

## The New ePrivacy-Regulation: Overview on the Most Important Changes

by Dr. Frank Eickmeier and Prof. Dr. Christoph Bauer

**Hamburg, 16th January 2017** The European Commission's draft of a new ePrivacy regulation was leaked as early as December 2016. Now, the final version has been published as an official proposal from the EU Commission. The new Regulation should replace the ePrivacy Directive 2002/58/EC in the coming years and add to the General Data Protection Regulation (GDPR), which will enter into force on 25 May 2018. Unlike the old ePrivacy *Directive*, the planned ePrivacy *Regulation* applies directly in all Member States, taking priority over national legislation. While it has been discussed in the past whether the ePrivacy Directive was fully implemented in Germany, this question is now superfluous with the proposed Regulation, because it does not require any implementation by the German legislator.

IAB Europe harshly criticized the draft in a first statement:

*"The Commission had the perfect opportunity to prove its interests in better and smarter rules by doing away with the outdated and unnecessary Cookie Law",*

said Townsend Feehan, Managing Director of IAB Europe.

*"Finally the Commission recognizes the important role of advertising for the financing of free online content and at the same time proposes a law which will inflict clear damage on this business model, all without offering the users genuine advantages for the protection of their private sphere and their data. Whoever finds cookie banners annoying will be disappointed to know it will not be any better."*

Criticism also came from German businesses. The "Bundesverband Digitale Wirtschaft" (BVDW) [German Federal Association of Digital Business] warned of a "*fundamental threat to today's information society*".

It should therefore be demonstrated below where the threat to traditional business models of the online economy could lie.

## 1) Current situation

The use of third-party cookies is currently permitted by the applicable law in Germany, even without the consent of the user concerned, provided that the user is granted a right to opt out. This is the case, even though the applicable ePrivacy Directive expects otherwise:

*“Member States shall ensure that the use of electronic communications networks to store information or to gain access to information stored in the terminal equipment of a subscriber or user is only allowed on condition that the subscriber or user concerned is provided with clear and comprehensive information in accordance with Directive 95/46/EC, inter alia about the purposes of the processing.”* (Article 5 (3) ePrivacy Directive 2002/58/EC as amended by Directive 2009/136/EC)

As the German Federal Court of Justice decided in the “Payback Judgement” of 2008 (BGHZ 177, 253 – Payback), sec. 15 (3) Telemediengesetz (TMG) [German Telemedia Act] makes it clear that it is enough to offer an opt-out solution for the user to opt-out in the case of the use of communication data.

The wording of sec. 15 (3) TMG is as follows:

*“The service supplier may create use profiles using pseudonyms for the purposes of advertising, market research or needs-based organization of telemedia if the user does not opt-out of this. The service supplier is to inform the user of his opt-out right within the framework of the information provided pursuant to sec. 13 (1). This use profile may not be brought together with data about the person to whom the pseudonym applies.”*

In a statement by the German Federal Ministry of Economics on the implementation of the ePrivacy Directive, it stated that the “Cookie Directive” is sufficiently implemented by these provisions in the German Telemedia Act. If no personal information is contained in third-party cookies, these can qualify as pseudonyms within the meaning of sec. 15 (3) TMG, meaning that their use was permitted, as long as the user was given the possibility to opt-out on the particular website.

Because other Member States, such as the United Kingdom, implemented the ePrivacy Directive in a significantly stricter way, and above all on the basis of the strict data protection

requirements of Google regarding users of Google AdSense, in practice many German website operators and cookie providers opted to insert “cookie banners”.

## 2) Content of the planned ePrivacy Regulation

The ePrivacy Regulation, along with the General Data Protection Regulation applicable from the end of May 2018, regulates the area of electronic communication and the handling of personal data in particular.

