



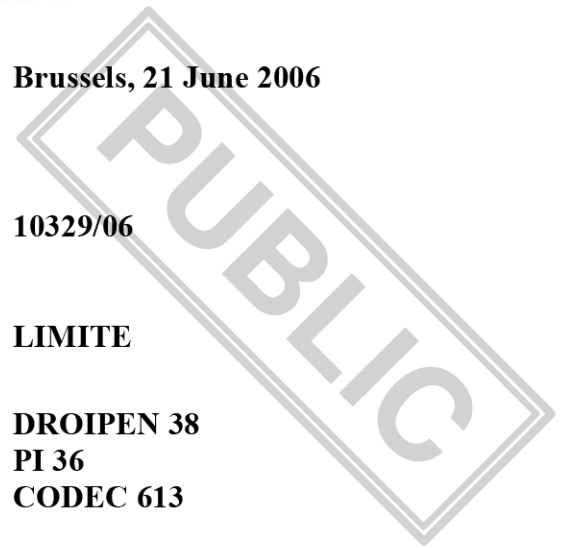
**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 21 June 2006

10329/06

LIMITE

**DROIPEN 38
PI 36
CODEC 613**



NOTE

From : Presidency
To : Working Party on Substantive Criminal Law

No. prev. doc. : 9571/06 DROIPEN 35 PI 37 CODEC 614
No. Cion prop. : COM(2006) 168 final (8866/06 DROIPEN 31 PI 27 CODEC 405)

Subject : - Amended proposal for a Directive of the European Parliament and of the
Council on criminal measures aimed at ensuring the enforcement of intellectual
property rights

I. INTRODUCTION

On 19 July 2005 the Commission submitted proposals for a Directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights and a Council Framework Decision to strengthen the criminal law framework to combat intellectual property offences.

The contents of those two drafts could be summarized as follows:

Article 1 of the Draft Directive (Objective and scope) should set out the subject-matter and scope of the Directive, which concerns the measures necessary to ensure the enforcement of intellectual property rights. As in Directive 2004/48/EC on the enforcement of intellectual property rights, the expression “intellectual property rights” should encompass all intellectual property rights as a horizontal measure. The Directive should apply to any infringement of intellectual property rights as provided for by Community law and/or by the national law of the Member States, in the same way as Directive 2004/48/EC. Article 2 (Definition) should define the concept of a legal person for the purposes of the Directive. Article 3 (Offences) should oblige Member States to consider all intentional infringements of an intellectual property right on a commercial scale as a criminal offence (covering also attempting, aiding or abetting and inciting such offences). Article 4 (Penalties) concerned penalties: besides imprisonment for natural persons, the Directive would lay down a range of penalties to be imposed on both natural and legal persons. Articles 5, 6 and 7 concerned general final clauses such as the entry into force.

Article 1 of the draft Framework Decision (Subject) specified that the purpose of the Directive is to supplement the Directive laying down detailed rules on penalties and judicial cooperation measures. Article 2 concerned the level of criminal penalties. Article 3 (Extended powers of confiscation) provided for the full or partial confiscation of goods belonging to persons convicted of offences committed in the circumstances set out in Article 2. Article 4 concerned joint investigation teams, Article 5 jurisdiction and coordination of proceedings. Article 6 (Initiation of criminal proceedings) should ensure that investigations into, or prosecution of, counterfeiting and piracy offences were not dependent on a report or accusation made by a person subjected to the offence. Article 7 concerned the implementation and monitoring, Article 8 the entry into force.

The Working Party on Substantive Criminal Law discussed those proposals during its meetings on 9 January 2006 and 7 March 2006 (cf. documents DROIPEN 14 and 27).

On 2 May 2006 the Commission submitted an amended proposal for a Directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights. According to the Commission’s Justification for the proposal this proposal for a Directive shall put into effect the Communication from the Commission of 23 November 2005 (COM(2005) 583 final) on the implications of the Court’s judgment of 13 September 2005 (Case C 176/03 Commission v Council).

