remote diagnostic support” into the definition of “vehicle repair and maintenance information” (Art. 3 (48)), the main change is that “independent operators shall have access to the remote diagnosis services used by manufacturers and authorized dealers and repairers” (Art. 61 (1)). This could be interpreted as the right of independent operators to use the remote diagnosis service of the OEMs under the terms of this Regulation, but this does not imply that independent repair and maintenance service providers can develop and apply their own diagnostic tools for discovering malfunctions and predict defects (e.g. for predictive maintenance). For carrying out their own remote diagnostic services,

⁴⁵ See FIGIEFA (n 1) 8-11; ADAC, Stellungnahme des ADAC e.V. zum Vorschlag für eine Verordnung über die Genehmigung und die Marktüberwachung von Kraftfahrzeugen und Kraftfahrzeuganhängern sowie von Systemen, Bauteilen und selbständigen technischen Einheiten für diese Fahrzeuge vom 27.01.2016 (2016/0014(COD)), 3; AFCAR (n 1) 3; FIA Region I, Policy Position on car connectivity, 2016, 2, available at <<https://www.fiaregion1.com/policy-position-on-car-connectivity/>> last accessed 22.05.2019.

they would need direct remote access to the in-vehicle data and to the IT-system of the car, which is not possible with the “extended vehicle” concept. Therefore, the remote diagnosis service itself can only be performed by the OEMs and their authorized dealers, whereas the independent operators only have an access right to the results of the diagnostic services (trouble codes, via the OEM’s website). Without the option of direct access to the IT system of the car, which also allows write-function under certain conditions, the remote performance of repair and maintenance services by independent operators is not possible. Thus, independent service providers cannot offer to perform their own remote diagnostic repair and maintenance services to the car users, especially also in the case of a breakdown of the car on the road. As a result, under the new Regulation, no competition between independent and authorized providers of remote services is possible, and car users have no choice in that respect.

- 23 In the general policy discussion about “access to in-vehicle data and resources” the OEMs defend their “extended vehicle” concept with safety and security reasons.⁴⁶ Their claim that direct access to the car is not possible for security reasons is controversially discussed and rejected by many participants in this discussion.⁴⁷ Defending foreclosure of independent operators due to safety and security reasons is an old argument in competition policy debates about automotive aftermarkets. For a long time these problems have been solved through the regulatory introduction of a certification system that ensures that the independent operators fulfill quality and security requirements of the OEMs. Already under the old Regulation, a regulatory solution in the form of a certification process was implemented, which allowed approved and certified independent operators to access the vehicle security features for performing repair and maintenance services, e.g. software updates, on the premises of the car repair workshop without compromising the security of the vehicles.⁴⁸ The problem is that the new Regulation does not offer a comparable solution for remote access to the connected car, which would allow the direct performance of remote repair and maintenance services in the vehicle. From that

perspective it is one of the important tasks to develop similar security solutions (including the approval and security certification of independent operators) to enable remote repair and maintenance services for independent service providers. Additionally, such a direct remote access would allow access to real-time data (without latency), which is crucial for parts of these services. This would also allow independent service providers to compete with the OEMs for these new innovative repair and maintenance services.⁴⁹

4. Monitoring of Access and the Advantages of Data Analytics

- 24 The technological transition to connected cars with online access to in-vehicle data stored in proprietary servers, and the access to diagnostic services of the OEMs for independent operators can also lead to additional problems for competition in the aftermarkets. In contrast to the access to diagnostic data from the traditional OBD system in the car, any access of independent service providers via a website of OEMs with regard to the diagnostic data of a specific vehicle can be monitored by the OEMs. The same is true for the access to repair and maintenance records of a vehicle in a central database of the OEM (Art. 61 (9)). The observed data can be analyzed by the OEMs, which would offer them (so far non-existent) transparency regarding the provision of services through their competitors on the downstream markets for repair and maintenance services. These data concerning the competitors and their market transactions, which are not available to the independent operators, can enable them to develop specific strategies for their own repair and maintenance services, which might lead to a further distortion of competition on these markets. This problem is comparable to the now much discussed concerns that hybrid platforms (e.g. Amazon) can potentially use their data on transactions between consumers and retailers (on Amazon market place) to develop better strategies with regard to the products Amazon is selling to consumers in competition with the market place retailers.⁵⁰ Independent from these

46 See ACEA (n 5) 2; VDA (n 5) 1.

47 According to TRL (n 5) 77, the safety and security problems of the on-board application platform, which relies entirely on such a direct access, can be solved. Any future V2V and V2I communication between connected and later autonomous cars would require a secure direct access anyway. See also Determann/Perens, *Open Cars*, Berkeley Technology Law Journal, 2017, 915-988, 939; Martens/Mueller-Langer (n 5) 12, and Kerber (n 5) 318.

48 See Regulation 2018/858 (n 4) Annex X. A similar certification solution regarding the quality of spare parts has existed for a long time for protecting competition between OEMs and independent spare part producers on the markets for spare parts.

49 An important (but in the trilogue proceedings rejected) amendment has been proposed by the European Parliament. It entailed a new Recital encompassing that “access to in-vehicle data, should remain directly and independently accessible to independent operators”. Such a direct access to the in-vehicle data that are relevant for RMI and the connected car might have been a huge step towards the demands of the independent service providers in the general policy discussion about access to in-vehicle data and resources. See European Parliament (n 34), Amendment 44.

50 For the investigation of Amazon by the EU Commission, see: CPI, EU: Vestager opens probe into Amazon, 2018, available at <<https://www.competitionpolicyinternational.com/>

specific data about the activities of their competitors in the downstream market, OEMs can also secure considerable advantages through the analysis of the huge amount of data that is collected in the cars, and which is not available to the independent operators. These competition concerns, which have garnered much attention in the general discussion about the role of data in competition law, especially on platform markets, are not dealt with in the new type approval regulation.

III. Technical Progress and Recommendations for the Evolution of the Regulated Access Regime for Protecting Competition on the Automotive Aftermarkets

25 The last sections demonstrated that the new regulation does not offer clear and satisfactory answers to the new challenges despite a more explicit acknowledgement of the relevance of the technological change to connected cars. Considering the timeline of the legislative process, however, this is not surprising. The legislative process for the type approval regulation was driven by the urgent need to respond to the huge compliance problems with the emission standards and not by the emerging discussion about access to in-vehicle data and resources. In fact, when the EU Commission published their proposal in January 2016, the general discussion concerning access to in-vehicle data was still in its infancy. Very important in this respect was the C-ITS platform report (published in January 2016) with the first clear analysis of the new conflicts between OEMs and independent service providers.⁵¹ Although the ensuing TRL report (published in May 2017) clearly states that the “extended vehicle” concept is not the best solution for the “access to in-vehicle data and resources”, and the EU Commission has acknowledged the competition problems through this concept, the policy question regarding the need and design of a regulatory solution for this problem still awaits clarification. It is therefore not surprising that the EU legislator made only very preliminary and insufficient decisions in response to the new technological developments in the new motor vehicle type approval regulation.

eu-vestager-opens-probe-into-amazon-use-of-data-about-merchants/> last accessed 22.03.2019; see with regard to this monitoring problem already C-ITS Platform (n 5) 79-82 and, generally, Schweitzer/Haucap/Kerber/Welker (n 11) 142-145.

51 See especially the discussions in the working group 6 (C-ITS Platform [n 5]).

26 This is why the delegation of powers to the Commission (Art. 61 (11)) for amending the specific rules of Annex X is so important, because it allows the Commission to make far-reaching policy decisions concerning the regulated access to RMI in the future. What scope has the Commission for the development of this regulatory regime?⁵² What criteria are important and what might be recommended for the evolution of the rules of this access regime? Art. 61 (11) states clearly that the Commission should take into account technical and regulatory developments for amending the rules about access. The explicit but also very general reference to the developments of information and vehicle technology opens up a broad scope for the further development of these rules to the access regime for RMI depending on the technological possibilities. Regarding the rule-making in this evolution of the access regime, the type approval regulation emphasizes the key role of standard-setting processes for “a common structured process for the exchange of vehicle component data between vehicle manufacturers and independent operators.”⁵³ In that respect, in recital 54 the European Committee for Standardisation (CEN) is assigned the explicit task that this standard should “reflect the interests and needs of vehicle manufacturers and independent operators alike ...”.⁵⁴ This implies a clear normative statement that under the new technological conditions the interests of the independent operators also have to be considered very seriously in any future regulated access regime to RMI. However, from an economic, as well as a general competition law perspective, it would have been very important if a clear statement could be found in the type approval regulation, that the objective of this regulated access regime is the protection of effective competition in the automotive aftermarkets of repair and maintenance services. Although the type approval regulation can be interpreted in that way, an explicit statement of this objective is missing, both in the old and the new type approval regulation.⁵⁵

52 Since Art. 61 (11) entails the delegation of the power of the Commission to change these specific rules for regulated access to RMI, Art. 82 about the general rules for the delegated powers of the Commission in this Regulation is also relevant. Although Art. 82 gives the Commission the power to change, e.g. the rules for access to RMI, both the EP and the Council can revoke this delegation of power at any time, and the Commission has to always consult experts from the Member States before changing these rules.

53 Regulation (EU) 2018/858 (n 4), Recital 54.

54 ...“and should also investigate solutions such as open data formats described by well-defined meta-data to accommodate existing information technology infrastructures.” (Ibid.)