The relevant provisions regarding cookies can be found in articles 8 and 9. Of particular interest are the Recitals 21 to 24, which deal explicitly with the use of tracking cookies and third-party cookies. The recitals of a regulation are however not themselves part of the actual legal text. They do, however, reflect the thoughts and considerations of the EU Commission and aid the interpretation of the wording of the legislation. The mentioned Recitals state as follows:

*“(21) Exceptions to the obligation to obtain consent to make use of the processing and storage capabilities of terminal equipment or to access information stored in terminal equipment should be limited to situations that involve no, or only very limited, intrusion of privacy. For instance, consent should not be requested for authorizing the technical storage or access which is strictly necessary and proportionate for the legitimate purpose of enabling the use of a specific service explicitly requested by the end-user. This may include the storing of cookies for the duration of a single established session on a website to keep track of the end-user’s input when filling in online forms over several pages. Cookies can also be a legitimate and useful tool, for example, in measuring web traffic to a website. Information society providers that engage in configuration checking to provide the service in compliance with the end-user’s settings and the mere logging of the fact that the end-user’s device is unable to receive content requested by the end-user should not constitute access to such a device or use of the device processing capabilities.*

*(22) The methods used for providing information and obtaining end-user’s consent should be as user-friendly as possible. Given the ubiquitous use of tracking cookies and other tracking techniques, end-users are increasingly requested to provide consent to store such tracking cookies in their terminal equipment. As a result, end-users are overloaded with requests to provide consent. The use of technical means to provide consent, for example, through transparent and user-friendly settings, may address this*

problem. Therefore, this Regulation should provide for the possibility to express consent by using the appropriate settings of a browser or other application. The choices made by end-users when establishing its general privacy settings of a browser or other application should be binding on, and enforceable against, any third parties. Web browsers are a type of software application that permits the retrieval and presentation of information on the internet. Other types of applications, such as the ones that permit calling and messaging or provide route guidance, have also the same capabilities. Web browsers mediate much of what occurs between the end-user and the website. From this perspective, they are in a privileged position to play an active role to help the end-user to control the flow of information to and from the terminal equipment. More particularly web browsers may be used as gatekeepers, thus helping end-users to prevent information from their terminal equipment (for example smart phone, tablet or computer) from being accessed or stored.

(23) The principles of data protection by design and by default were codified under Article 25 of Regulation (EU) 2016/679. Currently, the default settings for cookies are set in most current browsers to ‘accept all cookies’. Therefore providers of software enabling the retrieval and presentation of information on the internet should have an obligation to configure the software so that it offers the option to prevent third parties from storing information on the terminal equipment; this is often presented as ‘reject third-party cookies’. End-users should be offered a set of privacy setting options, ranging from higher (for example, ‘never accept cookies’) to lower (for example, ‘always accept cookies’) and intermediate (for example, ‘reject third-party cookies’ or ‘only accept first party cookies’). Such privacy settings should be presented in a an easily visible and intelligible manner.

(24) For web browsers to be able to obtain end-users’ consent as defined under Regulation (EU) 2016/679, for example, to the storage of third-party tracking cookies, they should, among others, require a clear affirmative action from the end-user of terminal equipment to signify his or her freely given, specific informed, and unambiguous agreement to the storage and access of such cookies in and from the terminal equipment. Such action may be considered to be affirmative, for example, if end-users are required to actively select ‘accept third-party cookies’ to confirm their agreement and are given the necessary information to make the choice. To this end, it is necessary to require providers of software enabling access to internet that, at the moment of installation, end-users are informed about the possibility to choose the

*privacy settings among the various options and ask them to make a choice. Information provided should not dissuade end-users from selecting higher privacy settings and should include relevant information about the risks associated to allowing third-party cookies to be stored in the computer, including the compilation of long-term records of individuals' browsing histories and the use of such records to send targeted advertising. Web browsers are encouraged to provide easy ways for end-users to change the privacy settings at any time during use and to allow the user to make exceptions for or to whitelist certain websites or to specify for which websites (third) party cookies are always or never allowed."*

In Recitals 21 to 24, the EU Commission assesses the current state of online data protection. It concludes that users are currently facing far too many requests made to users for consent. These requests for consent put a burden on internet users (Recital 22). It is therefore necessary, *on the one hand*, to exclude data processing with low relevance from the requirement to obtain consent. For example, no consent should be required if a session cookie is used which facilitates completing an online form with several pages (Recital 21). The user should also not have to be asked separately about "technically required" tracking cookies, such as those measuring a website's traffic.