The provisions in the – now withdrawn – proposal for a Framework Decision relating to penalties and extended powers of confiscation have been incorporated in the amended proposal for a Directive.

The only provisions that have not been taken over – aside from Article 1 which no longer is necessary – are those relating to jurisdiction and the coordination of proceedings, contained in Article 5 of the proposal for a Framework Decision. Without touching upon the question of competence in this field the Commission merely hinted to the horizontal approach to this subject under its Green Paper on conflicts of jurisdiction and the principle of *ne bis in idem* in criminal proceedings, adopted on 23 December 2005¹.

Aside from that the substance of the proposal(s) practically has not been changed. Articles 1 to 3 of the amended proposal conform to Articles 1 to 3 of the original draft Directive. Concerning Article 4 of the amended proposal only its title has been changed from “Penalties” to “Nature of Penalties” due to the “new” Article 5 (“Level of Penalties). The latter Article conforms to Article 2 of the proposal for a Framework Decision with the only exception that paragraph 3 of this Article has been deleted (following practically unanimous demand in the Working Party). Articles 6 to 8 of the amended Proposal conform to Articles 3, 4 and 6 of the proposal for a Framework Decision. Following the Commission’s presentation of the amended proposal in the Working Party on Substantive Criminal Law of 10 May 2006, the Party embarked on a general debate focussing on the question, to what extent – if at all – it is appropriate *now* to enter into or continue the discussion of the details of the proposal (cf. document DROIPEN 35).

¹ COM(2005) 696 final.

II. NEED FOR CRIMINAL MEASURES AIMED AT ENSURING THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

In the justification for the proposal the Commission i.a. has stated that infringements of intellectual property were a constantly growing phenomenon with an international dimension, since they were a serious threat to national economies and governments. The disparities between the national systems of penalties, apart from hampering the proper functioning of the internal market, would make it difficult to combat counterfeiting and piracy effectively. In addition to the economic and social consequences, counterfeiting and piracy would also pose problems for consumer protection, whereas increasing use of the Internet would enable pirated products to be distributed instantly around the globe. Finally, this phenomenon appeared to be increasingly linked to organised crime. Since counterfeiting and pirating had become lucrative activities in the same way as other large-scale criminal activities such as drug trafficking. There were high potential profits to be made without risk of serious legal penalties. Additional provisions to strengthen and improve the fight against counterfeiting and piracy were therefore necessary to supplement Directive 2004/48/EC of 29 April 2004 on the enforcement of intellectual property rights. In addition to the civil and administrative measures, procedures and remedies provided for therein, criminal penalties would also constitute, in appropriate cases, a means of enforcing intellectual property rights¹.

With the entry into force of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), concluded on 15 April 1994 and signed by all the members of the World Trade Organisation, which lays down minimum provisions on means of enforcing trade-related intellectual property rights, according to the Commission only start was made on harmonisation. Although the agreement includes the implementation of criminal law measures, there were still major disparities in the legal situation in the Community which would not allow the holders of intellectual property rights to benefit from an equivalent level of protection throughout the Community. Regarding criminal penalties, there still were considerable differences.

¹ Recital 28 to Directive 2004/48/EC of 29 April 2004 states that "in addition to the civil and administrative measures, procedures and remedies provided for under this Directive, criminal sanctions also constitute, in appropriate cases, a means of ensuring the enforcement of intellectual property rights."

