

## II. *The scope of the application of the Enforcement Directive*

### 1. Covered and excluded legal areas under Article 2 of the Directive

#### a) Areas to which the Directive has no prejudice

Following the examined provisions on the subject-matter of the Enforcement Directive under its Article 1 and the Baltic legislation on the issue, while observing civil remedies in “grey area” rights, the references to the legal fields and regulations, which are not covered or in any other way concerned by the Enforcement Directive, are further discussed. Article 2 on the scope of the Directive, in particular its Paragraphs 1 and 2, begins with the list of the legal areas to which the Directive has no prejudice.

*First*, the Directive is not applicable to any enforcement means which exist in the Community or national legislation, in so far as those means may be more favourable for right holders (for instance, compensation instead of damages, known in the Lithuanian copyright doctrine, can be considered as more favourable to right holders).

*Second*, by virtue of Recital 16 of the Directive, the specific provisions on the enforcement of rights and exceptions contained in the Community legislation on copyright and related rights, namely, the rights in relation to the legal protection of computer programs<sup>534</sup>, *i.e.* the special measures of protection of them embodied in Article 7 of the Computer Programs Directive, or the rights as they are harmonized in the Copyright Directive, *i.e.* Articles 2 to 6 and Article 8 thereof, are not covered by the Directive as well. This is due to the fact that the mentioned directives already concretized some specific enforcement remedies. The enforcement-related provisions embodied in the Computer Programs Directive and the Copyright Directive were actually the most extensive ones in comparison with other EU-wide legal instruments prior to the adoption of the Enforcement Directive<sup>535</sup>.

*Third*, according to its Article 2(3)(a), the Enforcement Directive has no effect on the Community provisions regarding the substantive law on intellectual property, namely, the rights on processing of personal data and free movement of such data<sup>536</sup>, on electronic signatures<sup>537</sup>, and on e-commerce, by particularly referring to the lia-

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534 Council Directive 91/250/EEC on the legal protection of computer programs. OJ L 122, 17.5.1991, p. 42 (hereinafter – the “*Computer Programs Directive*”).

535 The list of other directives in trademark, patent, designs, etc. fields, which were adopted before the adoption of the Enforcement Directive, and their brief content in view of the Enforcement Directive is comprehensively examined in *Amschewitz, Die Durchsetzungsrichtlinie und ihre Umsetzung im deutschen Recht*, pp. 31-73.

536 Directive 95/46/EC of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data. OJ L 281, 23.11.95, p. 31.

537 Directive 1999/93/EC of the European Parliament and of the Council on a Community framework for electronic signatures was published in the Official Journal of the European Communities. OJ L 13, 19.01.2000, p. 12.

bility of internet service providers<sup>538</sup>. Importantly, the provisions which are excluded from the scope of the Directive and which are embodied in the Computer Programs Directive on special measures of protection regarding computer programs, also in the Copyright Directive on protection of TPMs have been already implemented in the Baltic national copyright legislation prior to the adoption of the Directive<sup>539</sup>.

Civil liability of internet service providers (intermediaries) in case of IP infringements, as provided in Article 8(3) of the Copyright Directive, is implemented in Lithuania<sup>540</sup>. In Latvia, a possibility of injunctions against ISPs is established in the laws<sup>541</sup>, whereas in Estonia the law does not *expressis verbis* contain such provision, but the court may take any measures considered necessary by the court to secure an action.

Furthermore, as provided in Article 2(3)(b) and (c), the Enforcement Directive does not effect the international obligations assumed by the Member States under the international treaties in the field of IP rights, including Berne Convention, Paris Convention<sup>542</sup>, Rome Convention and the TRIPS Agreement<sup>543</sup>, and any criminal procedures or penalties that either are set out in the national legislation or in the TRIPS Agreement<sup>544</sup>.