According to the Regulation proposed by the Commission, however, the consent of the user concerned should be required for all remaining third-party cookies and other tracking cookies. According to our initial assessment, this provision would have significant effects on the entire online industry.

Regarding the form of the consent, the EU Commission prioritizes the concept that consent can be granted by way of the data protection settings in the affected user's browser in Recitals 21 to 25. This would be possible if the user is well aware when making the corresponding setting in the browser that they are consenting to the placement of tracking cookies in so doing. With reference to the planned provisions on privacy by design in the General Data Protection Regulation, the EU Commission calls on the browser producers to create more transparency and clarity regarding privacy settings. By simple and comprehensible means, the producers should give the user the option in the browser settings to decide between, for example, "accept no cookies", "reject third-party cookies" and "only accept first-party cookies". Already when installing the browser, the user should be informed about the possible data protection settings and be asked to make a choice.

Once given, first consent should be revocable at any time according to Recitals 34 and 35, and revocation should be as simple as possible.

Apart from the use of cookies, Recital 20 is of particular relevance. It states that consent will be required for processing any information on the consumer's end device.

(20) [...] “Given that such equipment contains or processes information that may reveal details of an individual's emotional, political, social complexities, including the content of communications, pictures, the location of individuals by accessing the device's GPS capabilities, contact lists, and other information already stored in the device, the information related to such equipment requires enhanced privacy protection. Furthermore, the so-called **spyware, web bugs, hidden identifiers, tracking cookies** and other similar unwanted tracking tools can enter end-user's terminal equipment without their knowledge in order to gain access to information, to store hidden information and to trace the activities. Information related to the end-user's device may also be collected remotely for the purpose of identification and tracking, using techniques such as the so-called '**device fingerprinting**', often without the knowledge of the end-user, and may seriously intrude upon the privacy of these end-users. **Techniques that surreptitiously monitor the actions of end-users**, for example by tracking their activities online or the location of their terminal equipment, or subvert the operation of the end-users' terminal equipment pose a serious threat to the privacy of end-users. Therefore, any such interference with the end-user's terminal equipment should be allowed **only with the end-user's consent** and for specific and transparent purposes.”

In contrast, Recital 25 states that connection data, such as the MAC address or IMEI number of end devices, may also be used without the consent of the user, provided there is not a high level of risk for the user's data security. Insofar as such connection data is collected, users must be given a clear notice before the collection of this data so that the user can avoid the collection, just like in a like video surveillance area.

In Recital 32 of the proposed Regulation, the term “direct marketing” is described as any kind of advertising which is sent to the end user via electronic communication. This also includes messages from political parties and non-profit organizations.

In Recital 17, the Commission sees a requirement for the use of metadata (“electronic communications metadata”) for providers of communications services, such as for the

improvement of public transport and infrastructure. For these purposes, it is not necessary to anonymize the data, but rather use of the metadata is permissible with an “identifier”. Insofar as high risks are involved in the processing of these metadata, a data protection impact assessment and prior consultation with the supervisory authorities must be undertaken by way of articles 35 and 36 of the General Data Protection Regulation.

### **3) The provisions in detail**

The Commission’s draft stipulates the following: Pursuant to art. 8 (1) of the proposed Regulation, the use of “processing and storage capacity” of the “user’s end device” is generally forbidden unless the user grants their consent or the use of processing and storage capacity is necessary for the presentation of the website and for measuring web traffic.

*“Article 8 Protection of information stored in and related to end-users’ terminal equipment*

- 1. The use of processing and storage capabilities of terminal equipment and the collection of information from end-users’ terminal equipment, including about its software and hardware, other than by the end-user concerned shall be prohibited, except on the following grounds:*
  - (a) it is necessary for the sole purpose of carrying out the transmission of an electronic communication over an electronic communications network; or*
  - (b) the end-user has given his or her consent; or*
  - (c) it is necessary for providing an information society service requested by the end-user; or*
  - (d) if it is necessary for web audience measuring, provided that such measurement is carried out by the provider of the information society service requested by the end-user.”*

Art. 8 (1)(a) benefits website operators in particular, who no longer need any separate consent from the user to use cookies without which accessing the content of the website would not be possible. Other cookies, such as tracking and session cookies, are also permitted without consent if they are *necessary* for the presentation of Information Society services accessed by the user.

