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**Proposal for a Directive on criminal
measures aimed at ensuring the
enforcement of intellectual property rights:
efficient instrument or inadequate
mechanism?**

Master thesis
10 points

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Summary

Due to the development of technology, the value of the IP protected goods increases, and so does the harm done by the infringers. The TRIPS Agreement expressly provides for criminal sanctions for the serious cases of trademark counterfeiting and copyright piracy where the offences are committed willfully and on commercial scale. The TRIPS Agreement also reserves a possibility for introduction of more severe national measures shall the countries wish so.

On 12 July 2005 the Commission sent the European Parliament and the Council a proposal for a Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights, which introduced criminal procedures and penalties for infringement of all IP rights. The Commission submitted that for smoother functioning and protection of the internal market, the Community measures which ensure greater level of protection than the ones laid down by TRIPS are necessary. The proposal faced heavy criticism from national governments, music industry, and consumer protection organizations who argued the need for criminal sanctions on the Community level. The document has consequently been amended and patents, utility models and supplementary protection certificates were taken out of the Directive's scope. In its latest version following the amendments adopted by Parliament in April 2007 the proposal criminalizes infringements of all other IP rights done intentionally and on commercial scale, as well as aiding, abetting and inciting such infringement is criminalized.

This thesis examines the proposed directive, as well as the state of law in the field of IP enforcement both on global, Community and national level to assess whether there is an actual need and sufficient preconditions for the harmonization of criminal measures for IP enforcement on Community level.

Preface

I would like to dedicate this Master Thesis to my dad, who has been working hard for the last 20 years to bring positive changes to my home country with a hope to see Belarus a part of the European Union one day. Dad, sooner or later – we will succeed!

I would like to express my gratitude to the Swedish Institute for financing my Master studies at Lund University and ensuring a great year for the grantees.

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Abbreviations

| | |
|-----------------|---|
| EC | European Communities |
| ECJ | European Court of Justice |
| ECTA | European Communities Trade Mark Association |
| EU | European Union |
| IP | Intellectual Property |
| IPR | Intellectual Property Rights |
| IPRED2 | The proposal for a directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights (COM/2006/0168 final - COD 2005/0127) |
| JILT | Journal of Information, Law and Technology |
| TRIPS Agreement | Agreement on Trade Related Aspects of Intellectual Property Rights |
| WIPO | World Intellectual Property Organization |
| WTO | World Trade Organization |

1. Introduction

On 12 July 2005 the Commission sent the European Parliament and the Council a proposal for a Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights.¹ The Commission also sent the Council a proposal for a Framework Decision to strengthen the criminal law framework to combat intellectual property offences which specified the level of penalties and the issues of judicial cooperation laid down in the proposal. Following the discussion regarding community powers for criminal sanctions for IPR infringements, and in particular the Judgment of the European Court of Justice in Case *Commission v Council*², the Commission decided to amend the proposal for a Directive. The Commission withdrew the proposal for the Council Framework Decision, and on 26 April 2006 they forwarded a new proposal for a Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights which incorporated and updated the provisions of the previous initiatives.

The proposal has been regarded extremely controversial. Big industries such as Microsoft welcomed the proposal. Most of smaller businesses, many national governments and almost all civil society organizations spoke against the initiative. Some of them argued the need of harmonizing criminal measures as such, others spoke up against the scope of the proposed directive or certain provisions. Heavy criticism and debates have resulted in consequent revisions of the proposal. Following the last amendments adopted in April 2007 which narrowed the proposal's scope, the document has been sent to the Council from where it would be directed to the national governments for the discussion. Thus, the debates regarding the need for harmonization of criminal measures, the scope of the proposal and the measures for the IPR infringement herein are ongoing, and the issue remains topical.

1.1 Purpose

Current work will address the question of whether the harmonization of criminal measures for IPR enforcement on the Community level is needed, and, if found there is a need for such harmonization, whether the IPR enforcement measures laid down by the proposed Directive are reasonable or excessive. The analysis will address the question from the perspective of EU legislator that would require finding a balanced approach to the issue, since there are several – often opposing – interests regarding the need and

¹ Proposal for a Directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights, 26.4.2006, COM/2006/0168 final - COD 2005/0127

² Commission of the European Communities v Council of the European Union. Case C-176/03 [2005] All ER (D) 62 (Sep)

the scope of the proposed harmonization. All these interests must be taken into account to establish the optimal and efficient system of IPR enforcement in the European Community.

To find such balancing point, current work will assess the relationship between the enforcement provisions laid down in international instruments dealing with IP issues (namely, TRIPS) and the proposed Directive. It will also look into the harmonization of IP legislation on the Community level up to date, and the discrepancies concerning IPR enforcement existing in national laws of the EU member states. In assessing the proposed Directive in the light of the abovementioned factors, current work will take account of the position and arguments of national governments, industries and civil society organizations representing subjects concerned (consumers, smaller businesses, etc.).

1.2 Method

The main methods used in this thesis are traditional legal method and comparative legal analysis to assess the state of law in the area of IPR enforcement and interrelationship between the proposed Directive and existing legal acts. Analyses of the Max Planck Institute, FFII research regarding the proposed Directive and WIPO documents, which provided much of the background for the analysis, have been also of fundamental importance.

To determine the position of EC institutions, official documents were used. In order to illustrate the positions held by different interested actors, official documentation and publications of the actors as well as commentaries on them were used. Their reasoning and motivations were thus analyzed to determine which approach would lead to the best solution for the EU in terms of IPR enforcement policy.

1.3 Delimitation

Current thesis focuses entirely on the topic of introduction of criminal measures of IP enforcement, and leaves aside customs enforcement measures and any jurisdictional questions that may arise in connection with enforcement of IP rights. It does not also address the question of Community powers regarding the adoption of criminal measures – it merely mentions the existence of such problem which could be as well a topic for a separate research.

Similarly, the research does not go very deep into the analysis of existing enforcement provisions in the legislation of all EU member states. The research is instead directed at a summary of different approaches as regards procedures and methods of enforcement of different IP rights existing in the

national laws of the EU member states to analyze the need of harmonization and explain the wider picture.

It is assumed the audience for the thesis possesses certain knowledge of the nature of intellectual property rights and basic principles of their enforcement; therefore their background has been outlined only briefly.

2. Rules on IPR enforcement: global and EC perspectives

The development of industry and information technologies in the late 20th century required greater harmonization of IP rights to protect the right owners and preserve the incentive for technological development. The minimum standards for the trade related IP aspects were laid down in The TRIPS Agreement adopted in 1994 at the WTO Uruguay Round. Specifically, the TRIPS Agreement contains requirements that must be met by the legislation of the WTO member states regarding copyright including the rights of performers, producers of sound recordings and broadcasting organizations; geographical indications, including appellations of origin; industrial designs; integrated circuit layout designs; patents, new plant varieties, trademarks, trade dress and undisclosed and confidential information. The TRIPS Agreement also specifies enforcement procedures and remedies as well as the procedures for the dispute resolution.

Along with harmonization of minimum standards on the international level the EC institutions were taking steps towards even greater harmonization of IP related provisions in the internal market. Along with that, the issue of criminal measures to tackle the IPR infringements remained within the jurisdiction of member states. Community legislators have been regularly raising the issue of imposing tougher – and Community-wide – measures to ensure the IPR protection. Thus, this chapter will address the issue of harmonization of provisions on IPR enforcement on the Community level that took place prior to the proposed IPRED2 to find out what improvements of the minimum standards provided by TRIPS Agreement have been made to ensure compliance with IPR in the Single Market. Such analysis would be helpful in answering the question of the need for further improvement of TRIPS requirement applicable to the single market.

2.1. IPR enforcement under TRIPS

The TRIPS Agreement contains provisions on the means of enforcing IP rights. These provisions are common standards applicable at international level and implemented in all WTO member states.

Enforcement rules of the TRIPS Agreements primarily rely on the decentralized systems of domestic law of member states. Member states must ensure minimum standards governing IPR enforcement: they must set up the system of protection for the right owner against actual or potential infringement of their rights including the possibility of civil and criminal sanctions against the infringer. At the international level, the TRIPS Agreement empowers the Council of TRIPS to monitor compliance of

member states with the standards of IPR protection and enforcement procedures.³

Enforcement provisions of TRIPS can be found in Articles 41-61. Article 41 sets forth basic principles for IPR enforcement. It requires members to “ensure that enforcement procedures are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements.”⁴ However TRIPS further stipulates that such application of such provisions may not facilitate the creation of barriers to legitimate trade and shall provide safeguards against their abuse.⁵ Hence, it is possible to distinguish 4 major elements provided by Article 41 of TRIPS as for the minimum enforcement standards:⁶ first, the domestic laws of member states must permit effective action against present and future infringements; secondly, necessary administrative and judicial procedures must be fair and equitable and not unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays;⁷ thirdly, administrative bodies and courts must base their decisions as for the infringement of IPR on evidence available to all parties and these decisions must be rendered in a timely manner and shall preferably be in writing and reasoned; and finally, state must provide a form of appellate review for the decisions passed by the administrative bodies and by courts.

This Article sets forth rather broad requirements for the member states that would allow them to adjust national systems to the minimum standards without the need to adhere to the narrow limitations. Article 41(5) further exempts (also in a broad wording) member states from any obligation “to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general.” This provision further sets forth that this Part of TRIPS shall not affect the capacity of Members to enforce their law in general.

In the framework of the general principles set forth in Article 41, Articles 42-49 deal with civil and administrative measures for IPR infringement. These provisions elaborate on the need to make civil procedures concerning the IPR enforcement available to right holders as regards *any* intellectual property right covered by TRIPS agreement.⁸ The provision on fair and equitable proceedings further stipulates the right for timely and detailed notice for defendants; the right representation by an independent legal

³ C. M. Korrea, A. A. Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement*, Kluwer Law International 1998, p.70.

⁴ TRIPS , Art.41(1).

⁵ Id. FN.4, Art.42(1).

⁶ Id. FN 3, p.73.

⁷ Id.

⁸ Id. FN.4, Art.42.

counsel; right to present evidence and to protect confidential information unless this is contrary to Constitutional requirements.⁹

Article 43 elaborates on the procedure for discovery of evidence and it expressly allows for a default judgement “*in cases in which a party to a proceeding voluntarily and without good reason refuses access to, or otherwise does not provide necessary information within a reasonable period, or significantly impedes a procedure relating to an enforcement action.*”¹⁰

As regards injunctions to the aggrieved rights owner, Article 44 stipulates that Member states may order a party to desist from an infringement in order to prevent the entry into the channels of commerce in their jurisdiction of imported goods that involve an IPR infringement, immediately after customs clearance of such goods. This provision limits such authority of member states by withdrawing from its scope the cases that specifically concern the infringement of patented inventions or innocent infringers of other IPR. This article further allows national specific remedies amounting to at least a remuneration or, in other cases, a declaratory judgement and adequate compensation for the cases specifically addressing use by governments or by third parties that have been authorized by a government, without the compliance with the authorization of the right holder.¹¹

As for the minimum standards regarding remedies, Article 45 requires the judicial authorities of member states to “*order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person's intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.*” Judicial authorities may order the infringer to pay attorney fees. In appropriate cases judicial authorities may also order the recovery of profits and payment of pre-established damages even in cases where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.¹² Likewise, national courts must have the authority to “*order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed.*”¹³ However the Article makes a reservation regarding the observation of the need for proportionality between the seriousness of an infringement and the remedies ordered in considering requests for other remedies. National judicial authorities must also take account of the interests of third parties. Moreover, Article 46 further stipulates that “*in regard to counterfeit trademark goods, the simple*

⁹ Id.