While respecting the different legal traditions and systems of the Member States the protection of intellectual property therefore should be improved by approximation of legislation, choosing a level of sentences pursuant to the seriousness of the different forms of wrongful conduct to the effect that sentences should not be disproportionate to the offence. Since the Commission considered this to be better achieved at Community level, it considered the Community to be in a position to take measures in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty. Accordingly, recitals 5, 7, 8, 11 and 12 to the amended proposal i.a. proclaim that

- a sufficiently dissuasive set of penalties applicable throughout the Community is needed to make the provisions laid down in this Directive complete;
- certain criminal provisions need to be harmonised so that counterfeiting and piracy in the internal market can be combated effectively;
- the Community legislator has the power to take the criminal-law measures that are necessary to guarantee the full effectiveness of the rules it lays down on the protection of intellectual property;
- the level of sentencing for natural and legal persons who have committed such offences - in particular, the rules on prison sentences, fines and confiscation - must be harmonised;
- provisions must be laid down to facilitate criminal investigations and that the Member States must ensure that the holders of intellectual property rights concerned, or their representatives, and experts are allowed to assist the investigations carried out by joint investigation teams;
- as the objective of this Directive cannot be achieved adequately by the Member States acting alone and could better be achieved by action at Community level, the Community may take measures in accordance with the principle of subsidiarity – and proportionality – as declared by Article 5 of the Treaty establishing the European Community.

During the discussions in the Working Party, however, concerns have been raised with respect to the (immediate) need for (further) criminal measures against the violation of intellectual property rights.

One of those concerns directly related to the time-frame for assessment of the effectiveness of the Directive 2004/48/EC of 29 April 2004 on the enforcement of intellectual property rights provided by its Articles 18 and 20. According to Article 20 of this Directive the time-limit for bringing into force the laws, regulations and administrative provisions necessary to comply with this Directive has ended only very recently, on 29 April 2006. Three years after that date – according to Article 18 paragraph 1 – each Member State shall submit to the Commission a report on the implementation of this Directive. On the basis of those reports, the Commission shall draw up a report on the application of this Directive, including an assessment of the effectiveness of the measures taken, as well as an evaluation of its impact on innovation and the development of the information society. That report shall then be transmitted to the European Parliament, the Council and the European Economic and Social Committee. It shall be accompanied, if necessary and in the light of developments in the Community legal order, by proposals for amendments to this Directive. Consequently, at least one delegation considered it premature to enter into discussions about (future) criminal measures now, from this point of view.

One must concede, however, that the 2004 Directive, while explicitly stating that it should not affect neither Member States' international obligations and notably the TRIPS Agreement, including those relating to criminal procedures and penalties, nor any national provisions in Member States relating to criminal procedures or penalties in respect of infringement of intellectual property rights¹, in fact already has acknowledged in its recital 28 that in addition to the civil and administrative measures, procedures and remedies provided for under this Directive, criminal sanctions also constitute, in appropriate cases, a means of ensuring the enforcement of intellectual property rights.

Whereas the scope of the 2004 Directive itself stretches to *any* infringement of intellectual property rights as provided for by Community law and/or by the national law of the Member State concerned (cf. its Article 2 paragraph 1) criminal sanctions, therefore, could or should be reserved to “appropriate cases”.

The amended proposal for the Directive seems to have found these ‘appropriate’ cases by limiting the definition of offences (Article 3) to ‘intentional infringements of an intellectual property right on a commercial scale’.

¹ Article 2 paragraph 3 b and c.

According to the Commission's Explanatory Memorandum, the 'commercial scale' criterion is borrowed from Article 61 of TRIPS agreement which obliges Members to 'provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale.'

If the criterion "on a commercial scale" was met, any intentional infringement of any intellectual property right would constitute a criminal offence under the Directive.

In this context two concerns have been raised during the discussions in the Working Party. The first question was whether the notion "on a commercial scale" would be acceptable to Member States with a view to preciseness, comprehensiveness or compatibility with already existing domestic criteria.

The second question was – and is – that the scope of the Directive would need further specification even with a criterion like "on a commercial scale". Since Article 3 of the amended proposal – as Article 2 of the 2004 Directive – itself is completely open, it would cover any infringement of an intellectual property right as long as it was committed (intentionally and) on a commercial scale.