Pursuing also Recitals 11, 12 and 32 of the Enforcement Directive, its scope is even more narrowed by way of not regulating anything in relation to, respectively, judicial cooperation, jurisdiction, the recognition and enforcement of decisions in civil and commercial matters, applicable law, the anti-trust rules as provided in Articles 81 and 82 of the EC Treaty, or fundamental human rights and principles. The Directive is only aimed at the procedural rules by not affecting any of the above listed rights as well as national enforcement infrastructure, *i.e.* police, prosecution, other enforcement agencies or institutions. The Directive does not likewise refer to

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538 Arts. 12-15, Directive 2000/31/EC of the European Parliament and of the Council on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market. OJ L 178, 17.7.2000, p. 1 (hereinafter – the “*E-Commerce Directive*”).

539 Art. 80(3) of the Estonian Copyright Law (amended in October 2004); Arts. 74-76 of the Lithuanian Copyright Law (amended in March 2003); Art. 68(1)(4) of the Latvian Copyright Law (amended in April 2004).

540 Art. 77(3), the Lithuanian Copyright Law.

541 Article 250(10)(3)(3), the Latvian CCP (provisional injunction); Article 250(17)(3)(3), the Latvian CCP (permanent injunction); also Art. 69(1)(7), Latvian Copyright Law.

542 Paris Convention for the Protection of Industrial Property of March 20, 1883, as revised and amended (hereinafter – the “*Paris Convention*”).

543 See also *refs.* to Recitals 5 and 6, Dir. The Baltic countries are Contracting States to the listed international agreements, as referred in *supra* § 3B.III.2.

544 Art. 61 of TRIPS, Art. 16 of the Directive; notably, all three countries provide for criminal and administrative (Latvia and Lithuania) liability for IP criminal offences. On criminal and administrative liability and *refs.* to national legislation on the issue as well as national court practice see in *infra* § 5G.I.

any choice of law rules, although some aspects regarding them have been discussed after its adoption<sup>545</sup>.

Finally, the implementation of the Directive cannot lead to anything that might create a conflict between the procedural enforcement rules and the substantive laws on the issue, as primarily interpreted by the Commission<sup>546</sup>.

#### b) Applicability of the Directive to any infringement of IP rights

The important aspect regarding the scope of the application of the Enforcement Directive is to be mentioned by referring to the provision constituted in its Article 2(1) which establishes that the Directive shall be applicable to *any infringement* of intellectual property rights.

Due to the suggested amendments by the European Parliament<sup>547</sup>, the final wording on the scope of the Directive omitted a reference to acts “*when the infringement is committed for commercial purposes or causes significant harm to the right holder*”, as initially provided in the Commission’s Proposal<sup>548</sup>. Such omission was to avoid the treatment of the Directive being a TRIPS-minus instrument in the field of enforcement of IP rights in a unjustified sense and also to circumvent other legal discrepancies that might occur by making such distinction between infringements carried out on a commercial scale (for commercial purposes) or causing a significant harm or not<sup>549</sup>.

Although, as follows from the current wording of Article 2(1) of the Directive, the harmonized civil enforcement means are applicable to *any* infringement of IP rights, the Directive still contains some provisions which are applicable in cases of infringements of IP rights which are carried out on a commercial scale only. Due to the enforcement provisions applicable to infringements carried out on a commercial scale which are embodied in the Enforcement Directive, namely in its Articles 6(2), 8(1) and 9(2), the definition of “*commercial scale*” along with some retrospective remarks on *travaux préparatoires* of the Directive and the prior-to-implementation national legislation and court practice on the issue is further examined.

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545 Notably, the objectives pursued by the Directive to harmonized civil enforcement aspects of IP rights can also help to avoid *forum shopping*. See more in Hellstadius, Meier-Ewert, Jurisdiction and Choice of Law in Intellectual Property Matters, p. 328.