¹⁰ Id. FN.4, Art.43.(2)

¹¹ Id. FN.4, Art 44(2).

¹² Id. FN.4, Art.45(2).

¹³ Id. FN.4, Art 46.

removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.”

Local authorities may indemnify the claimant, who has requested the measures or abused enforcement procedures, and order the claimant to provide a party wrongfully enjoined with an adequate compensation for the injury suffered because of such abuse.

As regards administrative procedures, Article 49 provides that to the extent such procedures provide for civil measures, they must conform to the principles equivalent in substance to those set forth in the TRIPS Agreement Section herein.

Article 50 addresses the need for primarily injunctions to prevent an infringement of any intellectual property right from occurring. This Article expressly allows judicial bodies to order provisional measures to prevent an alleged infringement but there is no obligation for local authorities to exercise this power in practice.¹⁴

Articles 51-60 of the TRIPS Agreement deal with special requirement related to border measures. These provisions apply exclusively to counterfeiting and piracy as oppose to the general infringement of any IP rights specified in Articles 41-50. The provisions in questions permit the right holder to request local tax authorities to suspend from the releasing the imported goods into free commercial circulation, in the event the right holder has grounds to believe the imported good is a counterfeit trademark or pirated copyright goods. For this purposes counterfeit trademark goods are defined as goods of packaging that bear unauthorized trademarks identical or similar to the registered trademarks of such goods. Pirated copyright goods may be defined as unauthorized copies of protected Articles the making of which would have infringed either copyright law or related rights laws of the country of importation.¹⁵ Articles 51-60 set the procedure for filing the complaint by the rights holder with competent national authorities and further consideration of the application on merits or the order of preliminary injunctions following the notice of suspension.

Article 61 of TRIPS is of the particular importance for the current work since this is the only provision that provides for criminal measures for infringement of IP rights. It imposes an obligation on the member states to provide for criminal procedures and penalties at least in cases of trademark counterfeiting or copyright piracy, where two elements are present: the offences must be made willfully and on commercial scale. Hence, the Article does not limit the member states exclusively to the cases of trademark counterfeiting and copyright piracy. Moreover, it expressly points out that where the members find it appropriate they “*may provide for*

¹⁴ Id. FN.3, p.74

¹⁵ Id.

criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed willfully and on a commercial scale.”

Article 61 also stipulates of the remedies that shall be made available in the event of offences. Remedies 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.”* The provision further sets forth that in appropriate cases other remedies shall be made available such as *“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.”*

Thus, the TRIPS Agreement expressly provides for criminal sanctions for trademark counterfeiting and copyright piracy, it also reserves a possibility for introduction of more severe national measures shall the countries wish so. Therefore harmonization of criminal measures on the Community level regarding trademark and copyright infringements would be in line with TRIPS requirement, while criminal penalties for the enforcement of other IP rights would go beyond the minimum standards set out in TRIPS.

2.2. IPR enforcement in Europe

Over the years the Community institutions have managed to ensure certain degree of harmonization of national IP laws to secure greater integration and smoother functioning of the single market. In the course of harmonization, member states have to bring their national laws in conformance with the provisions of Community acts. Nevertheless, certain aspects of IP law, including major part of enforcement jurisdiction have been for long time evolving in the legal environment peculiar to each member state. This means that each member state individually establishes the proceedings and remedies to combat various IP infringements, including such grave ones as counterfeiting and piracy. This has resulted in varying – sometimes significantly – legal positions from one country to another.

Legislation of almost all member states criminalizes counterfeiting - the duplication and sale of unauthorized copies of a product in such a manner as to try to pass off the illegal copy as if it were a legitimate copy produced or authorized by the legal publisher. The reason for adoption of criminal measures is that counterfeiting and piracy have become an international phenomenon with considerable economic and social repercussions. They also affect proper functioning of the single market, particularly with regard to public health and safety. This situation causes deflections of trade and distortion of competition, leading to a loss of confidence on the part of operators in the single market and a reduction in investment.

Since the early 1980s counterfeiting and piracy have grown considerably to a point where they have now become a widespread phenomenon with a

global impact. The phenomenon has developed along with the economic and political changes and has expanded on the growth of the information society and on the emergence of modern technologies. Internet technology has boosted innovation and ensured broad access to information. At the same time, reproduction and distribution in cyberspace has become so easy that they are destroying the market for intellectual property. Counterfeiting is estimated by industry sources to reduce EU GDP by 8 billion euros annually, with individual companies losing a total of between 45 and 65 billion euros. Annual losses in revenue are estimated at 7.2 % for perfume and toiletries, 5.8 % for pharmaceuticals and 11.5 % for the toy and sports sector. 40% of software in use worldwide is believed to be pirated, and 37% in the EU which equals to a loss of revenue of 2.9 billion euros annually).Worldwide, 36% of all music CDs and cassettes sold are pirated (total sales of pirated goods is 5 billion Euro).¹⁶

2.2.1 Previous harmonization of IP laws

Preliminary response to counterfeiting and piracy on the Community level consisted in improving the substantive provisions on IP. Besides harmonizing IP laws, Community institutions took certain steps for the creation of unitary rights in the IP field that may have an effect of reducing to some extent the risks of counterfeiting and piracy. The Green Paper on copyright and the challenge of technology¹⁷ provided for the need of means of combating the piracy in the Community. Following this Green Paper, the Commission adopted a number of harmonizing legal acts. The principle of regional exhaustion for trademarks has been codified in the First Council Directive on Trademarks and 1993 Regulation on the Community Trademark. Commission has also adopted numerous documents providing for the approximating principles regarding copyrights thereby affording them material protection and enabling them to monitor the exploitation of works and other objects throughout the Community.¹⁸

On 16 June 1997 the European Council approved the Action Plan to combat organized crime. The Plan called upon the Council and the Commission to work out unified provisions to combat organized crime in the fields of economic and commercial counterfeiting.¹⁹ Resolution laying down the work programme for cooperation in the field of justice and home affairs for the period from 1 January 1998 to the date of entry into force of the Treaty

¹⁶ *Intellectual property: pirates and counterfeiters to feel the full weight of criminal law*, Press Release of the European Parliament, 25.04.2007.

¹⁷ Green Paper on copyright and the challenge of technology, COM(88)172.

¹⁸ As regards trademarks see e.g. Council Directive 89/104/EEC of 21 December 1988 to Approximate the Laws of the Member states Relating to Trademarks. There is a number of approximating laws regarding copyright such as Council Directive 92/100/EEC on rental right and lending rights, Council Directive 91/250/EEC on the legal protection of computer programs, Directive 96/9/EC on the legal protection of databases.

¹⁹ Action Plan to combat organized crime adopted by the Council on 28 April 1997, OJ C 251, 15.8.1997, p. 15.

of Amsterdam also considered counterfeiting a matter of extreme importance for the Community regulation.²⁰ Separate Commission initiatives concerned the manner of the falsification and counterfeiting of means of payment forms.²¹

In 1994 the Council adopted Regulation laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods.²² The 1994 Regulation laid down conditions under which customs authorities may take action where goods suspected of being counterfeit or pirated are entered for free circulation, export or re-export and are found when checks are made on goods placed under a suspensive procedure or are re-exported subject to notification. It also provided measures to be taken where it has been established that the goods are indeed counterfeit or pirated. Later, the Regulation 241/1999²³ extended the scope of the 1994 Regulation to goods in free zones and in free or temporary warehouses, and to goods which undermine the rights conferred by a patent. The documents have been eventually replaced by the Council Regulation concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights.²⁴ The Regulation establishes a more efficient system by laying down the conditions for customs action where goods are suspected of IPR infringement. On the other hand it provides measures to be taken against goods that have been found to infringe IPR. In order to protect consumers by ensuring the protection of food products, the Regulation extends the scope of application of Community action to cover new types of intellectual property rights: new plant varieties, geographical indications and designations of origin. However, these rules cover the movement of counterfeit or pirated goods between third countries and the Community and do not deal with movements within the Community.

²⁰ Resolution laying down the work programme for cooperation in the field of justice and home affairs for the period from 1 January 1998 to the date of entry into force of the Treaty of Amsterdam, OJ C 11, 15.1.1998, P.1

²¹ For example, see Communication from the Commission to the European Parliament, the Council, the European Central Bank and the Economic and Social Committee comprising a draft Joint Action and an outline of a global strategy for ensuring the security of non-cash transactions, COM(98)395.

²² Council Regulation 3295/94 of 22 December 1994 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods OJ L 341 of 30.12.1994, p.8. On 16 June 1995 the Commission adopted provisions implementing this Regulation (Regulation 1367/95, OJ L 133, 17.6.1995, p. 2.)

²³ Council Regulation 241/1999 of 25 January 1999 amending Regulation 3295/94 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods, OJ L 27 of 02.02.1999.

²⁴ Council Regulation 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights, OJ L 196, 02.08.2003

Another Community act which lays down provisions for sanctions or remedies for IPR infringement is the Directive on the harmonization of certain aspects of copyright and related rights in the information society,²⁵ which enables member states to provide legal protection against the circumvention of any effective technological measures covering works or any other subject-matter, protection of rights-management information, and appropriate sanctions and remedies in respect of infringement of the Directive.

Commission's Communications and Consultations on innovation²⁶ provided for the need to impose tougher measures to ensure the respect for IPR within the Community. These documents set forth the need for tougher anti-counterfeiting measures to protect intellectual property and for making the legislation more effective, notably by ensuring that it is properly complied with.

Certain Community acts deal with the problem of legal protection of IP rights without fully harmonizing the laws of the member states in that field, such as the Directive on the legal protection of designs.²⁷ The ECJ has also addressed the issue of counterfeiting and piracy on a number of occasions.²⁸

2.2.2 Green Paper on Combating Counterfeiting and Piracy in the Single Market²⁹

The Green Paper is directed at the assessment of the economic impact of counterfeiting and piracy in the Single Market, reviewing existing legislation in this field, identifying major problems and legal improvements to be made and the need for action on the Community level in the light of the single market objectives.

²⁵ European Parliament and Council Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society. OJ L 167/10 22.6.2001, p.1.

²⁶ See e.g. Green Paper on Innovation. COM(95)688 of 20 December 1995; Innovation Action Plan COM(96)589 of 20 November 1996, Innovation Communication 2000 COM(2000) 567 final; Innovation Communication 2003 COM(2003) 112 final of 11.3.2003; Innovation Communication 2006 COM(2006) 502 final of 13.9.2006.

²⁷ Directive 98/71/EC of the European Parliament and of the Council on the legal protection of designs of 13 October 1998 (OJ 1998 L 289, p. 28

²⁸ See Case C-23/99 Commission of the European Communities versus the Republic of France, judgement of 26 September 2000; Case C-383/98_The Polo/Lauren Company LP versus PT Dwidua Langgeng Pratama International Freight Forwarders", judgement of 6 April 2000; Case C-223/98_Adidas AG, judgement of 14 October 1999; Case C-53/96 Hermès International (partnership limited by shares) versus FHT Marketing Choice BV", judgement of 16 June 1998.