In doing so, the term “Information Society service” (as defined in art. 1 (2) of Directive 98/34/EC in the version of Directive 98/48/EC) is given a broad meaning:

*"2. 'Service': an Information Society service, i.e. any service performed generally against payment electronically with distance selling and on individual access by a recipient.*

*This definition has the following meanings*

*- 'service performed by distance selling' is a service which is performed without the simultaneous physical presence of the contract parties;*

*- 'services performed electronically' means a service which is sent to the gateway and received at the end point using devices for electronic processing (including digital compression) and storage of data, and which is sent, forwarded and received fully via wire, radio, optical or other electromagnetic routes;*

*- 'service performed on individual access by a recipient' means a service which is performed through the transfer of data following individual request."*

The recitals use tracking cookies for web forms and session cookies for measuring web traffic as examples.

The question of whether analysis tools like Google Analytics also fall under the exceptions of art. 8 (1)(c) depends on the interpretation of the term “carried out by the provider”. This is difficult because Google Analytics is not identical to the website operator, which offers the desired Information Society service. In any case, Google Analytics does not fall under art. 8 (1)(a) because the service is not required for the transfer of content.

Art. 8 (2) of the Regulation also addresses data which the user's end device transmits when communicating in the network. This involves, in particular, the IP address and the user agent. Storing this data is generally prohibited unless this is “required to establish a connection”.

By way of exception, these data may be gathered if a “clearly and obviously visible” notification is shown, which states how, from whom and for what reason the data will be stored, as well as explaining the steps which the user can take to “minimize” this data processing. This may also include the tracking and connection data, such as via the MAC address or the IMEI number.

In this regard, it appears that Recitals 20 and 25 contradict one another. It probably depends on how severely the tracking of the user invades their private sphere.

*“Article 8 Protection of information related to end-users’ terminal equipment*

[...]

*2. The collection of data emitted by terminal equipment to enable it to connect to another device and or network equipment by natural or legal persons other than end-users concerned shall be prohibited, except:*

- (a) if it is done exclusively in order and for the time necessary to establish a possible connection;*
- (b) if a clear and prominent notice is displayed to the public informing of, at least, the modalities of the collection its purpose, the person responsible for it and of any measure the end-user of the terminal equipment can take to minimise the collection, and,*

*When such data is used for direct marketing and profiling, the end-user shall have the right to object as provided for in Article 21 of the GDPR [...].”*

Art. 9 of the proposed Regulation governs the form of user consent, which takes priority according to Art. 7 of the coming General Data Protection Regulation. According to this, the consent is fundamentally possible without a particular form, but must be documented and can be revoked at any time.

Pursuant to art. 9 (2) of the proposed Regulation, consent can also be granted by way of the user settings in the browser, but only “insofar as this is technically possible and effective”. Should the user configure the privacy settings in their browser according to this requirement in such a way that third-party cookies are allowed, they consent to the placement of cookies when visiting a website:

*“Article 9 Consent*

- 1. The definition of and conditions for consent provided for under Articles 4(11) and 7 of Regulation (EU) 2016/679/EU shall apply.*
- 2. Without prejudice to paragraph 1, where technically possible and feasible, for the purposes of point (b) of Article 8(1), consent may be expressed by using the appropriate technical settings of a software application enabling access to the internet.*

3. *End-users who have consented to the processing of electronic communications data as set out in point (c) of Article 6(2) and points (a) and (b) of Article 6(3) shall be given the possibility to withdraw their consent at any time as set forth under Article 7(3) of Regulation (EU) 2016/679 and be reminded of this possibility at periodic intervals of 6 months, as long as the processing continues."*

Looking at the Recitals explained above, the terms “technically possible and effective” must however be read that the browser used allows the user to configure the data settings with sufficient transparency and simplicity, so that it corresponds with the user’s actual will if they agree to the use of third-party cookies or tracking cookies. More precise statements cannot be made at this point, because it is unclear whether and how art. 25 (1) of the General Data Protection Regulation (“privacy by design”) will achieve that producers design software in a privacy-friendly way.