55 The importance of protecting competition on the automotive aftermarkets is currently emphasized by a proposal of the German government of a German law for the strengthening of fair competition that also entails a specific provision to limit the “design” protection of vehicle

- 27 In which direction should the rules of the type approval regulation be developed? There is a broad consensus that the crucial challenge for competition on the markets for repair and maintenance services in the ecosystem of connected driving is the exclusive control of the OEMs of the access to in-vehicle data and the connected car (closed ecosystems of connected driving). Therefore, it is important to understand that the future rules of this regulated access to RMI depend also on the policy decisions regarding the general problem of “access to in-vehicle data and resources”. If, for example, the proposed “shared server” concept would be implemented, which would put the external server with all the in-vehicle data under the governance of a neutral entity that grants non-discriminatory access to all stakeholders (including the OEMs), then the regulated access solution of the type approval regulation would not also need to encompass access to in-vehicle data for repair and maintenance services. Since such a “shared server” would not solve the problem of direct access to the connected car for getting real-time access to data and/or for performing remote diagnostic and repair services directly in the car, this can only solve a part of the competition problems. The more far-reaching solution of a transition to an interoperable open telematics platform (on-board application platform), as recommended by the TRL report (2017), could however solve the competition problems in aftermarkets in the future ecosystem of connected driving to a much larger extent. Here the car users would have the technical possibility to directly give independent service providers access to the in-vehicle data and the connected car. This would lead to an open ecosystem of connected driving, in which the car users can freely choose between the providers of repair and maintenance services.⁵⁶
- 28 But what kind of regulated access might be necessary for protecting effective competition (including innovation competition) on the markets for repair and maintenance services, if we assume that the current “extended vehicle” concept prevails, and no (or no effective) regulatory solution for this “access to in-vehicle data and resources” problem is found and implemented?⁵⁷ Our analysis and discussion in this section suggests that it might be appropriate to establish a more broadly defined access regime with proper (and more refined) FRAND conditions. Although more research has to be done, such an access regime might additionally encompass access to a much wider set of in-vehicle data, especially raw data and real-time data, for enabling independent service providers to develop new innovative diagnostic, repair and maintenance services (e.g. remote services) themselves, and offer these services to the car users. Since the set of repair and maintenance services, for which competition and innovation should be protected, is not a closed but an open set, the scope of available data should be broadly defined to ensure that innovation through independent service providers is not restricted.⁵⁸
- 29 The most difficult problem might be to develop solutions for a secure and direct access to the connected car for independent service providers, both for access to real-time data and for performing services directly in the connected car. For solving this problem, the future standardization process – which was already emphasized in the new type approval regulation – for the exchange of vehicle component data between vehicle manufacturers and independent operators can play a key role. The problems to be solved refer both to interoperability and security issues.⁵⁹ However, the protection of effective competition also has to be a crucial objective in these standardization processes, i.e. that standard-setting is not misused for restricting competition.⁶⁰ The well-established approach of e.g. essential facility doctrine). See for a brief discussion Kerber (n 5) 328.
- 58 It is however necessary to also take into account the legitimate interests of OEMs and component suppliers in terms of protecting their business secrets; thus, a differentiated approach with a distinction between different types of data might be necessary. Also, the new discussion surrounding mandated data-sharing for access to a large set of anonymized data for training algorithms and AI applications can be relevant in this context. See e.g. Schweitzer/Haucap/Kerber/Welker (n 11) 160, and Crémer/de Montjoye/Schweitzer (n 33) 13.
- 59 For the simultaneous importance of access to data and interoperability, see for connected cars Kerber (n 5) 317 and, generally for digital ecosystems, Crémer/de Montjoye/Schweitzer (n 33) 84, who introduce in that respect the concept of “data interoperability”, as well as Furman et al. (n 33) 65 and Kerber (n 33). For the current state of the technology of the OEMs with regard to interoperability and security, see Knobloch & Gröhn, OEM 3rd Party Telematics – General Analysis, 2018, available at <<https://www.figiefa.eu/wp-content/uploads/Knobloch-Gröhn-OEM-3rd-Party-Telematics-General-Analysis-Report.pdf>> last accessed 22.05.2019.
- 60 Since standard-setting processes are often opaque and not transparent, there is always the danger that the agreements between the firms go beyond what is necessary for reaping the benefits of standardization. The “extended vehicle” concept is itself subject of an ISO standardization process (ISO 20077, 20078). See TRL (n 5) 46.
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- spare parts in order to open the markets for such spare parts for repair services, and to prevent the OEMs to use “design” law for foreclosing independent service providers in the automotive aftermarkets. See: <https://www.bmjv.de/SharedDocs/Gesetzgebungsverfahren/DE/Staerkung_fairen_Wettbewerbs.html>.
- 56 This does not imply that under such a technological regime no more competition problems between OEMs and independent service providers would exist. Access to certain kinds of technical information and other resources will still be necessary for enabling the independent operators to provide their services.
- 57 In the general discussion about data access, other solutions are also discussed; e.g. using the data portability right (Art. 20 GDPR) or general competition law (Art. 102 TFEU,

using procedures for approval and certification of independent service providers for solving security issues might also be a very suitable approach in this context. Additionally, also other still existing or new problems of the regulated access regime under the new type approval regulation should be solved. This refers to: (1) a further clarification of fair and reasonable fees and business practices for negotiations and contracts with regard to access; (2) solving the problem of monitoring the data access and repair and maintenance services of independent operators through the OEMs; and (3) finding remedies for protecting an equal access of OEMs and independent service providers to the customers. This implies that OEMs should not impede the choice of consumers regarding independent service providers on the Human-Machine Interface of the connected cars or use sophisticated bundling strategies that make it unattractive to use independent service providers for repair and maintenance services.

E. Conclusions

- 30 Although the analysis of the reform of the regulated access regime to RMI in the new motor vehicle type approval regulation has shown some improvements with regard to the compliance and effectiveness of access to RMI for independent service providers, it can only be seen as a small intermediate step. So far, it does not sufficiently address the challenges of the transition to connected cars for the regulated access regime for protecting effective competition in the automotive aftermarkets. Besides still unsolved problems with regard to clarifying rules for reasonable and proportionate fees and contractual arrangements, the new type approval regulation has not solved the problem of protecting competition for performing and innovating new repair and maintenance services that need direct access to in-vehicle data and the IT-system of the car. Due to the delegation of rule-making powers to the Commission and standardization bodies, the new type approval regulation can however, offer a sufficient framework for an evolution of the regulated access regime to RMI that might also be capable of protecting effective competition on the automotive aftermarkets in the future ecosystem of connected driving. The most important issue in that respect is the solution of the direct access problem of the independent service providers to the connected cars, which requires sophisticated solutions for ensuring the safety and security of the car.
- 31 The evolution of the regulated access regime to RMI under the new technology will also depend crucially on the future policy solutions about the general regulatory framework of connected and automated mobility. We have seen that regulatory

decisions in favor of a “shared server” solution or the “on-board application platform” would change the requirements and conditions of this regulated access regime significantly. But also other general solutions about access to in-vehicle data for independent service providers, such as using the data portability right of EU data protection law (Art. 20 GDPR)⁶¹ or applying the existing (or new) provisions of general competition law,⁶² can considerably change the need and proper extent of this access regime.

- 32 However, this established regulated access regime to RMI in the type approval regulation can also be seen as a regulatory model for a broad regulatory solution for “access to in-vehicle data and resources” in order to protect competition and innovation by independent operators within the entire ecosystem of connected driving. If under the current “extended vehicle concept” of the OEMs other solutions for providing access are not implemented or not effective enough, then the set of services by independent operators, for which competition and innovation is protected through regulated access, could be extended to all services within the ecosystem of connected driving that need access to in-vehicle data and/or the connected car. From an economic perspective the effects on competition, innovation and consumer welfare do not differ between repair and maintenance services and other services that are complementary to the car users during connected driving. An extension beyond repair and maintenance services would allow the establishment of a comprehensive FRAND solution to all necessary in-vehicle data and resources in offering all kinds of services within the ecosystem of connected driving. Therefore, the current regulated access regime to RMI could also be seen as a nucleus, from which a broad sector-specific regulatory solution for the general problem of access to in-vehicle data and resources in the ecosystem of connected driving could be developed.

61 For the proposal to use the data portability right (Art. 20 GDPR) to solve the problems of access to in-vehicle data for independent service providers, see e.g. Martens/Mueller-Langer (n 5) 18.

62 In competition law the refusal to grant access to in-vehicle data could also be seen as an abusive behavior according to Art. 102 TFEU (or according to § 20 (1) GWB in German competition law, “relative market power”). See generally for IoT and aftermarket contexts, Schweitzer/Haucap/Kerber/Welker (n 11) 139-144; Crémer/de Montjoye/Schweitzer (n 33) 98-108, and also with specific regard to in-vehicle data Kerber (n 33).

Different 'Rules of the Game'

Impact of National Court Systems on Patent Litigation in the EU and the Need for New Perspectives

by **Tamar Khuchua***

Abstract: "It seems that the jurisdiction in which a case is litigated has a significant impact on its outcome," professor Lemley has addressed the issue of forum shopping in the US and internationally, and claims that the venue of litigation defines the case outcome. Indeed, patent litigation is highly diverse especially in Europe. This is mainly derived from the following reasons – more globalised Innovation and R&D results in increased cross-border enforcement with some inherent challenges. In addition, the existence of different sets of rules and different national courts that hear the patent infringement and invalidity cases in each European state makes the litigation process quite complex. The country-specific characteristics of patent litigation are considered as an impediment for the development of harmonised EU patent law. Both patentees and alleged infringers, depending on the litigation venue, face legal un-

certainties and encounter different outcomes even when the same patented invention is concerned. In light of these differences in national systems and judicial practices, the European Commission in its 2017 Communication Paper on 'A balanced IP enforcement system responding to today's societal challenges', urged the Member States to set up effective mechanisms for IPR enforcement or to improve already existing systems. The article, looking at the specific examples of national judiciaries, outlines the differences between the enforcement mechanisms and case law across the Member States, it discusses the impact of the cross-border patent enforcement in the EU, and finally, it suggests possible solutions on an institutional and methodological level for European judiciary aiming at elimination of fragmented patent litigation and fostering an innovation eco-system in the EU.

Keywords: Patent litigation; fragmentation of patent litigation; divergent decisions; national patent courts; Unitary Patent Package (UPP); Unified Patent Court (UPC); judicial harmonisation; European guidelines; specialised courts; specialised tribunals; European Union (EU)

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A. Introduction

1 This article draws special attention to the issue of patent litigation in Europe and puts forward the possible solutions for harmonising the judicial practices in the EU. The article introduces the issue starting from the historical developments of the functioning of the judiciary in Europe in the field of patent law to today's reality. The analysis demonstrates the differences amongst the courts and divergences in the case outcomes. This is first done

by highlighting the courts' structural differences in the field of patent law amongst the main European jurisdictions (Germany, France and the UK), then the approach towards the scope of the patent including the doctrine of equivalents is scrutinised as these are usually one of the main areas of patent law where the courts disagree with each other and have historically had different approaches. Following the general analysis, the article moves on to the examination of specific examples from the case law, particularly concerning the divergent outcomes in relation to patent infringement and validity.