²⁹ Green Paper on Combating Counterfeiting and Piracy in the Single Market, COM (98) 569 final, 15 October 1998

The paper clarified the meanings of terms “counterfeiting” and “piracy” submitting that definitions provided in the TRIPS Agreement³⁰ were only a starting point, and they did not suffice as they related only to goods and certain IPR. The concepts of counterfeiting and piracy used for the purpose of the Green Paper cover all products, processes and services which are the subject-matter or result of an infringement of an intellectual property right (trade mark or trade name, industrial design or model, patent, utility model and geographical indication), of a copyright the rights of the producers of the first fixations of films, the rights of broadcasting organizations), or of the *sui generis* right of the maker of a database.³¹ Thus the Green Paper is very broad in its scope and covers not only fraudulently copied products but also goods identical to the original but produced in the Community without the consent of the rights holder. The piracy regarding the services sphere covers predominantly broadcasting and information services. However the concepts proposed by the Green Paper do not cover acts coming solely under the scope of unfair competition or parasitism or falling under the principle of the Community exhaustion of rights which do not constitute an IPR infringement.

The Green Paper proposes several forms of approaching the matter – namely through monitoring by the private sector, the use of technical devices, sanctions and other means of IPR enforcement, and administrative cooperation between competent authorities.

For the purpose of this work, we will have a look predominantly into the matter of criminal and civil sanctions proposed by the Green Paper. The Green Paper raised the need to assess whether the sanctions above those minimum standards envisaged by the TRIPS are necessary to combat piracy and counterfeiting on the Community level more effectively. Along with that the document indicated that all sanctions adopted on the Community level must conform to the general principles of law such as the proportionality and respect for privacy.

a) Criminal proceedings and penalties³²

The Green Paper looked into the existing policies and legislation of the member states on domestic level and raised the issue whether the strengthening of criminal sanctions for IP violation is needed. The document indicated that most of the Member states provide by law that counterfeiting and piracy must be in principle liable to criminal penalties, however at the same time for some types of IP infringement there is no criminal penalty at all. Along with that the Green Paper indicated that legal sanctions provided by the member states on domestic level have often proved to be extremely efficient against the infringer – such as the closure of a store, or suspension

³⁰ Id. FN 4, Art.51.

³¹ Id. FN 29. Para. 1.4.

³² Id. FN 29. Para. 5.3

of its activity for a certain period in case the entity was found guilty in trading counterfeit goods.

The Paper drew attention to considerable differences between different member states regarding criminal sanctions against the IP infringers and their severity and the fact that some states have been strengthening criminal liability for offences in the field while others did not.

The Paper indicated a Community-level problem in the matter as the need to “*see to it that Community legislation is properly implemented*”³³ and to develop numerous Commission’s initiatives which demonstrated the need for taking measures to ensure the smooth operation of the Single market, including the field of IPR protection.³⁴

The Green Paper raised a number of important questions for further study both on national and Community level. The paper touched on the matter whether the further (and which) improvements of minimum standards provided by the TRIPS are needed to ensure compliance with intellectual property rights in the single market. It also raised the need to study the disparities that exist between member states and have an impact on the localization of counterfeiting and piracy activities in the single market. Moreover, the document raised a question of introduction of penalties at Community level and whether this would be an effective means of combating counterfeiting and piracy in the single market.

b) Civil proceedings and remedies³⁵

The Paper stipulates that civil sanctions for IPR infringement amounting to legal measures and procedures, of both a provisional and a permanent nature, exist on the national level of all member states. However, despite these measures and procedures have similar objectives in all Member states the practical arrangements often differ significantly from one Member State to another.

The Paper indicated the different nature of the civil measures compared to the criminal ones in fighting against piracy and counterfeit: they are more speedy and effective than criminal measures. The document drew attention to the definition given by the ECJ regarding provisional or protective measures within the meaning of Article 24 of the Brussels Convention³⁶ that must be understood as being “*measures which, in matters within the scope*

³³ Id.

³⁴ See Communication on the role of penalties in implementing Community internal market legislation, COM(95) final 162 of 3 May 1995.

³⁵ Id. FN 29. Para. 5.3.

³⁶ Article 24 Brussels Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters 1968 lays down the following: “*Application may be made to the courts of a Contracting State for such provisional, including protective, measures as may be available under the law of that State, even if, under this Convention, the courts of another Contracting State have jurisdiction as to the substance of the matter.*”

*of the Convention, are intended to preserve a factual or legal situation so as to safeguard rights the recognition of which is sought elsewhere from the court having jurisdiction as to the substance of the matter.*³⁷ Civil measures of Member states make it possible both “to prevent an act of counterfeiting or piracy from being committed or continued” and “to safeguard the evidence,” which corresponds with the ECJ judgement. Moreover, these measures do not prejudice the outcome of the main proceedings.

The Paper looked separately into provisional measures which exist basically in all Member states. However, even as regards provisional measures the Commission found major differences in national legal practices in terms of procedural arrangements and frequency of use of these legal remedies.

As regards the acquisition and safeguarding of evidence, the Document indicated certain efficient procedures in the fight against counterfeiting and piracy existing in the UK and France such as “Anton Piller order” and the procedure of *saisie-contrefaçon* accordingly. Similar procedures, adopted on the Community level may constitute extremely effective means of obtaining and preserving evidence and unquestionably make an effective contribution to the fight against counterfeiting and piracy.

The Green Paper also touched on the matters of cessation of the infringement or the prevention of future infringements. Again, the Commission observed that all member states provided for the applications for the cessation of infringements and the prevention of new infringements. Such applications oblige the infringer to cease any continued interference due to the counterfeiting, and the interference regarding the cessation concern both the goods involved and the means of their production. As in the case with other criminal and civil measures, the Commission points out that despite identical underlying principles, there are major differences in the rules of application, “*for example as regards the taking into account of the interests of third parties, the way in which the goods at issue are to be eliminated (destruction, re-exportation, etc.) or the conditions under which the elimination of the means used to produce the goods may be ordered.*”³⁸

As for the issue of injunctions, the Commission indicated they are the most commonly used instrument to prohibit an infringer from repeatedly infringing an intellectual property right. In case the infringer fails to comply with an injunction there are usually specific penalties such as a fine payable either to the State or to the person seeking the injunction. The infringer may also be required to pay damages to the right owner to compensate for the losses incurred by the IPR infringement. However, the Commission pointed out “*the amount of damages, which are generally awarded even in the*

³⁷Case C-261/90 *Reichert* [1992] ECR I-2149.

³⁸ *Id.* FN 29. Para. 5.3.

*absence of fault, is often considered by practitioners to be too small to compensate properly for the loss or damage suffered.”*³⁹

Hence, the Commission summed up the measures which are common in all member states but then they came to the conclusion that since the measures and procedures in question differ significantly from one member state to another, there is a need for evaluating the effectiveness of both civil and criminal measures in the single market and considering “*what improvements may be made, for instance by extending those of these measures and procedures which have proved effective in some Member states.*”⁴⁰

2.2.3 Directive 2004/48⁴¹

The Green Paper on combating counterfeiting and piracy in the Single Market adopted in 1998 was the start of a wide-range consultation aimed to determine the economic impact of counterfeiting and piracy in the single market, to assess the effectiveness of the relevant legislation and to propose a number of initiatives to improve the situation. On the basis of these consultations, the Commission presented a Communication in November 2000, announcing a series of practical measures intended to improve and step up the fight against counterfeiting and piracy in the single market. As part of these measures, the Commission forwarded a proposal for a Directive harmonizing the legislation of Member states to strengthen the means of enforcing intellectual property rights. The Commission’s proposal also included a right of information to obtain a person’s private information on a mere allegation of infringement for commercial purposes but did not require that court proceedings be filed before personal information is released⁴². “Serious infringements” are treated as criminal offences.⁴³ The proposal considered an infringement serious if it was intentional and committed for commercial purposes.

The proposal goes so far as to propose criminal sanctions against natural and legal persons who commit an infringement for commercial purposes or cause significant harm. Under intense lobbying pressure from the pharmaceutical industry, the Commission also included patents within the Directive’s scope.⁴⁴ A number of European NGOs and small businesses raised their voice against such scope of the directive and under their pressure civil sanctions have been replaced instead of the proposed criminal

³⁹ Id.

⁴⁰ Id.

⁴¹ Directive 2004/48/EC of the European Parliament and of the Council of 29.04.2004 on measures and procedures to ensure enforcement of intellectual property rights, OJ L 157 of 30.04.2004, p. 45

⁴² Id. FN.41, Art. 9.

⁴³ Id. FN.41, Art.20.

⁴⁴ Sylvia Mercado Kierkegaard, Taking a sledgehammer to crack the nut: The EU Enforcement Directive, Computer Law & Security Report (2005) 21, 488-495.

sanctions⁴⁵, because the Council lacked the authority to introduce these measures. Even in its final version, the Directive has received widespread condemnation from various sectors of the society for supporting private interest at the expense of public interest through the impositions of Mareva injunctions⁴⁶ and “Anton Piller Orders”⁴⁷, even in instances of accidental and noncommercial infringements of the intellectual property right⁴⁸

a) General analysis

The Directive 2004/48 was adopted 29 April 2004. The Directive regulates the measures, procedures and remedies which can be ordered by the competent national authorities in case of an IP infringement at the request of an entitled party. Unlike previous European IP legislation, the scope of harmonization under the Enforcement Directive 2004 is not limited copyright or patent law. The Directive is a legal act having a horizontal effect and it applies to any infringement of intellectual property rights as provided for by the Community legislation, and/or by the national laws of the member states. Such objective is indicated in the Recital 13 of the Directive which provides for the need to define its scope as widely as possible. The provision in question, however, contains a reservation regarding the ability of Member states to extend for the internal purposes the provisions of the directive to include acts connected to unfair competition.⁴⁹

Article 2 of the Directive further specifies its scope and provides for principal exceptions⁵⁰. According to these provisions, the Directive should not prejudice the specific provisions on the IPR enforcement and on exceptions contained in Community legislation concerning copyright and rights related to copyright.⁵¹ Other reservations concern international obligations of member states and criminal procedures and penalties, which have been taken out of the scope of the directive due to wide disagreement of the member states regarding the matter.

⁴⁵ Id. FN.41, Art.20.

⁴⁶ The *Mareva injunction* (freezing order) is a legal procedure initially created by the English courts. The object of a *Mareva injunction* is to prevent the frustration of a monetary judgment by preventing the dissipation or removal of the defendant’s assets.

⁴⁷ In the UK and similar legal systems, an “Anton Piller Order” is a court order which provides for the right to search premises and seize evidence without prior warning. This is used in order to prevent the destruction of incriminating evidence, particularly in cases of alleged trade-mark, copyright or patent infringements.

⁴⁸ Meller P. EU backs deal on copyright piracy. International Herald Tribune, NY; 2004

⁴⁹ Id. FN.41, Recital 13.

⁵⁰ Id. FN.41, Arts. 2(2) and (3).

⁵¹ The text of the Directive refers to the Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs; and, in particular, Article 7 thereof; and Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society and, in particular, Articles 2 to 6 and Article 8 thereof.

Directive opts for further harmonization of the legal systems of member states to ensure a high, equivalent and homogeneous level of protection across the internal market.⁵² Provisions of the directive deal with the following issues: disparities between member states in their laws for IPR enforcement, including measures and procedures for conducting searches, making seizures, determining proof of counterfeiting and piracy; national differences regarding minimum thresholds for sanctions and criminal proceedings; lack of administrative and operational co-operation between agencies involved in the enforcement action against counterfeiting and piracy.

