

TO: Minister of Economic Affairs and Communications, Juhan Parts  
Minister of Justice, Kristen Michal

Tallinn, April 26, 2011

## **INTRO**

April 26th is the International Intellectual Property Day. This is the day to celebrate creativity and innovation, honor the efforts of all authors, performers, scientists etc. This is also the day of taking a critical look at the laws and legal practice in order to evaluate the intellectual property situation, especially regarding the enforcement of copyrights and industrial property rights.

With this paper AmCham Estonia would like to bring to your attention some challenges and bottlenecks we see in Estonia in regards to the protection of intellectual property rights but also to give you some proposals and ideas about how the current situation can be improved.

## **AmCham Estonia Position on the IPR situation in Estonia**

The unlicensed use of intellectual property not only violates the intellectual property rights ("IPR") of different rights holders, but also creates unfair competitive advantages and unjustified benefits to the infringers. Poor IPR enforcement costs money not just to the Estonian companies, but results in fewer taxes paid to the state and investments made into key local industries. Moreover, lax intellectual property protection holds back the development of a knowledge based economy as a whole.

We find that the level of intellectual property protection in Estonia needs to be improved, both on the legislative and practical fronts. Estonian government should also focus more on investigating the commercial IPR infringements committed through the Internet, and not only breaches of law in relation with cyber terrorism. In addition, the government must follow the EU and national level debates that might have an impact on IPR legislative framework.

## **Getting IPR Matters on the Government's Priority List**

In our opinion, the existing civil laws and civil court practice do not provide strong enough protection for intellectual property rights, and as the civil laws are not effective enough and the state is not interested in investigating offences related to IP rights, the quality of the enforcement of IP rights is low in Estonia. The practice over the last few years has shown that the investigation of intellectual property offences is not a priority for the state prosecutors. It also means that the rights holders have had to rely mainly on civil proceedings for enforcement. This puts an undue financial and judicial burden on businesses trying to operate fairly in Estonia. Civil laws should guarantee the proper protection of IP rights, including the effective mechanism of damage compensation, without having to go through lengthy, complicated or costly procedures for achieving redress through the courts.

## **Internet Crime Needs More Regulation**

We feel that Estonian laws are lacking a sufficiently strong basis for effective enforcement of rights violated through the Internet. IPR infringers have, in a significant part, moved their operations to the Internet requiring state implementation and enforcement of laws that will provide effective protection of IPR in the electronic environment. AmCham acknowledges Mr. K. Michal's statements about fighting cyber terrorism. At the same time, AmCham notes that Internet crime has several other areas that need to be tackled more effectively, because they have a substantial direct financial impact on the ICT sector: piracy, copyright infringements, network hacking, computer fraud etc.

## **Current Challenges with Civil Proceedings**

Infringement of IP rights is made financially very beneficial for the infringers, because the existing laws do not provide an effective civil legal enforcement mechanism to punish the offenders. In Estonian court practice judges mainly award damages only in the limited amount of the license fee involved in that specific instance, meaning that the infringers carry very limited risks as a result of the infringement. Legal and court fees can often dwarf the license fee, thus discouraging actions against the violators. Meanwhile infringers continue to have an unfair competitive advantage over law abiding IPR users – the infringers can offer their goods and services for a lower price than those who follow the IPR laws.

Civil proceedings are very costly for the rights holders and the burden of proof is unreasonably high for them. In criminal cases, for example, the evidence is collected by police. In civil cases, the plaintiff must present all the evidence supporting his claim of infringement, but in IPR cases this is often extremely difficult or impossible, as a lot of the key evidence could be acquired only through surveillance proceedings that the rights holders are not allowed to conduct.

Furthermore, we would like to refer to section 2 of article 41 of TRIPs Agreement, which prescribes that the procedures concerning the enforcement of intellectual property rights shall be fair and equitable, and they shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays, and ask that the Estonian procedures are amended to secure IPR holders rights accordingly.

## **Challenges with E-Commerce and Trademark Protection**

The illegal trade with counterfeit and pirated goods on the Internet violates not only the rights holders', but consumers' rights as well. In case of unknowingly acquiring counterfeit or pirated goods the consumers are defrauded and basically paying to the trader for nothing. In addition, the consumer will have no support services, sales guarantees, warranties etc. for the product. AmCham highlights here the Consumer Conditions Scoreboard, compiled by European Commission and published in March 2011. Among other items, this survey analyzes issues related to e-commerce. On the basis of data disclosed in this survey we can clearly say that Estonia is lagging behind in this sphere. While the average percentage of individuals who have ordered goods or services through the Internet in Europe was 40 %, then in Estonia it was only 17 %. At the same time, we expect this percentage to rise significantly during next few years, making the issue of IPR protection even more acute.

Effective trademark protection is hindered by unreasonably long trademark registration process. In Estonia, it currently takes approximately 2 years from filing an application to registration (compared to 8-12 months in Finland and Latvia, and 6-8 months for EU Community trademarks). As it is not possible to enforce trademark rights based on a trademark application, the state must take necessary steps to reduce the time of the registration process, or have Estonian applicants wait for protection twice as long as its competitors in neighboring countries.

AmCham has also consistently and strongly opposed any unjustified restrictions to intellectual property rights within any sector, as it represents a potential precedent for other sectors, types of consumer goods or services. Protecting and enforcing intellectual property rights is a key to the future of the innovation-based economy. Branding and trademarks are a key part of IPR rights. AmCham notes ongoing discussions at the EU level regarding so-called "*plain packaging*" for tobacco products. In the EU Commission Public Consultation Document on Possible Revision of the Tobacco Products Directive 2001/37/EC (DG SANCO 2010) the commission proposes an option to introduce generic or plain packaging. Plain or generic packaging would standardize the appearance of tobacco packaging allowing manufacturers only to print brand and product names, the quantity of the product, health warnings and other mandatory information such as security markings.