- 2 Having analysed the “state of the art” for patent litigation as it stands in today’s EU court system, the possible implications are speculated for the IP eco-system. In particular, it is argued that the fragmented litigation has a considerable impact on the legal certainty for the patent litigants and possible competitors in the field of innovation. Such a system also requires extra costs and time which is especially burdensome for resource constrained litigants. Divergent case outcomes also affect the integrity of the EU internal market, and finally uncertainty makes Europe, as a litigation venue, less competitive for holding and enforcing patents; in other words, the European courts’ competitiveness is questioned on an international arena.
- 3 The last two sections are dedicated to the possible solutions on a legislative and judicial levels through the institutional and methodological tools. In particular, how harmonisation can be advanced by implementing the EU unitary patent package (UPP) and operating the Unified Patent Court (UPC) in the EU, it is also worth discussing the areas of substantive patent law that have been harmonised while the rest still remains rather diverse. In case coming into force of the unitary patent package is delayed, another possible solution to overcome the divergences is to promote more structured and cooperative judicial practices in the EU. In this part, the author suggests the methodological approaches that should be established for the EU judiciary in order to ensure that the comparative methods are employed by the European courts when applying the patent law. Finally, in the conclusion it is argued that more structured and at the same time practical tools are needed to ensure the harmonisation of patent enforcement in the EU.
- has been a long-discussed issue in the EU for many decades now - since the discussions revolved around the establishment of the unitary patent system for Europe in 1949.²
- 5 Practice shows that cases concerning infringement and/or validity of the same patent heard at several national courts often have substantially conflicting outcomes.³ Most of the time, courts tackle the issue of the scope of already patented invention differently. Before the entry into force of the European Patent Convention (EPC), the different national courts in Europe had different approaches and methods as to how to interpret the scope of the patent. For example, in the UK, to determine the scope of the patent, the courts looked at the patent claims and interpreted them with the strict and literal approach, whereas in Germany the claims would be understood as the mere guidance for interpreting the scope of the patent.⁴
- 6 As of today, Article 69 of the EPC states that the scope of the protection conferred by a European patent should be determined by the claims.⁵ Apart from this, the Protocol on the Interpretation of Article 69 further explains how the said article shall be interpreted.⁶ In spite of the fact that the countries have implemented the provisions of the EPC in their national laws, including Article 69, there still remain divergences in court decisions.⁷ Perhaps this can be explained by the historically different approaches towards the patent landscape as a whole. Based on the British and German example it is very well illustrated, in particular, the UK has focused on the promotion of innovation and Germany has focused on rewarding the inventor – the patentee.⁸
- 7 As a result, different case outcomes across Europe have a considerable impact on the European patent system as a whole. The duplication of cases in several countries and fragmentation of court decisions are

B. Framing the issue

- 4 Due to the fact that in Europe patent litigation takes place on a national basis rather than on a supranational level, several jurisdictions of the EU Member States can become a forum for hearing the case around the same European patent simultaneously.¹ Such a system inherently triggers diversity in the application of legal rules and case outcomes. Fragmented cross-border patent litigation

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1 See: Matthew B. Weiss, ‘Options for Federal Circuit Court derived from German legal structure’ (2015) *The Colombia Science & Technology Law Review*, Vol. XVI, 370.

2 Karen Walsh, ‘Promoting harmonisation across the European patent system through judicial dialogue and cooperation’ (2019) *IIC*, Vol. 50, Issue 4, 408, 411 <<https://doi.org/10.1007/s40319-019-00808-x>>.

3 Katrin Cremers, Max Ernicke, Fabian Gaessler, Diermar Harhoff, Christian Helmers, Luke McDonagh, Paula Schliessler, Nicolas van Zeebroeck, ‘Patent litigation in Europe’ (2016) *Eur J Law Econ.*, <<https://link.springer.com/article/10.1007%2Fs10657-016-9529-0>>.

4 Walsh (n 2) 416-417.

5 Article 69(1), European Patent Convention, of 5 October 1973, Amended by the Act revising the European Patent Convention of 29.11.2000 (European Patent Convention).

6 Article 1 & Article 2, Protocol on the Interpretation on Article 69 EPC of 5 October 1973 as revised by the Act revising the EPC of 29 November 2000 (Protocol on the Interpretation of Article 69 EPC).

7 Walsh (n 2) 421.

8 *Ibid.*

considered to generate unnecessary costs and most importantly legal uncertainty.⁹ Thus, harmonisation of the patent laws has been under the spotlight of the IP developments in recent years. There have been a number of legislative steps made for pushing the harmonisation agenda forward. In this sense, the role of the judiciary is significant and it should not be overlooked.

C. Divergent and fragmented patent litigation

I. Differences across the judicial systems

- 8 Currently, the patent court system in Europe is very much criticised for its fragmented nature.¹⁰ Differences occur in terms of court systems and structures, size of caseload, and the way of functioning which in turn is reflected in the divergent case outcomes. Differences in legal systems can be illustrated by looking at the biggest jurisdictions in the patent field. In Germany, at the first instance level, there are twelve regional courts (*Landgerichte*) that hear patent infringement cases plus one court that hears only patent validity claims (*Bundespatentgericht*). By contrast, in France, there is only one court (*Tribunal de Grande Instance*) that hears both validity and infringement cases. In the UK, as in France, a centralised system is in place. The only difference with France is that in the UK, depending on the value of the claim, the applicant can address either the Intellectual Property Enterprise Court (IPEC) or Patent High Court (PHC), which is the specialised court of the Chancery Division of the High Court of Justice of England and Wales. IPEC has been created for claims with a lower value and less complexity.¹¹
- 9 Even though there are twelve regional courts in Germany, most of the patent infringement cases are heard at the courts of Düsseldorf, Munich, Mannheim and Hamburg.¹² The concentration of cases at some courts in Germany indicates that there must be certain attractions for the claimants in those

courts. Existence of several regional courts implies the exercise of different practices and in turn the possibility for the claimants and potential defendants to choose their most desirable and convenient court. Such attractions might be influenced by the duration of the proceedings; that is, not necessarily issuing the decisions in a rapid manner, but instead the opposite, as sometimes parties would prefer to prolong the entire process in their own favour. For example, when a party seeks a declaration for non-infringement, it is much more convenient to address a court which is reputed as slow. A patentee on the other hand, will try to bring an action to the faster court which is also known for awarding high damages and being more 'patent-friendly'.¹³ Another attractive characteristic of a court can be its approach to preliminary injunctions, for example, it seems that the regional court in Hamburg has established a very low threshold for granting the preliminary injunctions, in other words, it has a very soft approach. The reason for not being aligned with the other German courts is that the Court of Hamburg has developed its own rules to look at the criteria and there is no legal mechanism that would forbid such practice.¹⁴

- 10 Regarding the intensity of patent litigation, Germany is a country with the biggest caseload in the field of patents, not only compared to the jurisdictions of France and the UK,¹⁵ but also other European countries. According to consistent statistics, Germany hears more patent cases than all the other European courts taken together.¹⁶
- 11 The most obvious example of structural differences amongst the observed jurisdictions is that the German system offers the bifurcation mechanism, which allows for dividing the infringement and validity issues within one pending case. It is discussed whether such a bifurcated system is, in fact, efficient and functional for today's reality. An obvious advantage of the separate courts hearing the validity issues is that deciding upon the validity of a patent is usually related to complex technical matters, such as interpretation of the patent claim construction, this requires special technical expertise and solid patent experience, therefore, a specialised court is well-equipped for handling this task.

9 See on this point: Bruno Van Pottelsberghe, 'Lost property: The European patent system and why it doesn't work' (29 June 2009), *Bruegel Blueprint Series No. 9*, [Policy Paper]; Stuart J.H. Graham, Nicolas Van Zeebroeck, 'Comparing patent litigation across Europe: A first look' (2014) *Stanf Tech Law Rev* 17, 655; See also, Cremers, Ernicke, Gaessler, Harhoff, Helmers, McDonagh, Schliessler, Van Zeebroeck, (n 3).

10 Cremers, Ernicke, Gaessler, Harhoff, Helmers, McDonagh, Schliessler, Van Zeebroeck, (n 3) 2.

11 *Ibid*, 12.

12 *Ibid*, 13.

13 'Assessment of the impact of the European patent litigation agreement (EPLA) on litigation of European patents', European Patent Office acting as a secretariat of the Working Party on Litigation, February 2006, 3-4.

14 Interview conducted on 23 November 2018 with the patent lawyer in Germany.

15 Cremers, Ernicke, Gaessler, Harhoff, Helmers, McDonagh, Schliessler, Van Zeebroeck, (n 3) 22.

16 *Ibid*.

- 12 However, opponents argue that bifurcation as a whole might create situations when the patent is found to be infringed at the infringement court and later it is invalidated by the validity court. This can occur especially because the court examining whether the patent is valid or not usually needs more time for conducting examination compared to the infringement court.¹⁷ Another downside of the bifurcated system is a quite contradictory situation for the patent holder who ascertains in the infringement court that his patent confers very wide protection and thus the alleged infringing product falls under the scope of the patent. While on the other hand, at the validity court the patentee is rather claiming the narrow patent scope in order to maintain the patent valid. This situation is well illustrated by an Italian professor Mario Franzosi who uses the Angora cat metaphor to describe the patentee. In particular, when validity is challenged, the cat is cuddly, small, and its fur is smoothed down, whereas when the cat goes on the attack and claims the infringement his fur bristles, it is twice the size with teeth bared and eyes ablaze.¹⁸ Thus, the bifurcation system has its downsides and is considered to be outdated by some practitioners.
- 13 At first sight one might think that these differences amongst the judicial bodies, in this case illustrated by three major jurisdictions in Europe, are formalistic, however, the reality is that formal differences very often translate into the differences in the case outcomes which eventually are the main product of the court, especially for the patent litigants involved in the litigation.

II. Interpretation of the scope of the patented invention

- 14 Scope of the patent is the core point of patent disputes; therefore, it is worth scrutinising this issue specifically as well as the different approaches applied by the courts. When dealing with patent infringement cases, judges encounter very complex and sophisticated technological issues.¹⁹ As the main task, they have to observe the scope of the protection that the patent confers for the particular invention. In doing so, judges examine the patent claims in order to conclude whether the alleged infringer has indeed stepped into the territory of the protected field. Most of the time, this is the issue where courts

differ from each other.²⁰ At the same time, it must be noted that determination of the patent scope is one of the most important tasks for the courts when deciding on the possible infringement or validity of a patent because enforcement of patents defines the value of the patented inventions on a market place. Apart from this, valuable information is communicated to the competitors, this, in turn, might determine the innovation activity amongst the market participants in the same field.²¹

- 15 Controversies concerning claim construction are well illustrated in the approach the courts have taken in relation to the doctrine of equivalents. Article 2 of the Protocol on the Interpretation of Article 69 EPC states “for the purpose of determining the extent of protection conferred by a European patent, due account shall be taken of any element which is equivalent to an element specified in the claims.”²² However, in the UK, the doctrine of equivalents was not very welcome. According to UK judges, if the doctrine allowed the patentee trying to monopolise the invention to extend his protection beyond the claims to something which substantially has the same function and substantially reaches the same result, in other words, the equivalents, the problem with this would be that once the protection goes beyond the claim it becomes vague where the line should be drawn.²³ On the other hand, in Germany, more attention was paid to what the average person skilled in the art could discover from patent claims and the solution used in the alleged infringement to achieve the same result.²⁴
- 16 The scope of the patent is not a stand-alone issue and cannot be addressed in isolation. Determination of the patent scope is very much related to the patentability of the inventions in the first place. The issues around the inventions which are closely related to the public order and morality are especially delicate. Even though Article 53 of the EPC²⁵ provides for the exceptions for the patentability of some inventions which might be against ‘*ordre public*’ or morality, the understanding of these concepts differs from one country to another. For instance, the patentability of an invention which results from the destruction of human embryos was not understood in the same way until the Court of Justice issued its judgement in the famous *Brüstle* case.²⁶

17 Ibid, 5.

18 <<https://court-appeal.vlex.co.uk/vid/-52560387>>.