As regards content, as it was mentioned above, the major goal of the directive is to transpose the provisions of the TRIPS Agreement on the enforcement of IP rights into European law. Thus, the Directive aims to harmonize major disparities between Member states as regards the means of enforcing IPR which are prejudicial to proper functioning of the Internal Market and make it impossible to ensure that IPR enjoy an equivalent level of protection on the whole territory of the Community.⁵³

The Directive implements further mechanism for IP enforcement, which is based on the best practices in some member states. By providing the possibilities for member states to extend the provisions of the directive for other areas of law (for example, competition)⁵⁴ and to introduce means more favorable to the rights holders as those provided herein,⁵⁵ the Directive only sets forth a minimum degree of harmonization for the implementation into national law, which should have been carried out by April 29, 2006 at the latest. Nevertheless, in some areas the Directive goes beyond the level of protection that has been available in some Member states.⁵⁶

Several controversial issues were raised when defining the scope of the Directive. One of them concerned including infringements caused by consumers or private persons into the scope of the Directive. This issue has arisen especially in connection with Internet file sharing.⁵⁷ Originally, the proposal was rather limited in scope, however the version finally adopted by the European Parliament and the Council desists from making such a limitation. In principle, the procedures and measures provided for in the Directive may be applied against consumers and private persons, and only certain measures such as those concerning information rights against third parties, are restricted to acts done for commercial purposes.⁵⁸

⁵² Id. FN.41, Recital 10; see also Art. 1.

⁵³ Id. FN.41, Recitals 7 and 8.

⁵⁴ Id. FN.41, Recital 13.

⁵⁵ Id. FN.41, Art. 2(1)

⁵⁶ Michael Vedder, *The Enforcement Directive 2004/48/EC - A further step in the harmonization of IP laws in Europe*, Institute for Information, Telecommunications and Media Law.

⁵⁷ Id.

⁵⁸ Ellard, David, *The EU's IPR Enforcement Directive*, *Computer Law Review International*, 2004, P. 66.

The beneficiaries of the Directive are primarily the holders of IPRs. They are entitled to apply for the enforcement measures and procedures provided. Other persons authorized to use those rights, for example licensees, IP collective rights management bodies, and professional defense bodies, can also be legitimated to demand such measures and procedures, to the extent that this is allowed by the applicable national law.

The Directive establishes four major categories of civil measures which shall be available to the right holder in the event case of IPR infringements:

- measures for the preservation of evidence of IP rights infringements;⁵⁹
- the right of information regarding the source and distribution channels of infringing goods and services;⁶⁰
- provisional and precautionary measures for the prevention of infringements and for the protection of claims for damages;⁶¹
- and measures resulting from a decision on the merits of the case, in particular regarding enforcement and the amount of civil damages.⁶²

The provisions on measures for preserving evidence seek to solve the typical situation in IP infringement cases where major evidence is under the control of the infringer himself and/or is easy to remove.⁶³ According to Article 6 of the Directive, member states must ensure that an applicant has presented evidence that is reasonably available and sufficient to support the claims. In order to solve the situation where evidence belongs to the other side, the Directive empowers local judicial authorities to order such evidence be presented by the opposing party, subject to the protection of confidential information.⁶⁴ In addition, local judicial authorities are empowered to order, if the infringement is committed on a commercial scale,⁶⁵ on application by a party, the communication of banking, financial or commercial documents under the control of the opposing party. Moreover, even before the commencement of proceedings local judicial authorities may order prompt and effective provisional measures to preserve relevant evidence in respect to the infringement of IP rights.⁶⁶ Such measures may include the detailed description or physical seizure of the infringing goods, and may even include seizure of the material used in the production of these goods.⁶⁷ According to Article 7(3), member states shall ensure that the provisional measures to preserve evidence are revoked if the

⁵⁹ Id. FN.41, Arts. 6 and 7

⁶⁰ Id. FN.41, Art. 8.

⁶¹ Id. FN.41, Art. 9.

⁶² Id. FN.41, Arts. 10-13.

⁶³ Id. FN. 55.

⁶⁴ Id. FN.41, Art. 6(1).

⁶⁵ Bernd Allekotte, *Cross-border Implementation of the EU IP Rights: Enforcement Directive*, Building and Enforcing Intellectual Property Value, 2007.

⁶⁶ Id. FN.41, Art. 7.

⁶⁷ Id. FN.65

applicant does not institute proceedings leading to a decision on the merits of the case within a reasonable period.

Protecting measures for evidence are supplemented by a right of information, which appeared to be the one most widely requested and discussed measure by right holders, providers, users and their lobby groups.⁶⁸ According to Article 8, member states shall also ensure that, in certain circumstances, local judicial authorities may order the defendant to disclose the information on the origin and distribution networks of the infringing goods or services. Certain circumstances relate to the situations where the defendant was found in possession of infringing goods or the use of the infringing services on a commercial scale or provided services used in infringing activities on a commercial scale. In any case, the commercial element is an important component for the request of information. On the other hand, the limitation to the commercial element clearly demonstrates that purely private and end-consumers cannot be subject to an information claim. But it is not entirely impossible that in the execution of an information order, infringing acts by private or end-consumers are disclosed.⁶⁹

Besides these legal measures the Directive provides for some additional supporting measures to combat counterfeiting and piracy, like the publication of judicial decisions at the expense of the infringer and the elaboration of codes of conduct by private associations aimed at contributing towards the enforcement of intellectual property rights.⁷⁰ Articles 13 and 14 lay down the possibilities for damages – they specify that judicial authorities of Member states must order the infringer, who has committed the infringement knowingly or with reasonable grounds to be aware, to pay the right holder damages corresponding to the negative economic consequences and legal costs. Alternatively, the damages may be set up as a lump sum on the amount of royalties for using the IPR.

Article 16 of the Directive provides for a possibility of criminal measures as a means of sanctions by the member states, worded as “other appropriate sanctions in cases where IP rights have been infringed – which could be interpreted as an open doors for the member states to introduce criminal sanctions for serious infringements of IPR that should be treated as criminal offences and where appropriate criminal sanctions including imprisonment should be provided.

b) Implementation

The transposition of the directive into the national laws of member states will definitely lessen the disparities regarding the enforcement of IP rights under national laws. However, certain elements still remain under the

⁶⁸ Id. FN. 56.

⁶⁹ Id.

⁷⁰ Id. FN. 41, Arts. 15-17.

national competence and may differ from one Member State to the other. To sum up such provisions as described above, any member state may implement the legislation which is more favorable to the IP rights holders than that provided for in the directive. Moreover, legal costs play an important role when it comes to the enforcement of IP rights,⁷¹ and in practice procedures as for legal costs and their amount vary considerably across the Community. Similar statement may be made regarding the reimbursement for legal costs by the successful party, since Article 14 of the Directive obliges reasonable and proportional reimbursement which is a rather vague wording. Moreover, it directly excludes situations where equity rules are in contradiction with the Directive. Some practitioners point out the differences in legal frameworks between the member states as regarding the timelines for the proceedings – depending on the jurisdiction proceedings may take from a month to several years.⁷² The question regarding criminal sanctions was left at the discretion of the member states – hence, at present there are considerable differences across the community as regards treatment of certain IP infringements as criminal offences and the degree of criminal liability (if any) for such offences.

Therefore, although to some degree the Directive harmonizes national laws with respect to the enforcement of IP rights, important disparities will remain. In essence, this is due to the fact that the directive covers only some enforcement issues and defines minimum requirements that may be exceeded by member states. Moreover, it does not address all factors that affect the outcome of a trial.

Nevertheless, assuming that EU member states implement the directive into national laws, it will bring about the harmonization of certain enforcement aspects of IP litigation. However, to date only certain member states have implemented the Directive. As per October 2006 implementation has taken place only in 12 out of 25 EU member states.⁷³

The UK enacted a statutory instrument to effect implementation of Directive 2004/48, the Intellectual Property Regulations, on April 29, 2006. Some issues of the transposition raised concern of the legislators as they may have an ambiguous impact on litigation in the UK. For instance, British legislators simply transferred the undefined terms found in the Directive into the Regulations.⁷⁴ In similar situation in other countries, where the terms of the Directive are not understood the legislators may take a view of whether or not to include certain provisions.

⁷¹ Id. FN. 65.

⁷² Id.

⁷³ Austria, Cyprus, Czech Republic, Denmark, Estonia, Finland, Hungary, Ireland, Italy, Slovenia, Spain. Source: Intellectual Property Rights Experts Group, www.apecipecg.org

⁷⁴ Gareth Morgan et.al. *A harmonized approach to enforcement*, Managing Intellectual Property. London: Sep. 2006, P. 1.

Whether the implementation of the directive changes the IP enforcement situation within a particular member state depends primarily on whether its current IP legislation already meets the requirements of the directive. For example, measures laid down in Article 7 of the Directive establish a measure similar to the French *saisie contrefaçon*, so little change within French IP Litigation will be needed. On the other hand, the implementation of Article 13 (damages) has been debated in France. In France there are no specific provisions to assess damages in the IP Code. Damages are assessed on the basis of the general principle governing liability under the provisions of French Civil Code defining tort liability.⁷⁵

⁷⁵Id.

3. IPR enforcement on national level

Member states are obliged to bring their laws on IP enforcement in conformance with the Directive 2004/48. As it was mentioned above, some of the member states did so however many of them have been late in transporting the Directive into their national legislation. Difficulties arrive predominantly in countries that need to establish a new national institute of civil sanctions for the IP infringement according to the directive, however even the states which have to introduce relatively minor changes into their laws (like France, for example) experience problems in the course of the transportation.

The situation is even more complicated as regards the harmonization of criminal measures for the IP infringements - since there are only very general requirements set forth in TRIPS Article 61. So far, most of the states have provided certain criminal proceedings and remedies for copyright piracy and trademark infringement, some went on further as to cover other cases where other IP rights are infringed. The current chapter will discuss provisions for civil and criminal proceedings and measures existing in member states as to infringement of different IP rights to assess whether there are still significant differences in national approaches to the issue.

3.1 National measures: copyright and rights related to copyright

The term copyright describes rights given to creators for their literary and artistic works and covering literary works, computer programs, databases, films, musical compositions, and choreography; artistic works, architecture; advertisements, maps and technical drawings. Following the minimum requirements of TRIPS, national laws of almost all member states criminalize copyright piracy. However the remedies and procedures for the offence of piracy differ from damages and monetary compensation in some states to severe fines and lengthy imprisonment in other countries.

For instance, the UK laws provide for damages in case of willful copyright infringement. Willfulness however means that damages are not available to the rights holder in case the defendant did not know, and had no reason to believe, that copyright subsisted in the work to which the action relates.⁷⁶ UK Copyright, Designs and Patents Act 1988 provides also for criminal punishment where a person commits an offence who, without the license of the copyright owner- uses for commercial purposes an article which is, and which he knows or has reason to believe is, an infringing copy of a copyright work. The law mentions the types of commercial activity falling

⁷⁶ UK Copyright, Designs and Patents Act 1988, 15/11/1988(gb019), Art 97.

under it's the scope of criminal sanctions (production, import, selling, offering, exhibition in public) as well as criminalizes the intent of committing an act of infringing copyright I there is a commercial element.⁷⁷ Moreover, it also criminalizes the non-commercial copyright infringement where the offender distributes an infringing article to such an extent as to affect prejudicially the owner of the copyright. Also, production or knowingly possession of an article for the production of infringing copies is criminalized.⁷⁸ Article 107(3) of the UK Copyright, Designs and Patents Act further provides that where copyright is infringed (otherwise than by reception of a broadcast or cable programme) by the public performance of a literary, dramatic or musical work, or by the playing or showing in public of a sound recording or film, any person who caused the work to be so performed, shall be subject to criminal liability if he knew or had reason to believe that copyright would be infringed.