In this regard, art. 10 of the draft Regulation determines that any software which opens up electronic communication *should* offer an option to prevent the storage of information on the end device or the use of processing power of the end device by third parties. According to paragraphs 2 and 3, the producer should explain the privacy options already upon installation or by way of an update.

According to art. 9 (3) of the Regulation, consent must be revocable at any time. The user must be reminded about the right to revoke their consent in six-month intervals, but only if the data are still being processed. If a cookie is placed after consent is granted, the user must be given the possibility to revoke the consent to the cookie after six months. If they do so, the cookie must be deleted or de-activated.

Should the proposed Regulation be implemented in this way, the legal environment for cookies in the EU will be significantly worsened. It does not correspond with the will of the Commission not to harm the online advertising industry, which depends on cookies, because the users themselves are given a decision about their data.

In order to strengthen the user’s position, however, the proposed Regulation is also directed against “surreptitious monitoring” of the user. The use of processing and storage capacity of the end user’s device is regulated more, which is expected to have serious consequences.

In fact, the planned Regulation is said to follow the so-called “privacy by design” approach. Software producers will have to adapt their products in such a way that the user is given more information about the use of their personal data and can better control this. It is not yet possible to assess how the large browser producers will react to this.

Insofar as it is not clear what browser settings will need to look like in order to meet the Commission’s requirement of being “technically possible and effective”, the planned ePrivacy Regulation should lead to a situation where both the placement of cookies as well as the processing of IP addresses and user agents is dependent on the prior consent of the user concerned. Solving the problem with an opt-out, a notification in the privacy policy or a simple notification banner will therefore be passé.

Finally, the ePrivacy Regulation, taken together with the General Data Protection Regulation, will have a much more extensive effect, even for companies outside of the European Union, because the rights of website visitors from the EU must be observed as well.

#### **4) Outlook**

Unlike the General Data Protection Regulation with its long transitional period, the ePrivacy Regulation will enter into force just six months after it is published (art. 31 (2)). It is therefore important to keep a close eye on further legislative steps.

In case of violations of the rules laid out above, the responsible supervisory authority can impose draconian penalties of up to 20 million euros, or 4 % of the company’s income. Companies affected should therefore definitely prepare implementation of the new rules.

#### **5) Summary**

According to the current draft of the ePrivacy Regulation, the mere visiting of a website by the end user can no longer be understood as consent to data processing.

The customary banner reading “By visiting this website, you (implicitly) accept the use of cookies” or the notification “We use cookies” and an OK button will become unlawful because the user is not really given a genuine choice whether or not to give consent. It is also not enough to provide information about a browser’s privacy settings.

The user must instead be notified about the use of cookies on first accessing the website and even before the first placement of a cookie requiring consent, , at which point the user has the option to agree or to reject. The notification can be presented by way of a banner or a notification window which cannot be overlooked. Consent must then be requested by way of an opt-in. Opt-in means that, if a checkbox is used, this may not already be pre-checked. The user must explicitly click on “Agree” themselves in order to agree, as if they were concluding an online purchase. Otherwise, no cookies requiring consent may be placed.

Should the user refuse, the website may not be blocked. Recital 42 of the General Data Protection Regulation states that the design must be such that the user is in the position to refuse or revoke the consent without suffering disadvantages: “*Consent should not be regarded as freely given if the data subject has no genuine or free choice or is unable to refuse or withdraw consent without detriment.*“ There are good reasons to see a disadvantage if the user who does not consent would be deprived of the content on the website. This cannot be said with absolute certainty, however, because it is still unclear how a “disadvantage” will be defined.

Besides that, the website operator must also offer those users who have already granted their consent an opt-out at any time, that is to say an option to revoke their consent later.

Finally, website operators will also have to honour the use of the browser setting “Do Not Track” because this already establishes the non-consent of the user.

Strict compliance with the new rules of the ePrivacy Regulation will require significant expenses of time and money for website operators. Especially in the case of website monitoring, companies must consider carefully which forms of data processing require user consent. Intensive negotiations and a lot of lobbying are expected before the draft Regulation will enter into force.