According to the Explanatory Memorandum to Article 1 of the amended proposal Commission statement 2005/295/EC on Article 2 of Directive 2004/48/EC would list these rights. Enumerating copyright, rights related to copyright, *sui generis* right of a database maker, rights of the creator of the topographies of a semiconductor product, trademark rights, design rights, patent rights (including rights derived from supplementary protection certificates), geographical indications, utility model rights, plant variety rights and trade names (in so far as these are protected as exclusive property rights in the national law concerned), the statement also declares that the Commission considers that *at least* these rights were covered by the scope of the Directive. The list, therefore, might not be complete. During the discussions in the Working Party, however, no other rights have been mentioned, that should or could fall under the scope of the Directive. Several delegations, in fact, have argued quite in the opposite direction and have asked to remove one or

more of the enumerated rights from the possible scope of the Directive. The presidency, therefore, has invited delegations to indicate whether and if so to what extent they wished to reduce the list of rights to be covered by the criminal law instrument(s) (cf. Document 5979/06 DROIPEN 10 PI 9 CODEC 98).

The result of this inquiry (cf. Document 6221/06 DROIPEN 11 PI 13 CODEC 130, DROIPEN 11 ADD 1, DROIPEN 11 ADD 2) can be summarized as follows: Whereas practically only copyright – which is, however, already covered by the TRIPS Agreement – has been completely uncontested by Member States, some of the rights mentioned in the Commission’s statement received up to 10 requests for deletion (patent rights, utility model rights, trade names).

In answering to the presidency’s request but also during the discussions in the Working Party several delegations were of the view that intellectual property rights, which are not harmonised at Community level, should be excluded from the scope of the instrument and underlined the necessity to make a distinction between community law-rights and national law-rights. This opinion was at least by some delegations also linked to the question of the competence of the Community legislature for criminal measures. Some delegations, however, also queried the necessity to provide for criminal measures with respect to some sectors already harmonised at Community level and expressed the opinion that intellectual property infringements have been in a satisfactory way addressed already through the now existing instruments. Other delegations, however, called on the delegations to reflect on the concept of Community policy, which cannot be limited simply to intellectual property but should also cover free movement of goods, protection of competition and protection of the environment as provided for in the Treaties and felt that intellectual property, being a property as every other, needs protection by criminal measures. According to these delegations the scope of the instrument should be the largest possible and cover not only the Community harmonised rights but also rights of the national laws.

III. FIRST PILLAR v THIRD PILLAR

The original proposals for a Directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights *and* for a Council Framework Decision to strengthen the criminal law framework to combat intellectual property offences have been submitted on 19 July 2005, roughly two months before the Court's judgement of 13 September 2005 (Case C 176/03 Commission v Council) with which Council Framework Decision 2003/80/JHA of 27 January 2003 on the protection of the environment through criminal law had been annulled. According to the Commission's justification for the amended proposal this new proposal shall put into effect the Communication from the Commission of 23 November 2005 (COM(2005) 583 final) on the implications of the Court's judgment, since – again according to the Commission – it was held in that judgment that provisions of criminal law required for the effective implementation of Community law come under the EC Treaty. By saying so the Commission obviously is alluding to paragraph 48 of that judgement, where the Court – after having affirmed in paragraph 47 that as a general rule, neither criminal law nor the rules of criminal procedure fall within the Community's competence – has stated, that the last-mentioned finding, however, does not prevent the Community legislature, when the application of effective, proportionate and dissuasive criminal penalties by the competent national authorities is an essential measure for combating serious environmental offences, from taking measures which relate to the criminal law of the Member States which it considers necessary in order to ensure that the rules which it lays down on environmental protection are fully effective.

Bearing in mind the Council's Legal Service's findings as reflected in document 6466/06 JAI 62 ENV 99 MI 29 PI 17 TRANS 40 MIGR 19 ECOFIN 48, according to which the introduction of provisions on criminal law in future Community Acts would need an examination on a case-by-case basis, the Court's judgement could be summed up on a more general level as follows:

The Community legislator has a competence in criminal matters where criminal sanctions are essential for combating serious Community law-related offences objective and as far as they are necessary to ensure the full effectiveness of the (Community) rules laid down to attain the underlying Community objective or policy.