19 Xavier Seuba, ‘Scientific complexity and patent adjudication: the technical judges of the Unified Patent Court’, in Ch. Geiger, C. Nard, X. Seuba (eds.), *Intellectual Property and the Judiciary*, 2018, 266.

20 Walsh (n 2) 412.

21 Graham, Van Zeebroeck (n 9) 707.

22 Article 2, Protocol on the Interpretation of Article 69 EPC.

23 *Kirin-Amgen Inc & Ors v. Hoechst Marion Roussel Ltd & Ors* [2004] UKHL, para. 39.

24 *Formstein (Moulded Curbstone)* [1991] RPC 597 (In the Federal Supreme Court of Germany) in Walsh (n 2) 420.

25 Article 53, European Patent Convention.

26 Case C-34/10, *Oliver Brüstle v. Greenpeace e.V.* ECLI:EU:C:2011:669. In this case the Court, while

17 Due to the fact that the patents are granted in the industries with substantial impact such as medicine, computer programming or environment, the development of patent law must be carefully evaluated during the entire lifecycle of patents. Hence, both patentability of inventions and the scope of patented inventions already during the enforcement phase have wider implications and can determine not only technological and economic, but also social and cultural standing of the specific country and/or a region.²⁷ The scope of the protection is most of all tested by the courts whose functioning is essential not only for ensuring the effective justice system but also for determining the entire patent policy. In addition, thorough analytical and consistent approach benefits legal certainty, which is essential for the players on the relevant marketplace.

III. Examples of divergent outcomes at Member States' national courts

18 When a patent is litigated in different Member States and their respective judicial bodies, the differences in the legal systems and in dealing with the legal issues might have an essential impact on the outcomes of the cases. The national courts differ from each other in terms of the approach they take towards the procedural aspects, preliminary injunctions, and most importantly the substantive issues such as the scope of the patented invention as mentioned above.²⁸ Therefore, when courts decide whether the infringement has taken place, based on their own understanding of the patent they might reach contrasting decisions, in favour of either the patentee or the alleged infringer even when the parties of the case are the same, as well as the patented invention concerned. The same applies to the situations when the courts need to decide whether the patent is valid or not.

acknowledging the sensitivity of the issue and multiplicity of traditions and value systems of different Member States, provided the legal interpretation of the legal provision in question (Article 6(2)(c) of the Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the legal protection of biotechnological inventions (OJ 1998 L 213, p. 13) and hence provided the guidance regarding the human embryo and how it should be defined. On this point see: Shawn H. E. Harmon and Graeme Laurie, 'Dignity, plurality and patentability: the unfinished story of *Brustle v. Greenpeace*' (2013) *European Law Review* 38(1):92.

27 Dimitris Xenos, 'Unconstitutional supranational arrangements for patent law: leaving out the elected legislators and the people's participatory rights' (2019) *Information & Communications Technology Law*, <<https://doi.org/10.1080.1360834.2019.1592855>>.

28 Luke McDonagh, *European Patent Litigation in the Shadow of the Unified Patent Court*, 2016, 14.

19 One of the most famous examples where different national courts ruled differently from one another is the case *Improver*.²⁹ The case concerned a patent application before the European Patent Office (EPO) of two Israeli men for an electronic hair removal device targeted at women for cosmetic purposes. EPO had granted the patent which was then validated in the UK and West Germany.³⁰ Improver Corporation (Improver) marketed the goods under the name 'Epilady'.³¹ The Epilady quickly became successful in the contracting states which in turn triggered the competitors to imitate the product.³² The biggest potential infringer was the American company, Remington, which was famous for producing shaving devices. When Remington entered the British and German markets, Improver sought a preliminary injunction for stopping the marketing of the allegedly infringing product. The English Patents Court dismissed the request for a preliminary injunction, as the court did not find the case as a clear infringement,³³ on the other hand, the German district court (*Landgericht*) granted the preliminary injunction.³⁴ Thus, the decisions of two national courts already differed at the preliminary level. The circumstances became more interesting once it reached higher instances.

20 The case was appealed in both countries. The court of appeal in England, having considered the decision of the first instance court in Germany, decided to grant an injunction,³⁵ whereas the appeal court in Germany (*Oberlandsgericht*), having considered the decision of the English court at the first instance level, discharged the preliminary injunction.³⁶ Finally, when the case was decided on merits, the district patent court in Germany found that there had been an infringement,³⁷ while the English

29 *UK - Improver Corp. v. Remington Consumer Product Ltd* [1990] F.S.R 181; *Germany - Corp. & Sicommerce AG v. Remington Inc*, Case No 2 U 27/89 (OLG 1991) translated in 24 IIC 838 (1993); *Netherlands - translated in 24 IIC p. 832* (1993).

30 *Improver Corp. v. Remington Consumer Products Ltd.*, [1989] R.P.C. 69, 71 (Eng. C.A. 1988).

31 *Ibid*, 72, in John P. Jr. Hatter, 'The Doctrine of Equivalents in Patent Legislation: An Analysis of the Epilady Controversy' (1995) 5 *IND. INT'L & COMP. L. REV.* 461, 475.

32 *Improver Corp. & Others v. Remington Consumer Products Ltd. & Others*, [1990] F.S.R. 181, 184 184 (Eng. Ch. 1989) in Hatter (n 31) 476.

33 *Improver Corp.*, [1989] R.P.C. at 73, in Hatter (n 31) 476.

34 *Improver Corp. & Sicommerce AG v. Remington Products Inc.*, 21 *INT'L. REV. OF INDUS. PROP. & COPYRIGHT LAW* 572, 573, in Hatter (n 31) 476.

35 *Improver Corp.*, [1989] 1 R.P.C. at 81, in Hatter (n 31) 476.

36 *Improver Corp. & SicommerceAG v. Remington Products Inc.*, 21 *INT'L. REV. OF INDUS. PROP. & COPTRIGHT LAW* 572, 579, in Hatter (n 31) 476.

37 *Improver Corp. & Sicommerce AG v. Remington Products Inc.*, Case No. 2 U 27/89 (OLG 1991) translated in 24 *INT'L. REV. OF INDUS. PROP. & COPYRIGHT LAW* 838, 839 (1993), in Hatter (n 31) 477.

patents Court stated that Remington had not infringed Improver's patent.³⁸

- 21 *Improver* is a landmark case when it comes to divergent decisions of the national courts who had the same facts, the same parties and the same patent at hand and yet reached conflicting outcomes. This took place whilst having the Protocol on the interpretation of Article 69 of the EPC, which supposedly were applied, yet the outcomes differed.³⁹
- 22 The doctrine of equivalents was one of the issues where the UK courts have had a different opinion from the other European courts. Simply put, the doctrine was not recognised in the UK until recently. In the *Improver* case, the House of Lords when coping with the variants, stated that it first had to be asked whether the change had made the difference for the functioning of the invention. After this, it should have been determined whether such a change would have been obvious for the person skilled in the art at a time of the publication. Last, the patentee's point of view must have been taken into consideration, in particular, whether the patentee had intended the literal understanding as to the prerequisite for the invention.⁴⁰
- 23 On the other hand, in Germany, as can be seen from the case law, the doctrine of equivalents is recognised and slightly different questions are asked in order to decide whether the allegedly infringing product, in other words, a variant, is equivalent to the invention protected by patent.⁴¹ In the case *Schneidmesser*, the specific questions were framed for completing this exercise, in particular:

“Does the modified embodiment solve the problem underlying the invention with means that have objectively the same technical effect? ... If the first question ... has to be answered in the negative, the contested embodiment is outside the scope of protection. Otherwise we have to ask the second question: Was the person skilled in the art, using his specialist knowledge, able to find the modified means at the priority date as having the same effect? ... If the second question ... has to be answered in the negative, the contested embodiment is outside of the scope of protection. Otherwise we have to ask the third question ... Are the considerations that the person skilled in the art had to apply oriented to the technical teaching of the patent claim in such a way that the person skilled in the art took the modified embodiment into account as being an equivalent solution?”⁴²

- 24 In France, the Doctrine of equivalents is oriented on the purpose; hence, if the two variants are used to reach the same effect they are considered as equivalents. However, the intent of the patentee or the obviousness in the eyes of the person skilled in the art is not taken into consideration.⁴³
- 25 Overall, the *Improver* case is not an isolated example of divergent decisions. Such decisions can be found in even more recent cases. For example in another case, *Novartis AG and Cibavision AG v. Johnson & Johnson*,⁴⁴ the different decisions were made in relation to the validity of a patent in France and the Netherlands on the one hand and in the UK and Germany on the other hand. The case concerned a European patent for contact lenses. The courts in France and the Netherlands decided that the patent was valid, while the German and British courts held that the patent was invalid.⁴⁵ In a famous case *Document Security Systems v. European Central Bank 2008*⁴⁶ which concerned the Document Security System's banknote anti-forgery technology patent, several European courts were involved who issued different decisions in relation to the validity of the patent concerned. The German Federal Patent Court held the patent valid. However, the French court – *Tribunal de Grande Instance de Paris* disagreed with the German court and held the patent invalid. As did the English courts. Meanwhile, the Dutch court agreed with the German court holding the patent valid.⁴⁷
- 26 Another interesting case with contrasting decisions is *Pozzoli v BDMO SA 2007*.⁴⁸ The case concerned the form of packaging for multiple CDs which involved partially overlapping discs but with the offset axes in order to separate the discs from each other. Pozzoli brought the lawsuit for patent infringement, however, the defendants argued that the patent was not valid as the idea of a container with overlapping discs was obvious for the person skilled in the art. In the UK, the Court of Appeal scrutinised the issue of inventive step and concluded that the patent merely covered an old idea even if it was thought not to work, therefore, a patent had not contributed to the human knowledge by something new and should have been revoked.⁴⁹ On the contrary, in Germany,

43 Ibid, 422.

44 *Novartis AG and Cibavision AG v. Johnson & Johnson Medical Ltd and others* [2010] EWCA Civ 1039.

45 Stefan Luginbuehl, *European Patent Law: Towards a Uniform Interpretation*, 2011, 10.

46 *Document Security Systems v. European Central Bank* [2008] EWCA Civ 192.

47 See on this point: Blogpost, <<http://ipkitten.blogspot.com/2008/03/court-of-appeal-for-england-and-wales.html>>.

48 *Pozzoli v BDMO SA* [2007] EWCA Civ 588.