UK legislation sets forth the following penalties: imprisonment for a term not exceeding six months or a fine not exceeding the statutory maximum, or both in case of summary conviction and a fine or imprisonment for a term not exceeding two years, or both in case of indictment.⁷⁹

French legislation⁸⁰ mentions both civil and criminal procedures regarding copyright infringement. Article L. 331-1 of the French IP Code provides that all disputes related to the application of the copyrights of the Code which are within the jurisdiction of the civil courts shall be submitted to the competent courts, without prejudice to the right of the injured party to institute criminal proceedings under the general rules of law.⁸¹ French laws provide for seizure of the infringing goods.⁸² The breach of proprietary rights is a criminal offense of counterfeit (*contrefaçon*) in France.⁸³ This attracts a fine of up to 300.000 EUR and a term of up to three years imprisonment. These penalties are increased to a fine of up to 500.000 EUR and a term of up to five years imprisonment if the offense is committed in an organized group. There is no distinction between the breach of French copyright and the breach of foreign copyright, though the breach must occur in France to be punishable. The import of infringing copies into France, and the distribution of such copies, are punished under the same provisions and are subject to the same penalties.⁸⁴ The court may order confiscation of all or part of the proceeds obtained by reason of the infringement and

⁷⁷ Id. FN. 76, Art. 107(1)C.

⁷⁸ Id. FN. 76, Art. 107(2).

⁷⁹ Id.

⁸⁰ Decree No. 95-385 of April 10, 1995, Concerning the Regulatory Part of the Intellectual Property Code (as last amended by Decree No. 97-863 of September 17, 1997) and its Annex: Intellectual Property Code (Regulatory Part), "Journal officiel de la République française", 13.04.1995.

⁸¹ Id. FN. 80, Art. L. 331-1.

⁸² Id. FN. 80, Art. L. 332-1

⁸³ Id. FN. 8-, Arts. L335-2 to L335-4

⁸⁴ French Law No. 92-597 of July 1, 1992, on the Intellectual Property Code, (as last amended by Law No. 97-283 of March 27, 1997)

confiscation of all phonograms, videograms, articles and copies that are infringing or have been unlawfully reproduced and of the equipment specifically installed for the purpose of committing the offense. Both legal and natural persons may be declared liable, where legal persons shall be liable to fines and various kinds of prohibition activity. In the event of repetition of the offenses or if the offender is or has been contractually bound to the aggrieved party, the penalties involved shall be doubled.

Irish Copyright and Related Rights Act 2000 provides that a person who, without the consent of the copyright owner⁸⁵ produces for commercial purposes, sells, rents or lends, offers or exposes for sale, imports into the State a copy of a work which is, and which he or she knows or has reason to believe is, an infringing copy of the work, shall be guilty of an offence. Imports of infringing goods for private and domestic use are excluded from the scope of an article. Thus, commercial element plays an important role in defining whether the infringement is an offence. However, Irish law also provides that if the person otherwise than in the course of a business, trade or profession, makes available to the public to such an extent as to prejudice the interests of the owner of the copyright, this would also be treated as an offence. Moreover, Irish law provides a remedy against fake claimants - a person who, for financial gain, makes a claim to enjoy a right under this Part which is, and which he or she knows or has reason to believe is, false, shall be guilty of an offence and shall be liable on conviction on indictment to a fine not exceeding £100,000, or to imprisonment for a term not exceeding 5 years, or both.

Italian criminal legislation⁸⁶ introduces liability to monetary penalties laid down by decision of the administrative authority for offences for the infringement of copyrights and related rights. No imprisonment is provided.

Among East-European countries, Slovakia provides for the criminalization of the violation of author's rights.⁸⁷ The person who illegitimately treats a work protected by author's rights or the achievement of an artist, a sound or video registration or radio or television program which are protected by a right similar to author's rights in a way which is reserved to the author, artist, the producer of the sound or video record, the radio or television diffuser or to another person entitled to these rights or who violates the rights in a different way, shall be punished by imprisonment of up to two years, or fine or sequestration of the thing. The offender shall be punished by imprisonment from six months to five years, a fine or a sequestration of the thing provided that his act has resulted in a significant profit or he has committed the act to a significant extent.

⁸⁵ Id. FN. 80, Art 140(1).

⁸⁶ Law No. 689 of November 24, 1981. Amendments to the Penal System; See also Law No. 1062 of November 20, 1971: Penal Provisions Concerning Counterfeiting or Alteration of Works of Art

⁸⁷ Act of Slovak Republic No. 392/1992 LC - Penal Code on the wording of the Act No. 177/1993 LC and Act No. 248/1994 LC, Art. 152.

3.2 National measures: industrial property rights

The broad application of the term “industrial” is clearly set out in the Paris Convention for the Protection of Industrial Property: “*Industrial property shall be understood in the broadest sense and shall apply not only to industry and commerce proper, but likewise to agricultural and extractive industries and to all manufactured or natural products, for example, wines, grain, tobacco leaf, fruit, cattle, minerals, mineral waters, beer, flowers, and flour.*”⁸⁸ They include *sui generis* right of a database maker and the rights of the creator of the topographies of a semiconductor product trademarks and trade names, patents utility models, and supplementary protection certificates. Protection of these rights is directed against unauthorized use of such signs likely to mislead consumers, and against misleading practices in general.

3.2.1 Sui generis right of a database maker

Directive on the legal protection of databases⁸⁹ provides that copyright protection is not available for databases where the entries are selected by objective criteria. Such cases are covered by *sui generis* database rights. Database rights specifically protect the “*qualitatively and/or quantitatively substantial investment in either the obtaining, verification or presentation of the contents.*” Hence, if there has not been substantial investment, the database will not be protected.⁹⁰

The holder of database rights may prohibit the extraction and re-utilization of the whole or of a substantial part of the contents. The substantial part is evaluated qualitatively and quantitatively and reutilization is subject to the first-sale doctrine. Public lending is not an act of extraction or re-utilization. The lawful user of a database which is available to the public may freely extract and re-use insubstantial parts of the database.⁹¹ The holder of database rights may not place restrictions of the purpose to which the insubstantial parts are used. However, users may not perform acts which conflict with normal exploitation of the database or unreasonably prejudice the legitimate interests of the maker of the database, nor prejudice any copyright in the entries. The same limitations may be provided to database rights as to copyright in databases: extraction for private purposes of the contents of a non-electronic database; extraction for the purposes of

⁸⁸Paris Convention on the Protection of Industrial Property, Art. 1(3)

⁸⁹ Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, OJ L 77, 27.3.1996, Paras. 20–28.

⁹⁰ Id. FN. 89, Art. 7(1).

⁹¹ Id. FN. 89, Art. 8.

illustration for teaching or scientific research, as long as the source is indicated and to the extent justified by the non-commercial purpose to be achieved; extraction and/or re-utilization for the purposes of public security or an administrative or judicial procedure.⁹² Database rights are independent of any copyright in the database, and the two could, in principle, be held by different people (especially in jurisdictions which prohibit the corporate ownership of copyright).

Most of the European Union states provide for the protection of database rights, that constitute the author's own intellectual creation, within the scope of their copyright laws. However, some states, like Portugal, did not include the legal protection of databases within the scope of general copyright law. Portugal instituted a specific regime that provides legal protection for creative databases (see Chapter II of Decree-Law 122/2000 supplemented by the applicable provisions in the Copyright Code). In other words, databases that are protected by copyright law are now subject, in the first instance, to the special provisions of said law and only subsidiary subject to the general rules governing copyright.⁹³

With respect to measures for database infringement, national laws implementing the provisions of the Directive on the legal protection of databases of many Member states provide penalties of a criminal nature for infringement of the rights over databases protected by copyright (up to 3 years in prison or fine). However most of them only impose criminal penalties for the *reproduction, distribution* or any other form of *making the databases known to the public*, without the right holder's consent, and furthermore, only where these acts were committed for the purposes of commercial gain. In all other situations of infringement, the only recourse for the right holder are the general remedies contained in the Civil Code for unlawful acts.⁹⁴ The available remedies include also injunctions, civil actions, monetary fines, and impoundment.⁹⁵

However in Portugal, for instance, as opposed to what has been established by the Article 12 of the Directive on legal protection of databases, the Decree-Law 122/2000 does not establish *any specific remedies* for the infringement of a *sui generis* right of a database maker. The infringement of this right constitutes neither crime nor violation. The only remedies applicable to the infringement of a database maker's *sui generis* right are the general provisions for suppressing unlawful acts contained in the Civil Code and, in certain cases, the unfair competition rules established in the Industrial Property Code. However, the Decree-Law 122/2000 provides, however, *precautionary measures* for the *confiscation* of *illegal copies* of

⁹² Id. FN. 89, Art. 9.

⁹³ *Portugal: Legal Protection of Databases*, European Audiovisual Observatory, 2001

⁹⁴ Catherine Colston, *Sui Generis Database Right: Ripe for Review?* - JILT 2001 (3).

⁹⁵ Philip J. Cardinale. *Sui Generis database protection: Second thoughts in the European union and what it means for the United States*, Chicago-Kent Journal of Intellectual Property, 2007.

databases, the destination of which shall be determined by the Court ruling on the case. This provision presents itself as a *common provision* that can be applied either to creative databases, protected by copyright, with criminal penalties, or to databases protected by a *sui generis* right attributed to the respective database maker and where the legal protection is merely civil.

3.2.2 Rights of the creator of the topographies of a semiconductor product

Rights of the creator of the topographies of a semiconductor product are also falling in scope of the proposal. They are set forth in the Council Directive on the legal protection of topographies of semiconductor products.⁹⁶

The topographies of microelectronic semiconductor products play an outstanding role in the high technology. IP enforcement laws protect the owner of the topography from illegal copies of the product and helps to create its favorable position on the market place.

The Directive on the legal protection of topographies imposes an obligation on member states to adopt legislation to protect topographies⁹⁷ in so far as they are the result of their creator's own intellectual effort and are not commonplace in the semiconductor industry. The right to protection is granted to the person who is the topography's creator, subject to that person being a natural person who is a national of a Member State or ordinarily resident there.⁹⁸ However, Member states may specify to whom the right is granted where a topography is created in the course of the creator's employment or under a contract other than a contract of employment.⁹⁹

The rights granted are exclusive rights. They include the right to authorize or prohibit reproduction of a protected topography and the right to authorize

⁹⁶ Council Directive 87/54/EEC of 16 December 1986 on the legal protection of topographies of semiconductor products, OJ L 24, 27.1.1987, p. 36–40

⁹⁷ In accordance with Article 1(1) of Directive 87/54, a semiconductor must feature (in final or intermediate form) a body of material that includes a layer of conducting, semi-conducting or insulating material. The layers shall be arranged according to a predetermined three-dimensional pattern. The chip shall thus be intended to perform an electronic function. The protected subject matter is the design of that product, not the product itself. Protection is granted for the topographical design, not its technical function or the technological arrangement of components. It follows that protection does not extend to any underlying concept, process, system, technique or encoded information. Unlike semiconductor chip protection in the United States, protection is also granted for preparatory material such as drawings and layouts.

⁹⁸ The legal protection of topographies of semiconductor products has been extended to natural persons, companies and other legal persons from the United States (Decision 93/16/EEC), Canada (Decision 94/700/EC), a Member of the World Trade Organization (Decision 94/824/EC) and the Isle of Man (Decision 96/644/EC).