546 See *Explanatory Memorandum of the Commission’s Proposal for a Draft Enforcement Directive (2003)*, p. 18.

547 See *Fourtoun Report (2003)*, pp. 5-6.

548 See Art. 2 of the *Commission’s Proposal for a Draft Enforcement Directive (2003)*, p. 31.

549 See further discussion in *infra* § 5C.II.2.

2. The term “*commercial scale*” (“*commercial purposes*”) under the Directive

a) Embodiment of the term in the Draft Enforcement Directive

Since the first Commission’s Proposal in 2003, the term “*commercial scale*” (or a term “*commercial purposes*”, as it was embodied in the Draft Enforcement Directive), received a lot of, especially critical, attention. By defining the scope of the Directive, the Commission drafted that the means enforcing IP rights should be applied when the infringement is carried out for commercial purposes or causes significant harm<sup>550</sup>. The idea was mainly based on the goal pursued by the Directive to combat counterfeiting and piracy, to fight against serious, deliberate, organized illegal activities which involve a commercial element or cause significant harm to IP right holders. The incorporation of such term into the draft text of the Directive immediately divided the list of IP rights infringing activities into two parts, hence, by leaving all other infringements of IP rights, which were not carried out for commercial purposes or did not cause any significant harm, out of the scope of the Directive.

Such division was strongly criticised<sup>551</sup> by pointing out, *inter alia*, the relatively objective nature of the term “commercial purposes”, rather than subjective intent of an infringer, a confusion between industrial property and copyright, an unjustified shift of burden on the right holders to prove “commercial purposes” in infringer’s activities and also the vagueness of the term itself which, as argued, could have brought various outcomes and interpretations. The term “significant harm” which was also incorporated into the draft Directive was similarly judged.

It was likewise stated in *Fourtoun Report* on the Commission’s Proposal that measures and procedures under the Directive should be applied to all IP rights infringement cases by taking due account to each specific case individually<sup>552</sup> instead of embodying the vague terms “commercial purposes” and “significant harm”. The references were also made to the TRIPS Agreement in which the only Article 61 contained the term “commercial scale” as far as criminal procedures were concerned<sup>553</sup>. The distinction has not been made under the TRIPS Agreement whether infringement of IP rights was carried out on a commercial scale or not.

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550 See *Explanatory Memorandum of the Commission’s Proposal for a Draft Enforcement Directive (2003)*, p. 17.

551 See *Massa, Strowel*, The Scope of the Proposed IP Enforcement Directive, pp. 248-251; also *Cornish et al.*, Procedures and Remedies for Enforcing IPRs: The European Commission’s Proposed Directive, pp. 447-448.

552 See *Fourtoun Report (2003)*, p. 5.

553 See *Gervais*, The TRIPS Agreement: Drafting History and Analysis, p. 327. Following the argumentation in *Correa*, A Commentary on the TRIPS Agreement, p. 449, isolated acts of infringement, even if made for profits, will not be subject of Art. 61 TRIPS as lacking “*commercial scale*”.

b) Relevance of the definition of “commercial scale” in IP enforcement practice

The expressed critique regarding the term “commercial purposes”, as proposed in the Draft Enforcement Directive, was finally considered. The final wording of the Directive avoided the distinction between infringements of IP rights based on such term<sup>554</sup>. Recital 14 of the Enforcement Directive defines “*acts carried out on a commercial scale*” as:

“<...> those carried out for direct or indirect economic or commercial advantage; this would normally exclude acts carried out by end-consumers acting in good faith.”<sup>555</sup>

The consideration, however, did not lead to the complete elimination of the term from the text of the Enforcement Directive. Additional enforcement measures, which are applicable in case of infringements carried out on a “commercial scale”, are set out in Articles 6(2), 8(1) and 9(2) of the Directive, as subsequently described.

By virtue of Article 6(2) of the Enforcement Directive, given that infringements are carried out on a commercial scale, the national courts are to be enabled to order, where appropriate, on application by a party, the communication of banking, financial or commercial documents under the control of the opposing party, subject to the protection of confidential information.

The courts may also order to get information on the origin and distribution networks of the goods or services which infringe IP rights from the infringer and (or) any other person who was found in possession of the infringing good or using the infringing services on a commercial scale as well as was found to be providing on a commercial scale services used in infringing activities or was indicated by the person, as listed, as being involved in the production, manufacture or distribution of the goods or the provision of the services (Article 8(1) of the Directive).