The package itself would have to be plain colored (such as white, grey or plain cardboard). The size and shape of the package could also be regulated. Plain packaging could mandate that branding information, including logos, and other distinctive elements which are protected under trademark law, would be banned from the packaging of tobacco products (with the exception of a single brand name in a standardized typeface, size and color). As a result, trademarks could be negatively affected as it would notably limit product differentiation.

We see the legal issues associated with this restriction as the first step down a slippery slope of limiting intellectual property rights granted pursuant to many EU and international obligations: TRIPs Agreement (Article 20); Paris Convention (Article 6 *quinquies*); EU Law (Article 17 (2) of the Charter of Fundamental Rights of the European Union), Article 118 of the Lisbon Treaty. Plain packaging legislation would essentially remove most means for companies to differentiate their products from those of their competitors through product packaging. This would mean that trademarks will not be able to function as an indication of origin - an essential function of trademarks - in the same way. The precedent of limiting intellectual property related to tobacco can then be used to limit other legal fields of commerce which may be deemed unhealthy such as candy, soft drinks, fast food and other products

### **Insufficient Prosecution of IP violations**

In regard to criminal laws' protection of IPR, we are concerned that the police and prosecutors have lately shown little interest in investigating IP violations, pending cases are mainly terminated and do not reach the court, which makes the protection inefficient and useless as a deterrent.

Insufficient IPR protection has a negative effect on the entire economic situation in Estonia. As long as the IPR holders cannot be sure that their rights are protected, the international groups are hesitant in having their R&D units in Estonia and it is likely that R&D projects are run in countries with more comprehensive IPR protection. Insufficient IPR protection can also be an obstacle for starting new production units in Estonia as the IPR holders feel that the risk of IPR infringement is too high in Estonia and therefore it is better to produce their products in countries where the IPR-s are better protected. Thus, the development of a knowledge-based economy requires strong protection of IPR.

### **Necessary Changes to the IPR Legal Framework**

AmCham considers that in order to improve the IPR enforcement and protection in Estonia the existing laws need to be carefully analyzed, systemized and amended. We are highlighting the following three elements that should be tackled with this legal reform: compensation of damages mechanism, the burden of proof in civil cases related to IPR infringements, and reducing of state fees. Current legal framework is too fragmented and dispersed between different legislative acts. AmCham welcomes the idea of codification (meaning: systemization) of several IP laws. Currently, different areas of IP regulations are handled by different ministries, so the state does not have a proper and systemized overview of all IP laws. It is difficult to orient between different acts, at times similar situations are also regulated differently or even in a contradictory manner by different branches of law. In aiming for more effective civil protection we point out that comprehensive and systematic analysis should also include regulations outside the specific IP code, e.g. should also include IP regulations included in the Law of Obligations Act and also new Media Services Act and procedural norms, e.g. IP laws in the Code of Civil Procedure. At the same time, we note that codification of IP laws should probably encompass only industrial property regulations. Copyright Act needs to be reviewed, systemized and amended, but probably left due to its slightly different nature as a separate legislative piece.

### **Proposals from the AmCham IPR and Legislative and Advocacy Committees**

We call on the Ministry of Justice to analyze the potential for implementing statutory damages (incl. punitive damages) into Estonian legal system regarding IPR infringements, and note that in Lithuania the statutory damages concept in relation with IPR infringements has been implemented successfully. Instead of the recovery of losses, the owner of IPR may claim compensation independent of the actual losses. Punitive damages may be determined on the basis of the value of the right, e.g. double or triple price of the license; or it can also be a lump sum on the basis of the minimum/average salary, for example. We also refer to the fact that Estonia recently implemented statutory damages concept in relation to infringement of personal rights. AmCham points out that in regard of authors, infringement of their material and/or moral rights may have the same or even more drastic effect than infringement of one's personal rights. Author may lose sufficient part of his/her income due to infringement, depriving him/her of a basic income and minimum living standard. Civil protection afforded by the Estonian legislation is rather mediocre if in such case the author is required to carry basically the entire burden of proof, and initially also all costs related to the procedure (i.e. state fee; legal fees; costs related with collection of evidence; expertise costs etc).

The laws also need to be reviewed and analyzed in order to improve the fight against internet piracy (trading with counterfeit and pirated goods, uploading illegal files etc), e.g. to hold website owners/service providers liable for distribution or making available of the infringing goods via websites, if the website owners/service providers do not remove the infringing content voluntarily. The laws should also be revised regarding IPR created in the course of employment, so that the interests of the employers would be more securely and definitively protected.

AmCham respectfully calls the recipients to give due consideration to IPR and undertake analysis of legal issues and the evidence base for the potential impact of plain packaging requirements, including in the context of national and international legislation and functioning of the internal market. We are concerned by the potential implications of such measures on the development of the intellectual property system as whole. We also support the continuous and practical trainings for law enforcement agencies and judges.

The implementation of measures prescribed above will help achieve the following benefits and results: the number of IPR infringements will decrease, the effective compensation mechanism shall discourage and even prevent further commitment of similar offences, the principles of fair competition shall be advanced, the consumer will be more protected from possible fraud and violation of his rights, jointly resulting in the development of ICT sector and growth of e-commerce.

Based on foregoing, we hereby encourage you to consider and analyze the problems, which exist in the field of IPR protection and to take all necessary measures that could improve the IPR enforcement in Estonia.

***Drafted by the members of the AmCham Intellectual Property Rights Committee and members of the AmCham Legislation and Advocacy Committee.***