49 More on this point see: Ana Georgian Alba Betancourt, 'Cross-Border Conflicts of Patents and Designs: a study of multijurisdictional litigation and arbitration procedures'

38 *Improver Corp. & Others*, [1990] F.S.R. at .195, in Hatter (n 31) 477.

39 See on this point, Hatter (n 31) 475-490; Walsh (n 2) 421-422.

40 Walsh (n 2) 419.

41 Ibid, 422.

42 Ibid, 420-421.

the same patent was held valid.⁵⁰

- 27 The case *Coner v Angiotech*,⁵¹ which concerned the European patent owned by Angiotech Pharmaceuticals, Inc. and the University of British Columbia also ended with different outcomes. The patent claim covered the stent coated with the drug, Taxol, for treating or preventing the recurrent narrowing of arteries after corrective surgery. Coner Medsystems, Inc. brought an action to revoke the patent in both the UK and the Netherlands on the grounds of obviousness. Lower courts in the UK, invalidated the patent due to its obviousness, while the Dutch court in Hague, concluded that there was nothing in the prior art that would suggest that Taxol was an obvious choice to treat the restenosis. Later, the House of Lords disagreed with the lower courts in England and by agreeing with the Dutch court found the patent valid.⁵²
- 28 A legal battle between *Apple* and *Samsung* has caught everybody's attention, especially because of the number of lawsuits, and of course, because their IP battle took place across several European jurisdictions and at different points in time. It all started when in 2011, Apple sued Samsung for infringement of its multiple patents; only a few weeks later, Samsung sued Apple back and also brought a counterclaim for the initial lawsuit of Apple.⁵³ Overall, Apple brought sixteen lawsuits against Samsung covering a range of its goods and claiming that Samsung had infringed its IP rights (trademarks, designs and patents).⁵⁴ The battle was mainly concentrated in Germany in the court of Mannheim, however, other European (and not only) countries' jurisdictions were also used as a forum.⁵⁵ Unsurprisingly, different courts issued divergent decisions. For example, Samsung was granted a preliminary injunction in the Netherlands, while sometime later a court in Germany held Samsung's patent invalid.⁵⁶
- 29 A more recent case, *Actavis UK Ltd & Ors v Eli Lilly & Company*, concerning Eli Lilly's patent covering the use of pemetrexed disodium in the manufacture of a medicine for use in combination with vitamin B12 for the treatment of cancer. The court in the UK had decided whether Actavis's product infringed the patent in question since it did not use pemetrexed disodium but instead pemetrexed diacid, pemetrexed ditrothamine, or pemetrexed dipotassium.⁵⁷ In essence, the court had to examine whether the variant was infringing the patent indirectly, which again brought the doctrine of equivalents into play. The English, German, French, Italian, Spanish and Dutch courts heard the case. Until it reached the Supreme Court in the UK, the courts of first instance and the court of appeal in the UK concluded that since there had been no doctrine of equivalents in the UK, the infringement by Actavis had not taken place. The Supreme Court of the UK changed the precedent, which also brought together the English understanding of the doctrine of equivalents and application of the protocol on the interpretation of Article 69 with the other European jurisdictions. This case is especially interesting from the judicial harmonisation point of view which will be discussed below as well.⁵⁸
- 30 Overall, the number of cases heard at several European jurisdictions is quite impressive which results in divergent case outcomes creating a lot of challenges for the litigants. It can be concluded that such diversities stem from the "different rules of the game" existing in different European jurisdictions.⁵⁹ Such a system does leave its mark on the entire European patent system.

D. The Impact of fragmented litigation on the IP eco-system in the EU

- 31 Obviously, fragmented litigation has its implications on the development of IP law in general but most of all, duplication of cases and inconsistent outcomes create legal uncertainty for the litigants involved in the patent field as well as other market participants. Inconsistency also creates barriers for the functioning of the internal market as the patented products which are supposed to benefit from the free flow inside the EU market might be treated differently in different countries. This is because a patent for the invention might be considered as valid in the court of one Member State while the same patent is held invalid in another Member State, leading to

(2014) doctoral thesis, Queen Mary University of London, 56; Blogpost: <<http://ipkitten.blogspot.com/2007/06/dealing-with-technical-prejudice-and.html>>.

50 *Pozzoli v BDMO SA* [2007] EWCA Civ 588, paras. 73-75.

51 *Angiotech Pharmaceuticals Incorporated and others v. Coner Medsystems Incorporated* [2007] EWCA Civ 5.

52 See more on this point: European Patent and Trade Mark Attorneys Bulletin, 'A step towards uniformity in Europe?', July 2008.

53 Don Reisinger, 'A look back at the great Apple-Samsung Patent War', (2014), *eWEEK News*, 3-4, <<http://www.eweek.com/mobile/slideshows/a-look-back-at-the-great-apple-samsung-patent-war.html>>.

54 Patel, N. April 19, 2011. Apple sues Samsung: a complete analysis. *The Verge*. <<http://www.theverge.com/2011/04/19/apple-sues-samsung-analysis>>.

55 Reisinger (n 53) 7-9.

56 Graham, Van Zeebroeck, (n 9) 657.

57 Walsh, (n 2) 434.

58 *Actavis v. Eli Lilly* [2017] EWCA Civ 555.

59 Graham, Van Zeebroeck, (n 9) 657.

the banning of the product from the market in the territory of that EU Member State.⁶⁰

- 32 For those who are involved in patent litigation in Europe, such a fragmented system is believed to create an additional burden in terms of costs associated with litigation in several countries and at several forums, which is also time-consuming.⁶¹ It must be noted at the same time that due to the lack of data, it is impossible to display the exact figures as to how the litigants' financial standing is specifically affected by the fragmented patent litigation.⁶²
- 33 Considering the European goals regarding reaching the maximum level of harmonisation in most of the sectors of economy and law including the intellectual property field, existing court system definitely cannot be considered ideal - a system which would fulfil the goal of uniformly understanding and applying the law. However, the enforcement phase of patents cannot be taken in isolation as patents are not inherent rights and they are granted in the first place. Therefore, such a different understanding by the courts might be derived from the fact that the mechanism for the patent grant phase itself is also imperfect. Granting the bundle of European patents at EPO for the moment seems to be the best solution, however, it must be said that there are differences in the validation procedure of the patents in different Member States, which already create inconsistencies from the start. For instance, a patentee who has designated different Member States for validating the patent may have to pay different fees depending on the patent office of a Member State. In most of the countries the validation fees are fixed with some exceptions where there are no validation fees at all.⁶³ The patentee may also need to provide the translation of patents in the language of the country

where the protection is sought. Translation costs are also different depending on a state, for example translating into Nordic languages (Swedish, Danish and Finnish) is more costly compared to the central European languages (Dutch, Spanish, Portuguese and Greek) and there are no fees in the countries where official languages are English, German and/or French.⁶⁴ These types of differences define the behaviour of the patent holders and also reflect the statistics in terms of patent validations. For small companies it can also be rather burdensome in terms of costs and time to seek the validation in different Member States.⁶⁵

- 34 In a broader perspective, by looking at the European patent court system as a service offered on an international scale, it should be remembered that fragmentation of litigation might be the disincentivising factor for international companies to hold European patents and then enforce them in Europe, especially for the small and medium-sized companies whose budget is usually limited. Therefore, for fostering the general innovation climate in Europe, overcoming uncertainties has been and still is one of the goals of European patent law, both on legislative and judicial levels. This will be addressed in the next two sections, with a particular focus on what has already been done, but more importantly, what more can be done.

E. Harmonisation through the legal instruments

I. Attempts of institutional changes in the EU

- 60 Sir David Kitchin, 'Introductory remarks: a judicial perspective', in Justine Pila and Christopher Wadlow (eds.), *The Unitary EU Patent System*, 2015, Studies of the Oxford Institute of European and Comparative Law, 2; McDonagh (n 28) 15-16.
- 61 Ibid, 16; See also, Victor Rodriguez, 'From national to supranational enforcement in the European patent system' (2012) *European Intellectual Property Review*, 3.
- 62 In their study Cremers, Ernicke, Gaessler, Harhoff, Helmers, McDonagh, Schliessler, Van Zeebroeck, (n 3) carried out empirical research of four major European jurisdictions (the UK, Germany, France and the Netherlands) and identified that there are substantial differences in the caseloads, that there is big pile of cases litigated in different European states and that there are inconsistencies in the decisions. However, the study does not cover the economic aspect, namely, how much the fragmented litigation costs for the litigants.
- 63 E.g. Belgium, Switzerland, Luxembourg, Monaco and the UK do not charge for validation. See in this regard, Dietmar Harhoff, Karin Hoisl, Bettina Reichl, Bruno van Pottelsberghe de la Potterie, 'Patent validation at the country level, The role of fees and translation costs' (2009) *Elsevier*, 1428.

- 35 Apart from the non-EU instrument, the European Patent Convention, which has been implemented in the laws of the contracting member states (including the major EU countries),⁶⁶ there have been several attempts made on the EU level to create a union-wide patent. In 1975, the Community Patent Convention was signed in Luxembourg, but it failed to gain the necessary number of ratifications in order to enter into force.⁶⁷ The goal of the Convention was to create the autonomous 'Community patent' which

64 See in this regard, *ibid*, 1429.

65 Kitchin (n 60) 2.

66 In the UK, the Patents Act (UK) 1977 implemented the provisions of the EPC into the national law; In Germany, Patents Act was introduced to implement the provisions of the EPC - Patentgesetz in der Fassung der Bekanntmachung vom 16 Dezember 1980 (BGBl. 1981 I S. 1), das durch Artikel 2 des Gesetzes vom 4. April 2016 (BGBl. I S. 558) geändert worden ist (German Patents Act).