In case the infringement is committed on a commercial scale and the injured party demonstrates circumstances that can endanger the recovery of damages, the courts may order the precautionary seizure of the movable and immovable property of the alleged infringer, including the blocking of his bank accounts and other assets (Article 9(2) of the Directive).

In view of the above listed provisions and Recital 17 of the Enforcement Directive, it can be interpreted that the Enforcement Directive indirectly incorporates a criminal law notion of “commercial scale” into the concept of civil enforcement measures and procedures applicable to all IP infringement cases, not only to piracy and counterfeiting ones. Recital 17 does not simply add “commercial scale” into the

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554 The term “*significant harm*” has been eliminated from the text of the Directive as well, thus, by also avoiding the confusion between unfair competition and IP which was accordingly pointed out in *Massa, Strowel*, The Scope of the Proposed IP Enforcement Directive, pp. 250-251.

555 Notably, the term “*commercial scope*” instead of “*commercial purposes*” has been incorporated into the Directive, following the TRIPS wording. Prior to the Enforcement Directive, none of the EU legislative acts on IP rights defined the terms “*commercial purposes*” or “*non-commercial purposes*”, although, some of the directives, e.g., Art. 7 of the Computer Programs Directive, also Recital 42 of the Copyright Directive contained such terms.

list of factors that can be duly considered while applying certain enforcement measures in each and every case of infringement of IP rights<sup>556</sup>. On the other hand, following the definition of “commercial scale” of acts as provided in Recital 14 of the Directive, it can be presumed that in practice only a minor list of IP infringement cases are not carried out for direct or indirect economic or commercial advantage, except, of course, those cases which fall into the list of limitations and restrictions regarding IP rights.

c) Judicial interpretation of the term “commercial purposes”: the Lithuanian court practice

(1) Before the implementation of the Directive

As referred, already during the process of the adoption of the Enforcement Directive, the introduction of the vague term “commercial scale” into its text could implicate various legal outcomes while applying it in IP enforcement practice. On this point the reference to the Lithuanian court practice can be made. Even prior to the adoption of the Directive and the implementing legislation, the Lithuanian judges had to deal with a judicial interpretation of “commercial purposes”. The retrospective observations regarding this interpretation of the very term and its application in practice can be useful for the future IP litigation in Lithuania as well as other Baltic states – Latvia and Estonia – which did not face the same legal issue, however, embody such term in their legislation<sup>557</sup>.

Since 1998, when the number of IP infringement cases, especially cases related to software copyright infringements, started to increase in the national courts of Lithuania<sup>558</sup>, among various legal issues and factors relevant to those cases, the courts had to tackle with an issue of an interpretation of the terms “commercial purposes” or “direct or indirect commercial advantage” regarding infringers’ activities. The source of the issue was the fact that the mentioned terms were embodied in the previous wordings of the Lithuanian Copyright Law<sup>559</sup>, they were also constituted as a subjective element of the crime compositions in the national Criminal Code and the Code Administrative Offences which provided for liability and sanctions for IP criminal offences and infringements of IP rights<sup>560</sup>, though, not defined therein. Article 73(1) and (2) of the 2003 Lithuanian Copyright Law, by defining an infringe-

556 See the suggestion for the draft Recital 10 in *Fourtjou Report (2003)*, p. 6.

557 In Estonia and Latvia the prior-to-implementation IP legislation did not contain the term “commercial purposes”, as it was used in the Lithuanian legislation. Therefore, the issues on legal interpretation of the very term did not emerge in the IP litigation practice of those countries.

558 E.g., in 2002 there were 4 criminal, 25 administrative, and 8 civil cases against software copyright infringements initiated, as reported by BSA (*unofficial information*).