Following this approach firstly the Community rules (already) laid down which may need protection by criminal law measures would have to be identified, and secondly the essentiality and necessity for this kind of protection would have to be established.

Concerning the first question the majority of delegations – in accordance with the Council’s Legal Service’s view that the Community legislator cannot oblige Member States to provide for criminal penalties for violations of rules which the Community has not, or not yet, established or which have been established pursuant to national law only¹ – has requested to limit the scope of the Directive (at least) to the intellectual property rights already harmonised on Community level.

Concerning the essentiality and necessity of criminal measures the Court in its judgement of 13 September 2005 repeatedly referred to the first three recitals to the Framework Decision, according to which the Council was concerned ‘at the rise in environmental offences and their effects which are increasingly extending beyond the borders of the States in which the offences are committed’, and, having found that those offences constitute ‘a threat to the environment’ and ‘a problem jointly faced by the Member States’, concluded that ‘a tough response’ and ‘concerted action to protect the environment under criminal law’ were called for; consequently, the Court came to the conclusion that ‘it is apparent from the first three recitals to the Framework Decision that the Council took the view that criminal penalties were essential for combating serious offences against the environment’ (cf. paragraphs 46 and 50 of the judgement). So it was not the Court who declared that it was essential and necessary to apply criminal sanctions for the infringements mentioned in the Framework Decision; the Court only built its ruling on the conclusions drawn from the Council’s opinion as particularly expressed in the first three recitals to the Framework Decision (and its Article 2).

¹ cf. document 6466/06 JAI 62 ENV 99 MI 29 PI 17 TRANS 40 MIGR 19 ECOFIN 48.

From this point of view it seems crucial to what extent Council shares the Commission's assessment of the need for (further) criminal measures in the field of protection of intellectual property also for the question of (the limits) of the Community legislature concerning criminal law measures. Since this assessment seems to be more of a political than of a judicial nature the merits of waiting for the Court's judgement in the pending case C-440/05 *Commission v Council* – as suggested by some delegations – seems doubtful in this respect.¹

Further guidelines might, however, be gained from a judgement in that new case as regards other aspects of the competence of the Community legislator in the area of criminal law. In this respect the presidency wants again refer to the Council's Legal Service's conclusions drawn from the judgement of 13 September 2005, according to which the Community legislator must leave to the Member States the choice of the criminal penalties to apply, as long as they are effective, proportionate and dissuasive (cf. paragraph 49 of the judgement of 13 September 2005). Consequently, Community acts cannot determine in detail and exclusively the level of penalties to be introduced; they should leave a discretion to the Member States.

IV. FUTURE QUESTIONS

- Does the Council share the Commission's view of the need for further criminal measures to protect intellectual property rights?
- Should the outcome of case C-440/05 *Commission v Council*, currently pending before the Court of Justice, and/or the evaluation process of Directive 2004/48/EC be waited for?

¹ An action against the Council of the European Union was brought before the Court of Justice on 8 December 2005 by the Commission according to which the Court should declare that Council Framework Decision 2005/667/JHA of 12 July 2005 to strengthen the criminal-law framework for the enforcement of the law against ship-source pollution is unlawful and annul that framework decision. Having regard to the Court's functional approach in Case C- 176/03 *Commission v Council* [2005] ECR I-0000 and also to the fact that the measures provided for in Articles 1 to 10 of Framework Decision 2005/667/JHA constitute criminal law measures necessary to ensure the efficacy of the common transport policy as developed by Directive 2005/35 EC, (2) the Commission considers that the entire Framework Decision infringes Article 47 EU, on account of its indivisibility, and is therefore unlawful (OJ C 22, 28.01.2006, p. 10).

- If the discussions should be continued now, should this be done on the basis of the amended proposal for a Directive or with a view to a reduction of the scope of this proposal, in particular as regards intellectual property rights not yet harmonised?