⁹⁹ Under certain conditions, protection is also granted to natural persons, companies or other legal persons who first commercially exploit a topography which has not previously been exploited commercially and who have been exclusively authorized to commercially exploit the topography throughout the Community by the person entitled to dispose of it.

or prohibit commercial exploitation or the importation for that purpose of a topography or of a semiconductor product manufactured using the topography. The exclusive right to authorize or prohibit reproduction does not apply to the reproduction for the purpose of analyzing, evaluating or teaching the concepts, processes, systems or techniques embodied in the topography or the topography itself.

Apart from that, the Directive is limited, in general, to commercial situations. The owner may enforce his or her rights against an infringer through civil action, including interlocutory injunctions. When infringement can be proven, the owner generally has a choice between damages or an account of profits. In some EU Member states, the owner may also elect, in lieu of damages, to receive the equivalent of a standard license fee.

In most countries, it remains unclear to what extent the topography of semiconductor products is protected against reproductions by patent law, copyright law, registered designs, trade secret law and competition law. Criminal sanctions provided under this type of legislation differ from country to country. In contrast to the laws of Italy, the new Finnish, German, Netherlands and Swedish laws include criminal sanctions, which among other things punish the infringement of a circuit layout right.

For example, Sweden provides both for civil and criminal measures for the infringement of a topography. Anyone who willfully or with gross negligence commits an act which violates the right shall be punished by fines or imprisonment for not more than two years. A person who has violated an injunction issued under penalty of a fine under Article 9a, may not be adjudicated to criminal liability for the infringement covered by the injunction. Attempts to commit offences mentioned in the first paragraph as well as the planning of such offences shall be punishable according the provisions of Chapter 23 of the Criminal Code. A public prosecutor may bring a criminal action for an offence referred to in the first and second paragraphs only if there is a complaint from the injured party or such an action is called for in the public interest. At the request of the owner of the topography or of a person who, on the basis of a license, has the right to exploit the topography, the Court may issue an injunction prohibiting, under penalty of a fine, a person who commits an act constituting an infringement of, or a violation referred to, in Article 9 to continue that act.¹⁰⁰

Under the Protection of the Topographies of Semiconductor Products Act of Denmark¹⁰¹ a person who infringes another person's exclusive rights in accordance with this Act shall pay a reasonable compensation for exploiting

¹⁰⁰ Act on the protection of topographies for semiconductor products (Act 1992:1685, of December 17, 1992, as last amended by Act 1994:238, of April 14, 1994). "Svensk författningssamling" SFS 1992:1685 SFS i senaste lydelse Utfärdad:1992-12-17, Arts. 9 and 9a.

¹⁰¹ The Protection of the Topographies of Semiconductor Products Act of Denmark No. 778 of December 9, 1987

the topography as well as damages for the further injury which the infringement may have caused. If the exclusive rights to a topography have been infringed, the Court may decide that the specimens of the topography or semiconductor products produced by means of the topography shall be altered in a specified manner, destroyed, or surrendered to the injured party, possibly against compensation.¹⁰² Under aggravated circumstances the maximum sentence may be simple detention.

Hungarian law lays down the recourse only to civil remedies against the infringer of the topography rights, and remedies in this case are same as the patentee may enforce against the infringer by virtue of the Patent Law. In the case of an infringement of topography protection, for the rights of the exploiter authorized by the owner provisions of the Patent Law shall apply.¹⁰³

Likewise, the UK provides for civil remedies for the infringement of topography rights. Article 229 of the Copyright, Designs and Patents Act 1988 expressly sets forth that an infringement of topography right is actionable by the right owner. In an action for infringement of such right all such relief by way of damages, injunctions, accounts or otherwise is available to the plaintiff as is available in respect of the infringement of any other property right.

3.2.3 Trademarks and trade names

Trademarks fall in scope of this proposal only in so far as extending to them the protection of criminal law is not inimical to free market rules and research activities. However, the proposal for a Directive addresses a crucial issue of trademark counterfeiting which, together with copyright piracy has become a serious problem worldwide.

Trademark counterfeiting steals the identity of trademark owners and robs consumers of any number of things, including comfort, reliability and their personal safety. According to figures compiled by the International Chamber of Commerce, trademark counterfeiting and copyright piracy have grown into an international phenomenon, accounting for between five and seven percent of world trade. According to a presentation by the Gallop Organization at the Third Global Congress on Combating Counterfeiting and Piracy earlier this year in Geneva, counterfeiting is on the rise as 25% of consumers in 52 countries studied were reported to have purchased counterfeit goods. At a joint international customs operation organized in February by the European Anti-Fraud Office (OLAF) on behalf of the European Commission, nearly 135 million counterfeit branded cigarettes and 557,000 other counterfeit products like textiles, footwear, toys,

¹⁰² Id. FN. 101. Arts. 14 and 15.

¹⁰³ Law of Hungary No. XXXIX of 1991 on the Protection of the Topography of Microelectronic Semiconductor Products, Section 10.

furniture, suitcases and watches were seized. In the area of pharmaceuticals alone, the World Health Organization estimated the sales of counterfeit drugs to be worth \$ 40 billion worldwide in 2006.¹⁰⁴

The high levels of trademark counterfeiting in particular reflect consumers' increased desire for brand name products, the ability of counterfeiters to adapt to trends in the public appetite and the enormous profits that can be made from the sale of counterfeit goods.¹⁰⁵ Moreover, trademark counterfeiting, like piracy, is often linked to the organized criminal groups where in many cases trade of counterfeit goods covers most serious criminal activity.

As it was mentioned above, legislation of most Member states criminalizes cases of trademark counterfeiting.

German law¹⁰⁶ provides for criminal sanctions against any person who, in the course of trade, unlawfully uses a trade mark (and also puts on the market, stocks, imports or exports a packaging or wrapping or a means of marking) or uses a it with the intention of taking advantage of or of impairing the distinctive character or the repute of a mark which has a reputation. Sanctions provided by the German law amount to imprisonment of up to three years or a fine. German law also criminalizes the attempt to commit an offence and provides for the confiscation of the infringing objects, or, alternatively, a compensation to the injured party. In the case of conviction, the sentence shall be published if the injured party so requests and if he has a legitimate interest in so doing.

Slovakia¹⁰⁷ provides that the violation of trademarks rights must be criminally punishable. According to the Penal Code, the person who introduced in circulation such goods or who provides such services which are designated by a marking identical to a trademark, where the exclusive owner of the right is another person, or which are designated by a marking which is easily interchangeable with a trademark, shall be punished by imprisonment of up to one year or by a fine or by sequestration of the thing. The same punishment applies to the person, who: uses a business name or any appellation which is interchangeable with the business name and is not authorized to such as a use, or introduces into circulation products which are illegitimately designated by an appellation of origin, where the exclusive owner of this appellation of origin is another person, or which are designated by an appellation of origin which is easily interchangeable, in order to profit therefrom.

¹⁰⁴ Press release , International Trademark Association, *INTA Welcomes Today's European Parliament Vote on Criminal Sanctions As Step in Right Direction*, April 25, 2007, <http://www.inta.org>

¹⁰⁵ INTA Statement on Trademark Counterfeiting, International Trademark Association. February 12, 2002.

¹⁰⁶ See Part 8 of the Provisions governing offenses punishable with imprisonment or fines; seizure on import or export, *Punishable Infringement of Signs Sec.143*.

¹⁰⁷Id. FN. 87.

The UK the essential provision on the trademark infringement is found in section 10 of the Trade Marks Act 1994. According to the UK laws, fraudulent application or use of a trade mark is an offence.

Trade names fall in scope of the proposal for Directive in so far as these are protected as exclusive property rights in the national law concerned. Unlike trademarks trade names identify a business for non-marketing purposes. The non-marketing uses of trade names include uses on stock certificates, bank accounts, invoices, letterhead, contracts, i.e. uses which identify the entity. Trade names can also be trademarks when used to identify specific goods and services. Most common remedies in the event of infringement of the trade name by the other party is an action claiming damages and/or injunction.

3.2.4 Design rights

Industrial designs are what make an article attractive and appealing, they add to the commercial value of a product and increase its marketability. When an industrial design is protected, the rights owner is assured an exclusive right against unauthorized copying or imitation of the design by third parties. This effective system of protection also benefits consumers and the public at large, by promoting fair competition and honest trade practices, encouraging creativity, and promoting more aesthetically attractive products.

In most member states, an industrial design must be registered in order to be protected under industrial design law. Depending on the particular national law and the kind of design, an industrial design may also be protected as a work of art under copyright law. In some countries, industrial design and copyright protection can exist concurrently. In other countries, they are mutually exclusive: once the owner chooses one kind of protection, he can no longer invoke the other. Under certain circumstances an industrial design may also be protectable under unfair competition law, although the conditions of protection and the rights and remedies ensured can be significantly different.

Italian law¹⁰⁸ provides for civil judicial procedures and remedies for the infringement of industrial designs.

The UK provides for civil remedies for the infringement of design rights. As in the case of topography rights, Article 229 of the Copyright, Designs and Patents Act 1988 expressly sets forth that an infringement of a design right is actionable by the right owner. In an action for infringement of design

¹⁰⁸ Civil Code of Italy (designs and models), Articles 2569-2574 (approved by Decree No. 262 of 16 March 1942).

right, all such relief by way of damages, injunctions, accounts or otherwise is available to the plaintiff as is available in respect of the infringement of any other property right. UK law also provides for innocent infringement where it is shown that at the time of the infringement the defendant did not know, and had no reason to believe, that design right subsisted in the design to which the action relates. In this case the plaintiff is not entitled to damages against him, but without prejudice to any other remedy.

Hungarian Law No. XLVIII on the Protection of Designs of 2001 provides that the holder of the design right may have recourse to the civil remedies against the infringer in the same way as a patentee, by virtue of the Patent Act, may have recourse thereto against the infringer of his patent.¹⁰⁹

3.2.5 Geographical indications and appellations of origin

Geographical indications are protected in accordance with national laws and under a wide range of concepts, such as laws against unfair competition, consumer protection laws, laws for the protection of certification marks or special laws for the protection of geographical indications or appellations of origin. In essence, unauthorized parties may not use geographical indications if such use is likely to mislead the public as to the true origin of the product. Applicable sanctions range from court injunctions preventing the unauthorized use to the payment of damages and fines or, in serious cases, imprisonment.

Germany¹¹⁰ criminalizes an act of an unlawful use of an indication of geographical origin, a name, an indication or a sign where this is done for the commercial purposes or with the intention of taking advantage of or of impairing the reputation or the distinctive character of an indication of geographical origin. The penalty provided by the German law for such kind of violations is imprisonment of up to two years or a fine. Any person who unlawfully uses, in the course of trade, a geographical indication or a designation of origin protected under the legal provisions of the European Community shall be punished in the same way. The attempt to commit such an offense shall be punishable. In the case of conviction, the court shall order that the unlawful marking of the objects which are in the possession of the convicted person be removed or, if this is not possible, that the objects be destroyed. If a sentence is awarded, its publication shall be ordered if this is necessary in the public interest. Moreover, goods which unlawfully bear a mark or a commercial designation protected by this Law shall be subject, upon request by the holder of the rights and against his security, to seizure by the customs authorities, on import or export, in those cases where the infringement is obvious and unless Council Regulation 241/1999 laying down measures to prohibit the release for free circulation, export, re-export

¹⁰⁹ See Section 23 of the Law of Hungary No. XLVIII on the Protection of Designs of 2001.