67 Walsh (n 2) 411.

would be granted by the EPO and confer Union-wide protection instead of the bundle of national patents with separate validation procedures. The second goal of the convention was to create the EU substantive patent law which already existed to some extent in the Council of Europe's Strasbourg Convention 1963. The last goals of the Convention were to prepare the foundation for supranational patent adjudication.⁶⁸ The Convention was concluded more as an international agreement rather than the Community instrument as the European Economic Community did not have the standing to adopt such an instrument at that time. Thus, the convention required the ratification of all Member States at that time, which it failed to gain due to the complex language regime as well as the unclear economic impact for SMEs.⁶⁹ The Luxembourg Agreement from 1989 also failed due to similar reasons, in particular, due to the complex language arrangements and costly litigation scheme.⁷⁰

- 36 In the 1990s, the Commission, in response to the public needs and in the context of the developing intellectual property field, initiated the creation of the European patent one more time. Yet, due to the failure of the previous patent convention and Luxembourg agreement, the Commission issued the green paper in 1997 explaining the importance of the patents for innovation and putting emphasis on the cost efficiency of the system.⁷¹
- 37 In 2000, the European Commission drafted a proposal for the Community patent, however, the negotiations around the community-wide patent were not successful until 2007 when 12 EU Member States established enhanced cooperation⁷² amongst themselves soon reaching 26 Member States in total.⁷³ The Council authorised the enhanced cooperation and in 2012, EU countries and the European Parliament agreed on the 'Unitary Patent Package' which consists of two regulations and one agreement:

- A Regulation creating a European patent with unitary effect (unitary patent);
- A Regulation establishing a language regime applicable to the unitary patent;
- Agreement between EU countries to set up a single and specialised patent jurisdiction (the 'Unified Patent Court').⁷⁴

- 38 The patent package will come into force once it is ratified by 13 countries, including France, the UK and Germany.⁷⁵ Up until now France and the UK have ratified the package,⁷⁶ however, in Germany, a complaint has been brought before the German Federal Constitutional Court challenging the constitutionality of the proposed system.⁷⁷ The complaint was filed by the European patent attorney Dr. Ingve Björn Stjerna. Upon the Court's request, several associations and institutions have submitted their views to the German Constitutional Court concerning this case. According to the report of the German Association for the Protection of Intellectual Property the main concerns of the complaint are: "the (in)compatibility of the UPCA with EU law, breach of the requirement for a qualified majority in parliament, lack of independence of the judges of the UPC and the 'impermissible blanket authorization with regard to procedural costs and their reimbursement'.⁷⁸ For the time being, the German Constitutional Court has not yet ruled on this and those associated with the field of the patent law are impatiently waiting for the decision to come. Some academics have anticipated that the Court will decide on the case before the end of 2019, however, there is no clear-cut deadline for the Court and no-one really knows when the decision will be made. Based on information from the German Federal Constitutional Court, since 1998 around 300 constitutional complaints have been decided per year; during the year 2019, only 106 cases had been decided upon by September.⁷⁹ Yet it remains unclear whether one of the upcoming decision will be made

68 Justine Pila, 'An historical perspective I: The Unitary Patent Package', in Justine Pila and Christopher Wadlow (eds.), *The Unitary EU Patent System*, 2017, 10-11.

69 Ibid, 11.

70 Ibid, 12.

71 Ibid, 13-14.

72 Title III, (Article 326- Article 334), 'Enhanced Cooperation', Treaty on the Functioning of the European Union allows for enhanced cooperation around a specific area covered by the Treaties with the exception of the exclusive competence and the common foreign and security policy, amongst the limited number of EU Member States as long as they will respect the Union law and the authorising decision on the enhanced cooperation. This mechanism shall also promote the participation of as many EU Member States as possible and should not in any way disrespect non-participating Member States.

73 Kitchin (n 60) 2.

74 Information on unitary patent can be found here: <https://ec.europa.eu/growth/industry/intellectual-property/patents/unitary-patent_en>.

75 Ibid.

76 Information on the countries who have signed and ratified the agreement on the Unified Patent Court (UPC) can be found here: <<https://www.consilium.europa.eu/en/documents-publications/treaties-agreements/agreement/?id=2013001>>.

77 Walsh (n 2) 415.

78 'EPLIT, BRAK, GRUR publish view on German complain against ratification UPCA', Kluwer Patent Blog, 2018, <<http://patentblog.kluweriplaw.com/2018/01/25/eplit-brak-grur-publish-view-german-complaint-upca-ratification/>>.

79 <https://www.bundesverfassungsgericht.de/SiteGlobals/Forms/Suche/Entscheidungensuche_Formular.html?nn=5399828&facettedVerfahrensart=bvr&language_de>.

on the UPC.

- 39 In case the unitary patent package comes into force, the main question still remains – what will it bring, and will it be a solution to the reported problem of divergence amongst the national patent litigation systems?

II. Unitary Patent Package – what can the system bring?

- 40 First, it must be said that a patent with unitary effect will be a unique concept as the EU title will be granted on the basis of the international convention – the European Patent Convention, meanwhile, the EPO's functions will be untouched. The 'classic' European patents that need validation in different Member States of the EPO, as well as the national patents, will also remain and co-exist with patents with unitary effect.⁸⁰ However, the double protection by a classic European patent and a patent with unitary effect will not be possible in the countries participating in the patent package.⁸¹ As for the question of whether the double protection by the national patent and the patent with the unitary effect is going to be possible, this will be left to the national laws. Essentially, the patent with unitary effect can co-exist with the existing national patents, in other words, it is not a replacement but a complementary protection mechanism offering a broader protection.⁸² Such a scheme can definitely be used as an argument to state that the problem with the national patents and their litigation loopholes will not be solved automatically when patents with unitary effect will start functioning, simply because the national patents will still be there and will be litigated in their respective Member States of the EPO.
- 41 However, the applicants will have to make a choice between the classic European patents and the patents with the unitary effect. The refusal by the initiators of the patent package of double protection by these two tools must result in certain positive changes. First, the applicants applying for patents with unitary effect will not have to face the burdensome and costly validation procedure, including translation requirements in each designated Member State, but instead acquire the protection at once in all UPP countries. Second, patents with unitary effect will be subject to exclusive jurisdiction of the Unified

Patent Court⁸³ which means that the applicants, prior to the possible dispute, will already know the venue of the litigation, the rules of the court and the possible costs to be incurred. A centralised system with one exclusive court will definitely eliminate the possibility of parallel litigation and divergent outcomes at national courts.

- 42 It is another question whether the applicants will choose the patents with the unitary protection or opt for classic European patents. This will very much depend on the size of the company and the business intentions. Certainly, if the patentees do not wish to have wider protection, and the fees for the patent with unitary effect exceeds the fees taken together for the limited number of EPC Member States where the validation is desired and sought, most probably the choice will be made in favour of the classic European patents; the same can be said about the renewal fees.⁸⁴ It must be added here that actions for infringement and revocation of even the classic European patents will also exclusively be heard at the UPC, unless the opt-out is made during the seven-year transitional period which is possible for the life of the patent.⁸⁵ In this case, the European patents will be subject to the jurisdiction of the national courts as it is today. Otherwise, without the opt-out and after the transitional period, European patents will also be under the exclusive jurisdiction of the UPC.⁸⁶ Hence, the transitional seven years will most probably be very diverse and even messy as so many layers of courts will be in place, especially in the situations when one party (patentee) of the dispute has not opted out from the system and brings infringement action before the UPC and another party still brings the revocation action before the national court assuming that this is possible, resulting in parallel proceedings at two courts.
- 43 As for the operation of the Unified Patent Court itself, since the court will consist of the central divisions and the local/regional divisions, one of the main challenges of the Court will be to maintain the uniformity amongst its different local courts. This is especially because a new group of judges, which will include the local judges for the local/regional courts, will apply their own traditions and approaches which differ in different jurisdictions as illustrated in the previous sections.⁸⁷

80 Regulation (EU) No 1257/2012 of the European Parliament and the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection, Recital 26.

81 Ibid, Recital 8 and Art 4(2).

82 McDonagh (n 28) 111.

83 Article 32, the Agreement on the Unified Patent Court, OJ C175/1, 20 June 2013 (Agreement on the Unified Patent Court).

84 McDonagh (n 28) 117.

85 Article 83, Agreement on a Unified Patent Court.

86 See in this regard: Alan Johnson, 'Looking forward: a user perspective', in Justine Pila and Christopher Wadlow (eds.), *The unitary EU patent system*, 2015, 181.

87 See in this regard: Ibid, 179.

- 44 Another challenge is the issue of forum shopping, in particular, the patentees will have the freedom to choose the division where they will bring the infringement actions due to the fact that the defendant's commercial origin is not always clear-cut and sometimes, for example in case of the existence of several defendants, the claim can be brought basically anywhere. The choice of the court will again depend on the attitude of the court, the local practices, and of course the language.⁸⁸ Due to the possibility of forum shopping it can be argued that the patentees are in a privileged position as they get to choose the venue of the litigation. Perhaps the balancing factor should be the elimination of any possibility of divergence amongst the local divisions which will be rather hard at the beginning.
- 45 Thus, it seems that the answers to the question as to what the new system can bring are very complex, as is the question itself. In the abstract, both benefits and some loopholes can be spotted, but one will know more concrete examples when the system will come into the landscape of European patent law in reality.

III. Degree of EU harmonisation of substantive patent law

- 46 For the moment substantive patent law remains to be left outside the EU legal order and regulated under the national patent laws. However, due to the high importance of biotechnological inventions, the directive on the legal protection of biotechnological inventions was adopted in 1998.⁸⁹ The Directive does not replace the national laws of the Member States, however, it solely aims to harmonise the practice around the biotechnological inventions. In particular, the directive concerns the patentability of the inventions; the scope of protection conferred by a patent in respect of biological material; compulsory cross-licensing and filling of biological material. Concerning the Directive, Internal Market Commissioner Frits Bolkestein has said: "A clear and equitable patent regime applied consistently across the EU is crucial if we are to exploit fully the medical, environmental and economic potential of biotechnology in line with high ethical standards. Unless the 1998 Directive is properly implemented Europe's biotech sector will be working with one hand tied behind its back and will fall further and further behind. Of course, biotechnology is one of the fastest changing sectors there is and regulation needs to keep up. That's why we need to continue

to revisit complex issues like stem cell patenting in future reports."⁹⁰ Thus, in the biotechnology field, harmonisation on the EU level is in place. The Court of Justice of the European Union also had a chance to give its voice in this area, for example in landmark cases such as *Brüstle*⁹¹ and *International Stem Cell*.⁹² For the moment, however, it seems that there are not so many cases that have gone to the court; if we insert the name of the directive and search for the judgments in the *Curia*⁹³ database for the CJEU's case law, only seven judgments emerge.

- 47 Two Regulations on supplementary protection certificate in the field of pharma and plant products have also been adopted.⁹⁴ Supplementary protection certificates legislation was aimed at creating *sui generis* rights similar to patents that would compensate the patent holders for the potential time loss incurred in the field of pharma and plant product. This was done since the new products in these two areas are subject to long and complex regulatory procedures before receiving the authorisation to commercialise the products. Having established the standards, the EU legislator harmonised the requirements in order to eliminate the divergences amongst the national legislations and therefore to guarantee the functioning of the internal market. By creating such a system, the EU legislator also tried to improve the competitiveness of Europe in terms of research in these two fields on an international scale.⁹⁵
- 48 In spite of a certain level of harmonisation in two very specific fields, in general patent law largely remains under the control of national legislative and judicial mechanisms. Even more, when applying the patent laws national judges do play a vital role in the development of patent law, thus, the next section scrutinises the role of the judicial mechanisms, both at the national and the EU level in terms of current standing and future possible developments for overcoming the divergences. As witnessed from the

⁸⁸ Ibid, 184-185.