559 Ref. to the wording of the Lithuanian Copyright Law as of 1999 and 2003.

560 Arts. 192-194 of the Lithuanian Criminal Code, Art. 214(10) of the Code of Administrative Offences; see more on criminal and administrative liability in *infra* § 5G.I.

ment of copyright, related rights and *sui generis* rights, made a distinction, *i.e.* the infringement of copyright, related rights or *sui generis* rights was deemed to be:

Either, “use of a work or an object of related rights or *sui generis* rights (including the publication, reproduction, public performance, broadcasting and retransmission or other communication to the public), and distribution thereof without the licence of the owner of such rights (without the conclusion of an agreement, or upon violation of its terms and conditions)”;

Or, “import, export, distribution, transportation or keeping for *commercial advantage* of infringing copies of works, objects of related rights or *sui generis* rights”.

The lack of the definitions of “commercial purposes” or “direct or indirect commercial advantage” in the national laws brought certain confusion and various interpretations by the national courts<sup>561</sup>. This was especially evident in administrative and criminal cases on IP infringements as far as illegal use, in particular illegal reproduction of copyrightable works by the legal persons was concerned. For example, the Lithuanian Supreme Court explicitly stated in a few criminal cases regarding the illegal reproduction and use of the copyrightable software that the mere reproduction of copyrightable material by the end-user company, even if the company’s activities were related, for instance, to production of advertisements, did not automatically constitute “commercial purposes” in the activities of the alleged infringer<sup>562</sup>. However, in another criminal case against the illegal reproduction and use of illegal software, the Supreme Court rejected the arguments raised by the defendant that the use of copyrightable content in the company did not constitute the commercial activities<sup>563</sup>.

Considering such patchy court practice, which was being formed by the Lithuanian Supreme Court, the lower courts were reluctant to interpret the term “commercial purposes” broadly and started to refer to them as to acts of distribution or sale of copyrightable works, excluding infringing end-user activities in criminal and administrative cases. The prosecutors were also reluctant to initiate or consider IP infringement cases referring to an absence of any commercial purposes in infringer’s activities, *i.e.* in the cases where infringements of IP rights were committed by end-

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561 The interpretation of the very term could be found in the commentaries drafted by the prominent Lithuanian IP scholars at that time. The term “*commercial purposes*” could not be limited to direct profit, *e.g.* sale, but also to the commercial activities of the user, even if there was no direct profit from the use of the copyrightable content, see *Vileita*, Commentary of the Lithuanian Law of Copyright and Article 214(10) of the Administrative Code, pp. 194-195.

562 Such conclusions were made in the following criminal cases which had negative response in IP enforcement practice in general: Lithuanian Supreme Court, Decision of 1 October 2002, Criminal Case No. 2K-467/2002, *V. Zaura under Article 142(1) of the Criminal Code*; also Lithuanian Supreme Court, Decision of 16 December 2003, Criminal Case No. 2K-723/2003, *A. Ivoškus under Article 142(1) of the Criminal Code*.

563 See Lithuanian Supreme Court, Decision of 8 October 2002, Criminal Case No. 2K-656/2002, *G. Astrauskas under Article 142(1) of the Criminal Code*.

users of illegal products. Such interpretation, prosecution and court practice were not compatible with the intention of the national legislator either<sup>564</sup>.

The divergent practice was tried to be solved by the Supreme Court of Lithuania adopting a consultation on the term “commercial purposes” in 2004<sup>565</sup>. The consultation was, *inter alia*, drafted on the basis of the expressed positions by other state institutions which did not have a constitutional right to interpret the laws, however, played an important role by helping to bring certainty into IP litigation practice on this specific issue<sup>566</sup>.

Despite the uneven interpretation of the term “commercial purposes” in criminal and administrative IP infringement cases, the legal issue on the interpretation of the “commercial purposes” in the civil cases has been overcome. This depended on the fact that, although the criminal and administrative cases were suspended due to the lack of “commercial purposes” in infringers’ activities in 2001 and 2002 due to the mentioned divergent decisions by the Lithuanian Supreme Court, the aggrieved IP right holders could assert their rights to claim damage and (or) ask the courts to apply other civil enforcement measures and remedies.

(2) Implementing amendments: finally solving the issue of the “*commercial purposes*”?