¹¹⁰ See Part 8 of the Provisions Governing Offenses Punishable With Imprisonment or Fines; Seizure on Import or Export.

or entry for a suspensive procedure of counterfeit and pirated goods applies.¹¹¹ This provision shall apply in trade with other Member states of the European Union as well as the other Contracting States of the Convention Concerning the European Economic Area only insofar as controls are carried out by the customs authorities.¹¹²

Sanctions provided by the German law amount to imprisonment of up to three years or a fine. German law also criminalizes the attempt to commit an offence and provides for the confiscation of the infringing objects, or, alternatively, a compensation to the injured party. In the case of conviction, the sentence shall be published if the injured party so requests and if he has a legitimate interest in so doing.

Slovakia¹¹³ provides that the violation of appellation of origin rights must be criminally punishable. Same as in the case of trademarks, the person who introduced in circulation such goods or who provides such services which are designated by a marking identical to a appellation of origin, where the exclusive owner of the right is another person, or which are designated by a marking which is easily interchangeable with a appellation of origin, shall be punished by imprisonment of up to one year or by a fine or by sequestration of the thing.

Italian law¹¹⁴ provides for civil judicial procedures and remedies for the infringement of appellations of origin.

3.2.6 Patents, utility models and supplementary protection certificates

By Amendments adopted on 25 April 2007 patent rights, utility models and supplementary protection certificates were excluded from the scope of the Directive following heavy opposition to the imposition of criminal sanctions in relation to patent infringements. Civil organization and a number of businesses managed to lobby the position that imposition of criminal penalties for patent infringement will create problems. Law Society of England and Wales argued that in contrast to a patent, an infringement of copyright requires an act of copying – the *actus reus* of the crime. An infringement of a patent does not require a similar act of copying. Chartered Institute of Patent Agents also submitted that patent infringements are not

¹¹¹ Id. FN. 23.

¹¹² Id. FN. 110. Chapter 2 “Seizure of Goods on Import or Export”, Art. *Seizure in Case of Infringement of Rights to a Sign*.

¹¹³ Id. FN. 87.

¹¹⁴ Id. FN. 108.

the same as piracy and counterfeit, even if intentional, nor do they have the same effects.¹¹⁵

The debates regarding the nature of patent rights and reasonability of criminal versus civil sanctions will be covered below.

¹¹⁵ Chartered Institute of Patent Agents, *Preliminary Comments on the proposed Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights*, 26.09.05.

4. IPRED 2: harmonization of criminal measures for IPR enforcement

Until now, large-scale copyright or trademark infringements were typically considered an offence under national law of the EU member states, while infringements of other IP rights have been a matter for civil litigation following the Directive 2004/48. The new proposal for a Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights aimed to supplement Directive 2004/48 came out on 12 July 2005. The major difference between the new proposal for the enforcement Directive and the “First Enforcement Directive 2004/48” is in the nature of measures proposed – while Directive 2004/48 lays down the major categories of civil and administrative measures which can be sought by the claimant in the event of IP infringement, IPRED2 sets forth criminal measures for IPR infringements. It ensures that all intentional infringements of IP rights on a commercial scale, and aiding or abetting and inciting such infringements, are treated as criminal offences. It also made provision for various additional penalties, including closure of establishments used for counterfeiting purposes, a ban on engaging in commercial activities and publication of judicial verdict.

4.1 Key provisions

4.1.1 Objective and scope

The main objective of the IPRED2 is to lay down criminal measures necessary to ensure the enforcement of IPR.¹¹⁶ Initially the scope of the IPRED2 was rather broad – it covered IP rights provided both in community legislation and/or national legislation of Member states. As in the Enforcement Directive 2004 the expression “intellectual property rights” initially covered all IP rights. Explanatory memorandum for the IPRED2 refers to the provision of the Charter of Fundamental Rights setting forth the need for the protection of IP rights to justify the broad scope of the directive and indicate the horizontal character of the Draft Directive.¹¹⁷

Article 2 defines the concept of a legal person for the purpose of the directive as “any legal entity having such status under the applicable national law.” Only states and public bodies, acting in the exercise of their powers and international organizations are excluded from the Directive’s scope. As for the offences falling under the scope of the Draft Directive,

¹¹⁶ Id. FN. 1, Art. 1.

¹¹⁷ See the Charter of Fundamental Rights of the European Union, Art. 17; See also Explanatory Memorandum to the Commission’s Proposal COM(2006) 168 final - 2005/0127 (COD), Art. 1.

initially Article 3 indicated that all IPR infringements shall lead to criminal liability if they are intentional and committed on commercial *scale*. In essence this means that the IPRED2 does not distinct between different types of IP rights and therefore not only copyright piracy and trademark counterfeiting may lead to criminal liability, but also infringement of a patent or an industrial design. Moreover, the IPRED2 proposes to introduce criminal sanctions not only against the act of infringement, but *also against aiding, abetting and inciting*¹¹⁸ the actual infringements.¹¹⁹

The scope of this piece of legislation was to tackle counterfeit and piracy, particularly in the music, luxury goods, clothing industries and related sectors. However, there have been serious concerns regarding the possible effects of this Directive when measures to combat counterfeiting and piracy are simply generalized as applicable to all forms of IPRs. It needs to be stressed that infringements of certain IP rights varies in nature and manner of infringement, which means that measures to combat infringements of those IP rights should differ. Representatives of industry, national governments and civil society organizations pointed out that there are civil remedies for patent infringements and alleged patent infringers should not be equated with criminals like pirates and counterfeiters. A company may need to infringe a patent intentionally in order to demonstrate that the patent at issue is not valid, and this contributes to innovation. In this context, the infringement should remain a civil matter as is currently the case, unless the infringement constitutes a serious threat to public health or safety.¹²⁰

After heated debates, in March 2007 the European Parliament in the first reading agreed to exclude patents utility models and supplementary protection certificates from the scope of the directive, as well as the issues related to the parallel importation of original goods, which have been marketed with the agreement of the right-holder in a third country.¹²¹

The term “commercial scale” has been borrowed from Article 61 of TRIPS Agreement which obliges member states to provide criminal procedures and penalties “at least in cases of willful 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.” Hence, the reference to commercial scale was introduced but not

¹¹⁸ Initial version provided that “*attempting, aiding or abetting and inciting such infringements, shall be treated as criminal offences.*”

¹¹⁹ Id. FN.1, Art. 3.

¹²⁰ Draft Opinion of the Committee on Industry, Research and Energy for the Committee on Legal Affairs on the 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 of 20.9.2006, Provisional 2005/0127(COD).

¹²¹ See the Committee on Legal Affairs Report on the 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 of 27.3.2007, A6-0073/2007 final. (Hereinafter, Zingaretti Report)

defined by the TRIPS Agreement. However, the language of the TRIPS Agreement, the use of that phrase throughout the whole Agreement, and the context helps to interpret the concept. It refers to for-profit infringement only which causes significant direct loss to the holder of an IPR; non-profit exchange of legally acquired content between individuals must be excluded from the application of the directive. As the legislative proposal intends to penalize infringement on commercial scale only, it is essential to have a clear definition of that in order to avoid legal uncertainty.

This provision has been further specified in the Enforcement Directive 2004/48 implementing TRIPS enforcement provisions for the European Community. The Enforcement Directive 2004 provides that the measures applied only in respect of acts carried out on a commercial scale must be “without prejudice to the possibility for Member states to apply those measures also in respect of other acts,” which leaves the possibilities to impose liability also for the acts carried out in good faith in case the state is willing so. Unlike the Enforcement Directive 2004/48, the IPRED2 limits the application of criminal measures and procedures only to the acts committed on commercial scale. However, it did not specify the term of commercial scale. The Enforcement Directive 2004/48, in its turn, provides a rather clear definition of “acts carried out on commercial scale” as acts “carried out for direct or indirect economic or commercial advantage; this would normally exclude acts carried out by end consumers acting in good faith.”¹²² In its turn, the Committee on Legal Affairs of the European Parliament proposed the following definition of the “infringements on a commercial scale”: “Any infringement of an intellectual property right committed to obtain a commercial advantage; this would exclude acts carried out by private users for personal and not for profit purposes.”¹²³

Explanatory memorandum for the IPRED2 specifies the term “intentional” as regards IPR infringement providing that to fall under the scope of the Directive an infringement must be deliberate, whether this is an actual infringement, its attempt or aiding, abetting or inciting such an offence. The drafters made a specific reservation as regards certain liability systems like those established in Articles 12 to 15 of the Directive on Electronic Commerce.¹²⁴ Thus, only the knowing acts of infringements that are intentional could be sanctioned with criminal measures: it covers only those cases when the perpetrator is aware that he is infringing IPRs, and he is doing it intentionally with malice aforethought.¹²⁵ The Committee on Legal Affairs of the European Parliament proposed intentional infringements as “deliberate and conscious infringement of the right concerned for the purpose of obtaining an economic advantage on a commercial scale.”¹²⁶

¹²² Id. FN. 1, Recital 14.

¹²³ Id. FN. 121.

¹²⁴ Articles 12 to 15 of the Directive regulate the Liability of intermediary service providers. See Directive 2000/31/EC, OJ L 178,17.7.2000, p.1

¹²⁵ Id. FN. 120.

¹²⁶ Id. FN. 121.

4.1.2 Penalties

Initially the provisions on penalties in Article 4 of the IPRED2 were further supplemented by the proposal for a Council Framework Decision to Strengthen the Criminal-Law Framework to Combat Intellectual Properties Offences,¹²⁷ which laid out more detailed rules as regards criminal penalties and judicial cooperation measures. In particular, the Council Framework decision aimed to harmonize the level of sentencing for natural and legal persons who have committed offences specified in Article 3 of the Draft Directive, including the rules on prison sentences, fines and confiscation.

Following ECJ Judgment in Case C-176/03 *Commission v Council*¹²⁸, which stated that that the Community legislature on criminal measures may be justified when the application of effective, proportionate and dissuasive criminal penalties by the competent national authorities is an essential measure for combating serious (environmental) discussion of this issue, the Commission decided it should amend the proposal for a directive and withdraw the proposal for a framework decision of 12 July 2005¹²⁹. Consequently, on 26 April 2006 the Commission forwarded a new proposal for a directive on criminal measures aimed at ensuring the enforcement of intellectual property rights which incorporates, updates and amalgamates the provisions of the two previous initiatives.

The IPRED2 provides for the following criminal penalties for the offences referred in Article 4:

- custodial sentences for natural persons;
- fines and confiscation of the infringing objects, instrument, products or goods for natural and legal persons.¹³⁰

Moreover, the IPRED2 empowers member states to ensure alternative penalties in appropriate cases, including destruction of infringing goods; total or partial closure (permanently or temporarily) of the establishment used primarily to commit the offence; temporary or permanent ban on engaging in commercial activities; placement under judicial supervision; judicial winding-up; ban to access public subsidies; and publication of judicial decisions as a means of dissuasion and as a channel of information for the right holders and the public at large.¹³¹

¹²⁷ Proposal for a Council framework decision to strengthen the criminal law framework to combat intellectual property offences (COM(2005)0276 [02] — C6-0284/2005 — 2005/128(CNS)).

¹²⁸ Id. FN. 2.

¹²⁹ They did so in accordance with Article 250(2) of the Treaty establishing the European Community as amended in accordance with the treaty of Nice consolidated version: “As long as the Council has not acted, the Commission may alter its proposal at any time during the procedures leading to the adoption of the Community Act.”

¹³⁰ Id. FN. 1, Art.4(1).