⁸⁹ Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the legal protection of biotechnological inventions.

⁹⁰ European Commission Report, IP/02/1448, 2002, <http://europa.eu/rapid/press-release_IP-02-1448_en.htm?locale=en>.

⁹¹ Case C-34/10, *Oliver Brüstle v. Greenpeace e.V.* ECLI:EU:C:2011:669.

⁹² Case C364/13, *International Stem Cell Corporation v. Comptroller General of Patents, Designs and Trademarks*, ECLI:EU:C:2014:2451.

⁹³ <Curia.europa.eu>.

⁹⁴ Council Regulation (EEC) No 1768/92 of 18 June 1992 concerning the creation of a supplementary protection certificate for medicinal products; Regulation (EC) No 1610/96 of the European Parliament and of the Council of 23 July 1996 concerning the creation of a supplementary protection certificate for plant protection products.

⁹⁵ European Commission, Max Planck Institute for innovation and Competition, 'Study on the legal aspects of supplementary protection certificated in the EU', final report, 2018, 2.

previous sections numerous differences still exist.

F. Harmonisation through enhancement of judicial mechanisms

I. Relationship between the national courts

49 Dealing with the divergences does not only take place through the harmonisation of legislation, but it also happens on a judicial level. Even if the patent package does not come into force, there can be certain cooperation mechanisms that enhance cooperation amongst the courts, either through the informal channels or on an EU-institutional level; these issues are discussed in this and the following subsections, respectively.

50 Especially in today's world when access to information is relatively easier and communication tools are also more advanced, it seems that national courts and, in particular, judges can cooperate more. Such cooperation first of all benefits homogenous decision-making in patent law.

51 It is very often discussed that patent law is, in fact, a judge-made law. The judge Sir Robin Jacob says that the judges should be increasingly willing to consult each other for a more coherent understanding of patent law.⁹⁶ He further states: "...we should do our best to find out how colleagues in other countries actually go about their jobs. In the real world procedural law is not just some sort of handmaiden to substantive law: it determines most of what happens. So we must all try to learn what we each do – and indeed what part lawyers, experts, and others play in the differing judicial procedure across Europe. Only by better understanding of the strengths and weaknesses of our various national procedures will we be able to help produce, when the time comes, a really good European procedural code. There are all sorts of ways of learning – I mention just one: I extend to welcome to any and all of you to come and see the Patents Court in London if ever you are there..."⁹⁷

96 Sir Robin Jacob, 'The relationship between European and national courts in intellectual property law' in Justine Pila and Ansgar Ohly (eds.), *The Europeanization of Intellectual Property Law: Towards a European legal methodology*, Oxford Scholarship Online, 2013, 190.

97 Ibid.

52 Indeed, consultations between the judges have become rather common. This is especially true for English, Dutch and German judges.⁹⁸ For example in the case *Grimme v. Scott*,⁹⁹ the judge highlighted the importance of taking into consideration the judgements of other national courts. In particular, during examining the case at hand and researching on the patent, the court decided to ask the colleagues in Germany and in the Netherlands whether they had already dealt with the analogue case.¹⁰⁰ The same practice was followed in a recent case *Schütz v. Werit*,¹⁰¹ where the judge stated that the decisions of the German courts should have been considered as Germany is also a contracting state of the EPC.¹⁰² In the UK, advocates are also encouraged to present similar cases that were decided in other countries to support their arguments.¹⁰³

53 Perhaps the most illustrative example of judicial harmonisation is the case *Actavis v. Eli Lilly*,¹⁰⁴ where the Supreme Court of the UK introduced the doctrine of equivalents in order to ensure the compliance with the Protocol on the Interpretation of Art 69 EPC.¹⁰⁵ The Court essentially changed its understanding of claim construction and stated that the previous interpretations of the lower instance courts had been wrong. The Court established a new test for determining whether the variant of an invention infringes the patent or not.¹⁰⁶ In this case, the Court examined the approach of the German and French courts, which once again proves that the British court tries to bring the practices together.¹⁰⁷

54 Courts in Germany also promote the consideration of decisions of other national courts. This was formally stipulated for the first time in the case *Zahnkranzfräser*.¹⁰⁸ In a later case *Walzenformgebungsmaschine*,¹⁰⁹ the German Supreme court stated that in case the court deviates from the judgment of another national court, it should provide the reason for doing so. Such a requirement considerably pushes forward the harmonisation as 1. it will be revealed in which areas the courts usually

98 Ibid.

99 *Grimme Maschinenfabrik v. Derek Scott (t/a Scotts Potato Machinery)* [2010] EWCA Civ 1110.

100 Ibid, para. 77.

101 *Schütz v. Werit* [2013] UKSC 16.

102 Ibid, [39].

103 Walsh (n 2) 426.

104 *Actavis v. Eli Lilly* [2017] UKSC 48.

105 Ibid.

106 Ibid.

107 Ibid, paras. 44-52.

108 Decision of the Bundesgerichtshof, 5 May 1998 (X ZR 57/96) – "*Zahnkranzfräser* (Gear rim mill)", in Walsh (n 2) 428.

109 Decision of the Bundesgerichtshof, 15 April 2010 (Xa ZB 10/09) – "*Walzenformgebungsmaschine* (Roller-forming-machine)", in Walsh (n 2) 428.

differ from each other more often, and 2. it will be easier to handle with the divergences and maybe even overcome them completely.

- 55 The initiatives of the individual judges are certainly a big step forward, however, such practices take place in an informal way and on case-by-case basis. Formal and structured cooperation is still missing, and only relying on certain judges' willingness in a few EU Member States cannot be considered as a sufficient solution. Legal certainty of the patent field which is one of the major driving forces of the EU economy cannot be jeopardised due to a lack of willingness and readiness of some other judges to look into and consider other courts' case law and apply in their judgments. Therefore, more formal steps need to be made, which to some extent is already happening, but there is still ample room for improvement.

II. Judicial harmonisation at the EU level

- 56 For harmonising the enforcement of IP rights in general in the EU, the Directive on the enforcement of intellectual property rights was adopted in 2004.¹¹⁰ However, the evaluation of the Directive has proved that divergences still remain between the ways the IP rights are enforced.¹¹¹ The Commission notes that the differences are caused by the divergent understanding of the provisions, especially in today's complex reality when the digital environment has evolved more than ever.¹¹²
- 57 The Commission has expressed its readiness to propose guidelines, which would be prepared in close cooperation with national judges and experts and which would highlight the most important issues of the IP rights enforcement in order to tackle them jointly.¹¹³ The Commission also strongly encourages the countries to establish specialised IP tribunals, provide more training for the European judges, and finally increase the transparency about the decisions which would help to exchange the views amongst the judges.¹¹⁴

110 Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, (OJ L 157, 30.4.2004, p. 45).

111 Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, 'Balanced IP enforcement system responding to today's social challenges, {SWD(2017) 430 final}, 4.

112 Ibid.

113 Ibid. 6.

114 Ibid.

- 58 Transporting the Commission's recommendations specifically to the patent field would mean more judicial cooperation between judges. This will be especially relevant in case the start of the functioning of the Unified Patent Court is delayed considerably. Such cooperation is already in place in the form of the symposium of European patent judges organised by the EPO.¹¹⁵ However, it would be advisable to promote a more EU-institutional level approach. The European guidelines suggested by the Commission, amongst other IP rights, must be tailored specifically for patents and accumulate problematic areas as reported by the judges and the practitioners. It is advisable that the regular and obligatory meetings of the judges and practitioners are organised for the purpose of highlighting the issues of the patent field and the ways of tackling them. The final document for such gatherings should be the European guidelines for the judiciary in the patent field that will be translated in all EU languages and which will be aimed at applying the approaches of other national courts in the decisions.

- 59 A similar scheme already exists under the coordination of European Union Intellectual Property Office (EUIPO), in particular, within the convergence programme, the representatives of national IP offices come together and attend the seminars on specific topics. Very recently, in June 2019, the programme was also extended to the judiciary. The product of such convergence programmes is not only the process itself, but also the certain collaborative document that can serve as the guidelines for the members of the European judiciary and are easily accessible.¹¹⁶ By analogy, the format can be extended to the patent field.

- 60 Yet, it must be remembered that the guidelines are not an end in themselves, most importantly, the implementation of guidelines in a coherent way in the European courts should be monitored and supported. This can be done by creating the monitoring committee, which will consist of patent professionals – practitioners and researchers – to evaluate the level of harmonisation through a thorough analysis of the case law and in case of finding the loopholes, suggest the topics for the next meetings and relevant elaboration of the guidelines. Apart from this, certain trainings could be organised based on the identified problematic areas as reported by the committee.

115 <<https://www.epo.org/law-practice/judiciary/documentation.html>>.

116 Nicoleta Mirela Nastasie, 'The EUIPO "Judges" Seminar on weak trade-mark elements, 18-19 June 2019, Alicante, or bringing the EUIPO "Convergence Programmes" closer to the EU judiciary', <<https://rlw.juridice.ro/15672/the-euipo-judges-seminar-on-weak-trade-mark-elements18-19-june-2019-alicante-or-bringing-the-euipo-convergence-programmes-closer-to-the-eu-judiciary.html>>.

- 61 Currently, there is a cooperation agreement between the EUIPO and EPO according to which, the two offices will cooperate with each other in the trainings field.¹¹⁷ However, it is not quite clear whether the trainings will also concern the judiciary. It is not necessarily to say that one of these organisations or both, should be chosen as the platform for the suggested model regarding the creation of European guidelines for the judiciary, but certainly these two offices are the main driving forces in the European IP field, who can provide the necessary human resources (internal or external) and the materials for the trainings.
- 62 In addition, the guidelines as well as the case law of the national courts, shall be available on an online platform where all decisions of European judges would be translated into all EU languages and would be accessible for the judges when conducting the research and examining the patent. The online platform has been recommended by Professor Walsh, who suggests that it could be open for judges who would check the decisions of the other courts and even await the judgments of ongoing cases and only then decide on the issues such as patentability of an invention. By looking at the decisions of the other courts, the judges should also be able to change the case law in their own country. The platform could also facilitate posting questions to each other and finding common solutions.¹¹⁸ It would be reasonable to include such online platform arrangements into the mentioned guidelines, even making it compulsory for the judges to adopt it. This would require some amendments in the procedural rules of the Member States; however, the benefits of the pro-harmonising system would definitely outweigh the burden caused by the procedural changes.