The implementing amendments to the Lithuanian Copyright Law in 2006, namely, the introduction of Article 2(17) therein, literally embodied the term of “acts carried out on a commercial scale” as it is defined in Recital 14 of the Enforcement Directive. It also solved the question on the interpretation of the very term on the legislative level. Importantly, Article 73 of the amended Copyright Law does not link an infringement of copyright, related rights and *sui generis* rights to the commercial purposes, by leaving the broad reference: “the acts which infringe any copyright, related rights and *sui generis* rights, protected by this Law and other laws, shall be deemed to be the infringement of copyright, related rights and *sui generis* rights”.

The issue of committing infringements of IP rights for “commercial purposes”, however, has been repeatedly pointed out in the following decisions of the Supreme Court. In one of the latest decisions on illegal reproduction and use of copyrightable software it has been stressed out that the mere fact of reproduction of software in the company did not automatically constitute commercial advantage or gained profits<sup>567</sup>.

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564 The Letter of the Law Department at the Chancellery of Seimas of the Republic of Lithuania as of January 2003 on “*Definition of the Term Commercial Purposes*” (OV) (*unofficial publication*).

565 See *ref.* regarding the legal effect of consultations adopted by the Supreme Court of Lithuania as well as the role of this court in the national IP enforcement practice in *supra* § 3C.IV.1.b).

566 *E.g.*, the Letter as of 3 December 2002 of the then European Law Department at the Government of Lithuania No 2002-11-31, also the Letter as of January 2003 of the Legal Department at the Chancellery of Seimas on the Definition of the Term of Commercial Purposes, see also information about the mentioned institutions in *supra* § 3C.I.

567 See Lithuanian Supreme Court, Criminal Case No. 2K-7-201/2008, *T.K., UAB “Tadetas”*, also *refs.* to the case and the corresponding decision see more in *Janušauskaitė*, Litauen –

According to the very decision, the national courts should consider all relevant factors such as the type of software products in use in order to establish commercial activities of the accused person, *i.e.* for example, if the company's main activities focus on reproduction of foodstuff, and there is illegal graphical software application found installed in the company's computers, it can be considered by the courts that such software was not used for commercial purposes. The mentioned decision can again change enforcement practice in IP rights infringement cases, namely in administrative and criminal cases. It can also mean that the police and prosecutors will need to clearly examine and state in the procedural documents only those works which are used in direct commercial activities by the company which is not always easy to prove.

### III. *The principle of "Fair and Equitable Measures, Procedures and Remedies" under Article 3 of the Directive*

#### 1. Essence of the principle

Another important provision which is embodied in Article 3 of the Enforcement Directive concerns a general civil procedural principle on "fair and equitable procedures" applicable to all civil enforcement measures, procedures and remedies. The implementation of the principle in the national legislation and its due application by the national courts as well as other enforcement institutions and agencies assures effectiveness of the application of all enforcement means in general.

Despite the initial Commission's Proposal which contemporized the enforcement procedures and measures on, *inter alia*, the principle of proportionality<sup>568</sup>, Article 3(1) of the Enforcement Directive finally set forth that:

"procedures <...> shall be fair and equitable, they shall not be unnecessarily costly, or entail unreasonable time-limits or unwarranted delays".

Article 3(2) of the Enforcement Directive additionally provides that measures, procedures and remedies should be "*effective, proportionate and dissuasive*". These general enforcement principles are almost a literal transposition of civil procedural axioms constituted in Article 41 of the TRIPS Agreement, leaving it as broad as in the latter international document. Such broadness arguably opens a possibility for divergent interpretations of the terms by the national legislators courts which apply the principle in IP litigation practice<sup>569</sup>.

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Oberinstanzliche Gerichtsentscheidungen zur Durchsetzung von Urheberrechten und verwandten Rechten, pp. 974-975.

568 See *Explanatory Memorandum of the Commission's Proposal for a Draft Enforcement Directive* (2003), pp. 18, 31; also *Fourtoun Report* (2003), p. 9.

569 It also represents certain flexibility for the national legislators to implement them, as observed in *Correa*, A Commentary on the TRIPS Agreement, p. 418; see also *Gervais*, The TRIPS Agreement: Drafting History and Analysis, p. 289.