III. Specialised patent tribunals – a step forward for harmonisation?

- 63 Last but not least, considering the Commission's recommendations, and in the light of the EU aims to-date, which include the creation of efficient, well-designed and balanced intellectual property systems that in turn will promote investment in innovation and growth, specialisation of courts and judges is highly advisable. This is especially true due to the complex nature of IP law and in particular, patent law. The advantages and disadvantages of the specialisation of courts have been discussed and analysed in detail in the literature.¹¹⁹ One of the main

arguments in favour of the specialised courts is the creation of the special expertise, which will result in more uniform decision-making, high quality, and legal certainty. While on the other hand, the disadvantages of specialised courts include a narrow, so-called 'tunnel-vision'; in other words, the danger that the other areas of law, such as fundamental rights or competition law matters will be ignored by the IP-oriented judges. Specialised courts might also be easily influenced by political groups and practitioners, as the IP world is not so big and diverse.¹²⁰ There is already a noticeable trend of establishing the specialised IP tribunals, not only in Europe but worldwide. Among the principle rationales, the countries creating the specialised courts note the development of IP expertise in specialised judges; harmonisation of courts' practices; and improvement of the consistency of judgments, which in turn will increase the legal certainty and the quality of IP adjudication.¹²¹ Establishment of specialised courts is more evident in the patent area.¹²² Structurally, there are different forms in which IP specialised tribunals can be established, for example, there might be independent IP courts or specialised chambers within the court with general jurisdiction.¹²³

- 64 In Europe, Germany and Switzerland have separate IP courts, in particular, a Federal Patent Court. Portugal has also established the Specialised IP court.¹²⁴ While, for example in France, the IP disputes are resolved before the chambers of nine courts, amongst which the Paris Court has a jurisdiction to handle patent cases. In Belgium as well, out of five districts, there is a specialised district which hears IP disputes. In Sweden there is a Stockholm District Court which hears the questions related to invalidity and infringement of patents, infringement of community designs, trademarks, radio or television broadcasts. In the UK, the patent court is a division of the High

Rochelle C. Dreyfuss, 'Specialized adjudication' (1990) *Brigham Young University Law Review*; Jay P. Kesan, Gwendolyn G. Ball, 'Judicial experience and the efficiency and accuracy of patent adjudication: an empirical analysis of the case for a specialized patent trial court' (2011) *Harvard Journal of Law and Technology*; Jacques De Werra, 'Specialised IP courts: issues and Challenges' in: *Specialised Intellectual Property Courts-Issues and Challenges, Global Perspectives for the Intellectual Property System* (2016) issue number 2. CEIPI-ICTSD, 15-41.

120 Seuba (n 19) 273-274.

121 ICC Report on Specialised IP Jurisdictions Worldwide, ICC (2016) 9.

122 *Ibid*, 10.

123 See the specific forms of specialised IP tribunals in Rohazar Wati Zuallcobley. 'Study on specialized intellectual property courts', International Intellectual Property Institute and United States Patent and trademark Office (2012) 3.

124 ICC Report on Specialised IP jurisdictions worldwide, ICC (n 121) 12.

117 See: <<https://www.tmdn.org/network/-/euiipo-and-epo-renew-cooperation-agreement?inheritRedirect=true>>.

118 See on this point, Walsh (n 2) 432.

119 See for example: Simon Rifkind, 'A special court for patent litigation? a danger of a specialized judiciary' (1951) *ABA*;

Court of England.¹²⁵

- 65 In spite of the certain disadvantages, the creation of the specialised IP tribunals illustrate the governments' willingness to pay special attention to the IP field and raise the quality of IP adjudication, however, cooperation of those courts is even more desirable as the strong IP tribunals will tend to create their own practices. The cooperation tools discussed above must be applied predominantly to the specialised patent courts existing in different EU Member States.

G. Conclusion

- 66 As evidenced by the article, patent litigation in Europe is rather hectic. First and foremost, patent law is mostly regulated at the national level rather than on the EU level. Therefore, national legal traditions play a vital role in understanding and applying the law during the enforcement phase of the patents. As seen above, based on the most active and experienced jurisdictions in the patent field, the court systems differ from each other structurally which then plays a big role in the respective case law. A considerable number of cases, partly here reported, have concluded in a divergent manner depending on the location of the proceedings. These cases concern the same patented technology and the same parties, therefore, the worry amongst the academics and practitioners regarding the legal certainty is understandable. However, in spite of these deficiencies, the harmonisation agenda follows in the footsteps of the patent law development and there have been legislative proposals such as a unitary patent package and EU directives in the field of biotechnology and supplementary protection certificates in pharma and plant products. However, for the moment there is no Union-wide patent and the establishment of a unified patent court is also under a big question mark until the German Federal Constitutional Court's decision is handed. Therefore, given the reality of the situation, it is very important that the courts extend the cooperation amongst themselves by looking at each other's case law, which to certain extent is already happening. It is nevertheless advisable to establish more formal communicative channels such as regular meetings, European guidelines, and online tools for accessing the decisions of the courts in the other countries and considering the analysis of the other judges, especially when the case contains the same or similar facts.

- 67 Certainly, it is challenging to create absolute coherence, especially considering the differences in the legal cultures of different European states; in addition, it seems that in certain countries, the courts have stronger patent experience than in the others which might inevitably mean the consideration of the judgements of those experienced courts more often. However, from the legal certainty point of view, there is nothing negative in that. As evidenced, creation of specialised IP tribunals has been to some extent the response to complex patent law, which is already a step forward for the advancement of the specific courts for mastering the IP law. Nevertheless, from a global and European point of view, there is now an urgent need to bring the courts together and minimise the chances of existence of the different playgrounds and different 'rules of the game.' Harmonised judicial practice in turn, is essential for a better European innovation climate. Last, it must be stated that patent litigation is quite a complex area to look into, which would definitely require more research and evidence-based actions.

¹²⁵ Ibid, 11.

Kraus, Daniel/Obrist, Thierry/Hari, Olivier, Blockchains, Smart Contracts, Decentralised Autonomous Organisation and the Law

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Book Review

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- 1 The book addresses some of the recent buzz words centered around the Distributed Ledger Technology (DLT), also known as “Blockchain”. The contributions mainly refer to one of the business areas where DLT has become the Messiah, namely the financial industry, as DLT has the potential to carve out the traditional middleman in banking transactions. Other relevant issues are treated as well, such as conflict of law (Florence Guillaume), intellectual property law (Daniel Kraus and Charlotte Boulay), data protection (Adrien Alberini und Vincent Pfammater), and even tax treatment of cryptocurrencies and criminal law aspects (Nadja Capus and Maelle Le Boudec).
- 2 The first chapter outlines the foundations of Blockchain, including perspectives and challenges (Vincent Mignon), giving a thorough overview of the problems at stake. The next chapter then deals with the necessary technical bases of DLT (Pascal Witzig and Victoryia Salomon) and what is essential for understanding all problems of the DLT. However, the chapter unfortunately does not go into fine detail, which is probably due to the fact that all of the contributors are lawyers and the book does not feature any authors specializing in informatics.
- 3 The next chapter is dedicated to private international law, which is essential for decentralised DLT as it could be used globally (Florence Guillaume). Guillaume rightfully points out that there is no unique scheme applicable to smart contracts; thus, under private international law the usual criteria apply, such as location of transaction etc. However, for DLT it is hard to assess a location of the transaction, as for the right *in rem* the DLT reflects everywhere on any node the transaction. The author also discusses different approaches to cope with the immaterial “location” of the transaction, but infers – rightfully – that only the *lex fori* can apply at the end (79) if no choice of law was concluded.
- 4 Another chapter deals with issues of standardization, in particular with ISO TC 307 – a topic that is quite important yet frequently ignored by lawyers. The author (Panagiotis Delamatis) describes in detail the expected gains from standardization and its impact on the development of DLT. However, the contribution fails to highlight the legal consequences of more standardization.
- 5 “Smart contracts” are also one of the buzz words frequently used in legal articles; however, it is quite misleading as smart contracts simply encode an existing contract and render it automatically feasible. Hence, Blaise Carron and Valentin Barron address a multitude of potential problems arising out the use of smart contracts, be it the translation of legal interpretation into code or the filling of gaps in the smart contract. The authors conclude that contract law and legal code will potentially be replaced by codes of computers; somehow, that still seems to be an overstatement as even complex

software relies on human will. Unfortunately, the authors do not address the issue of unfair contract terms, which is quite important in context of the EU; however, this may not be the case in Switzerland.

- 6 The issues surrounding financial services are tackled in the chapter on Swiss financial regulation (Biba Homsy). This chapter gives valuable insights into the strategy of the Swiss financial authorities which try to foster DLT technology rather than prevent it. Moreover, the issue of anti-money-laundering is examined but without consideration of the EU regulations. However, one of the unclear issues regarding who can be regulated in the case of a totally decentralized DLT remains unanswered.
- 7 Whilst this review does not deal with all chapters, the chapters on intellectual property law (Daniel Kraus and Charlotte Boulay) and data protection (Adrien Alberini und Vincent Pfammater) are worth mentioning. Concerning intellectual property law, the authors rightfully emphasize the difficulties in assessing the originality of a code – which, however, is not specific for blockchains. Once again, the issue of decentralized blockchain is mentioned in reference to database protection, but the reader is left alone with a “problem” (255). The authors also pay attention to the upcoming tendency of filing patent claims for DLT as well as trademarks. Concerning the market for intellectual properties, the authors mainly see the advantage of disintermediation so that valorization and distribution of money can be handled far more easily. One interesting issue is, however, not being treated, namely if intellectual property rights and the digital content can be transferred in one transaction on the blockchain; traceability of transactions does not mean that the digital contents are deleted (principle of exhaustion).
- 8 Concerning data protection, the authors deal mainly with the GDPR (unlike other chapters in the book). In contrast to the belief of many non-lawyers, the authors rightfully point out that whilst the keys used in a blockchain are pseudonymized they are still personal data and thus the GDPR applies. Also, the important issue of who is a data controller and a data processor is dealt with; the authors take a differentiated approach which, however, also reveals the tricky issues in practice (286 ss.). In contrast, the right of erasure is given short shrift; here, the authors refer to future solutions in IT-technology that will make information unreadable. What happens in the meantime, is left open (294 s.).
- 9 The book provides valuable insights into different legal areas where DLT can play a major role and thus will become an appreciated resource for further research. However, there are some points of critique that should be highlighted. First, the title of the book does not reflect the fact that (apart from data

protection) most of the legal issues are dealt with from a Swiss perspective and European-wide discussions are only considered at some points. Furthermore, and again referring to the title of the book, a reader would expect a chapter on Decentralized Autonomous Organizations (DAO); however only a few pages deal with DAO, and not even with the main legal issues as how to treat such entities under corporate law (which is totally absent). Moreover, more or less every chapter describes the key features of DLT – this would have been unnecessary if the editors would have asked a computer scientist to contribute a technologically driven chapter. Finally, liability issues are conspicuously completely ignored by the authors.

- 10 In sum, a very useful book in terms of research; however, there are some flaws.

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