¹³¹ Id. FN. 1, Art.4(2)

Thus, besides imprisonment for natural persons, there are also penalties that could be imposed on both natural and legal persons. Other penalties are provided only for specific cases, however the cases have not been specified. The lack of clarity as regards the lack of definition of “appropriate cases” may result in differential interpretation of the provision by national authority and, as a result, hinder the purposes of the directive.

Article 5 of the IPRED2 lays down more precise rules as regards the level or penalties. In addition to the minimum requirement set down by the TRIPS Agreement, the IPRED2 obliges Member states to ensure that IPR offences “are punishable by effective, proportionate and dissuasive penalties”¹³² that include *both criminal and non-criminal fines*. The amount of the fine has been set to a maximum of at least EUR 100 000 for cases other than the most serious cases; and to a maximum of at least EUR 300 000 for offences committed under the aegis of a criminal organization or involving health or safety risk.

It provides for *a maximum sentence of at least four years’ imprisonment* in two cases:¹³³ when the offences specified in the Article 3 of the IPRED2 carry health or safety risk or where they are committed under the aegis of a criminal organization.¹³⁴

The threshold of minimum of four years’ imprisonment has been chosen because it broadly corresponds to the criterion used to identify a serious offence. Such threshold has been selected in Joint Action 90/733/JHA and in the Proposal for a Council Framework Decision on the fight against Organized Crime¹³⁵ and the UN Convention against Organized Transnational Crime.¹³⁶

A risk to personal health or safety exists where the counterfeit product placed on the market directly exposes people to a risk of illness or accident. In the event the risk has serious consequences such as death or infirmity, the IPRED2 calls for the aggravated penalties.¹³⁷

¹³² Id. FN. 1, Art. 5.

¹³³ Id.

¹³⁴ “Criminal Organisation” as provided by the Proposal for a council framework Decision on the fight against organised crime of 19.1.2005 (COM/2005/0006 final - CNS 2005/0003) meaning “*a structured association, established over a period of time, of more than two persons, acting in concert with a view to committing offences which are punishable by deprivation of liberty or a detention order of a maximum of at least four years or a more serious penalty in order to obtain, directly or indirectly, a financial or other material benefit.*”

¹³⁵ Id.

¹³⁶ See the United Nations Convention against Transnational Organized Crime, of 15 November 2000

¹³⁷ Id. FN. 127, Art. 2.2 of the Explanatory Memorandum.

The document further specifies the rules for the extended powers of confiscation of infringing goods.¹³⁸ It empowers member states to take measures for a total or partial confiscation of goods belonging to natural or legal persons convicted in an offence. Hence, the confiscation may be carried out only based on the valid judgement of the court which found the infringer guilty in an IPR offence. At least in cases of serious offence, confiscation of goods shall be arranged according to the community rules, such as the Framework Decision on Confiscation of Crime-Related Proceeds, Instrumentalities and Property.¹³⁹

4.1.3 Joint investigation teams

Framework Decision of 13 June 2002 provides the structure needed to set up joint investigation teams.¹⁴⁰ Initially, the Article 7 of the proposed IPRED2 authorized only the experts and representatives of the holder of the IP rights to assist the investigation. However there were numerous objection even in the EU institutions regarding the fact that it is the holder of the IP rights who could identify his goods and products without doubts.¹⁴¹ Since investigations in the area could be very complicated, it may be extremely important to have an assistance of the victims of an offence, or the representatives of the IP rights holder in order to reach the conclusions and in particular establish that products have been counterfeited.¹⁴²

Thus, the proposal for the Draft Directive eventually lays the obligation for Member states to ensure that IP rights holders, or their representatives, and experts, are allowed to assist the investigations carried out by joint investigations teams. As it is for the holder of IP rights to authorize or forbid the use of his intellectual product, and also because of the protection of the holder of the IPR, only duly authorized and mandated representatives could assist the investigation team. Secondly, assistance given by either the holder of IP rights or its representative must be limited in order to avoid 'privatizing' the criminal procedure; more extensive or more active involvement of the holders of the IP rights would pose a risk to the fair and impartial investigation and criminal procedure.

4.2 Criticism of the proposal

4.2.1 Community powers regarding

¹³⁸ Id. FN.1, Art. 4(1).

¹³⁹ Framework Decision 2005/212/JHA of 24 February 2005 on Confiscation of Crime-Related Proceeds, Instrumentalities and Property, OJ L 68, 15.3.2005,p.69

¹⁴⁰ See Council Framework Decision of 13 June 2002 on joint investigation teams, OJ L 162, 20.6.2002, p.1.

¹⁴¹ Id. FN. 120.

¹⁴² Id. FN. 127, Art. 4 of the Explanatory Memorandum.

criminal measures

The Enforcement Directive 2004/48 initially contained provisions setting forth criminal sanctions but they have been dropped at the insistence of Member states who disputed the competence of Community institutions to include such provisions. The proposed IPRED2 is based on the ECJ ruling in Case C-176/03 where the Court permitted Community competence regarding criminal liability in environmental matters. The Commission, the Council and the Parliament have interpreted the Judgement broadly as allowing Community Competence in matters of importance for the Community, such as IPR protection as well. Criticism concerns predominantly the Community Jurisdiction in the issue. National Governments and international organizations who disagree stipulate that the Judgement should be interpreted restrictively and that any obligations created must be anyway limited to Community law. Even if a competence in relation to offences and some basic provision on penalties were to be accepted, the Governments are not convinced that further approximation is necessary, in a view of the recent expiration of the date for implementation of the Enforcement Directive 2004 in April 2006 and the failure of many member states to implement it in any case. Thus, the critics submit, insufficient time has passed in order properly to assess the need for any further action.¹⁴³

4.2.2 Scope

There are serious concerns regarding the possible effects of this Directive when measures to combat counterfeiting and piracy are simply generalized as applicable to all forms of IP rights. Until now large scale copy right or trademark infringement has been a crime in most EU states while patent infringement has been a matter for a civil litigation. The new proposal forces all member states to make all IPR infringements a crime, and to criminalize even the incitement to an infringement.

Like the Enforcement Directive 2004/48 the IPRED2 has divided industry. Music industry, big consumer brands, major pharmaceutical companies and the car producers are in favor of criminalizing IP rights as proposed by the directive. On the other hand, telecommunication companies, makers of the parts to cars, supermarkets and generic drug producers strongly oppose the directive. Most civil society organizations from librarians to free software movements are against the Proposal. As for the computer industry – Microsoft is supportive towards the directive, even though Microsoft

¹⁴³ *Criminal measures to enforce intellectual property rights*, European Scrutiny Committee, 31st Report, Session 2005–06

lobbies for lower penalties for patent infringements in the USA. On the other hand, the Sun is against the proposed measures.¹⁴⁴

The proposed Directive has been criticized for a too broad scope of application. The Chartered Institute of Patent Agents, the Max Planck Institute for Intellectual Property, Competition and Tax Law, the Law Society of England and Wales, EICTA, ECIS, ECTA and others have warned the Commission proposal does not just criminalise piracy and counterfeiting, but also criminalises IPR disputes that are essentially of a civil nature and occur between legitimate commercial enterprises. Majority of critics submit that the scope should be narrowed to what has been originally intended and cover only counterfeiting and piracy. Such approach could be more in line with the TRIPS Agreement and the Directive's introductory recitals which only mention in general the need to protect all IP rights and develop in details the necessity to fight against piracy and counterfeiting.¹⁴⁵ Restriction to these two concepts may have several advantages and raise less concern over undefined boundaries of application of the new rules.¹⁴⁶

For instance, the European Communities Trademark Association submits that restricting the scope of application to counterfeiting and piracy would focus enforcement against truly serious conduct while the proposed language would create criminal liabilities in borderline situations where highly specialized bodies like Trade Mark Offices and specialized IP Judges often disagree over the existence of an "infringement", as often happens in trade mark disputes, where the existence of a likelihood of confusion (which is the ordinary test of trade mark infringement) between two marks may be subject to totally different findings.¹⁴⁷

Moreover, all critics draw attention to the problem that infringements of certain IP rights vary in nature and manner, which means that measures to combat infringements of IP rights should differ. They submit there is a distinction between patent infringements in the normal course of commercial activity, such as the legitimate development of products, and counterfeiting and piracy with fraudulent and deliberate intent. They also claim that since there are civil remedies existing to combat patent infringements and alleged patent infringers should not be equated with criminals like pirates and counterfeiters. A company may need to infringe a

¹⁴⁴ Ross Anderson, *The Second IPR Enforcement Directive – A threat to competition and to liberty*, Foundation for Information Policy Research.

<http://www.fipr.org/copyright/ipred2.html>

¹⁴⁵ Id. FN. 1, Recital 2.

¹⁴⁶ European Communities Trade Mark Association, Comments from The European Communities Trade Mark Association - On the latest updates on the Proposal for a Directive on criminal measures aimed at ensuring enforcement of IP rights. November 2006.

¹⁴⁷ Id.

patent intentionally in order to demonstrate that the patent at issue is not valid, and this contributes to innovation. In this context, the infringement should remain a civil matter as is currently the case, unless the infringement constitutes a serious threat to public health or safety.¹⁴⁸

Involuntary infringements in the field of patent law are easily committed. At the same time, it is not always easy convincingly to demonstrate their involuntary character. Taking these practical realities into account, the criminalization of patent violations would be disproportionate to the draft Directive's underlying objectives, and risks stifling innovation and competition in Europe.¹⁴⁹

Critics usually point out that the requirements in Article 61 of the TRIPS Agreement for the imposition of criminal procedures are limited to the cases willful trademark counterfeiting or copyright piracy. They see no evidence to justify any extension of the scope of criminal remedies as defined under TRIPS.

Moreover, giving litigators increased access to the resources of national enforcement bodies, and increasing the severity of effects which can be achieved by litigation, will encourage people to use litigation as a commercial tool in the market. American company SCO is a well-known example of this: without proving anything or even showing any evidence, they have accused IBM and others of intentional, commercial-scale IP infringement, and have slowed the adoption rate of Free Software such as Linux operating system and harmed the reputation of a number of companies (competitors to Microsoft, one of SCO's major funders).¹⁵⁰

4.2.3 Clarity

As the Draft Proposal intends to penalize criminally all IPR infringements, it is essential to have clear definitions of that in order to avoid legal uncertainty. Definitions of the IPRED2 lack clarity, however it is not possible to rely on Member States' practice on that field as it varies from one Member State to another.

Commercial scale

The reference to commercial scale was introduced but not defined by the TRIPS Agreement. However, the language of the TRIPS Agreement, the use of that phrase throughout the whole Agreement, and the context helps to interpret the concept. It refers to for-profit infringement only which causes

¹⁴⁸ Id. FN. 120.

¹⁴⁹ The European Telecommunications Network Operators' Association, *Reflection Document on the draft Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights and the draft Decision to strengthen the criminal law framework to combat intellectual property offences*, November 2005.

¹⁵⁰ Free Software Foundation Europe, *Criminalisation of copyright and trademark infringement*, February, 2007.

significant direct loss to the holder of an IPR.¹⁵¹ Thus, the non-profit exchange of legally acquired content between individuals must be excluded from the application of the directive.

ECTA found appropriate the clarification of the term "commercial scale" as it has been proposed in the recent comments of the Legal Affairs Committee and in particular in the third sentence of the 14th recital of the Enforcement Directive 2004 which reads as follows: "*Acts carried out on a commercial scale are 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*".

Intentional infringement of IP rights

Only the knowing acts of infringements that are intentional could be sanctioned with criminal measures: it covers only those cases when the perpetrator is aware that he is infringing IP rights, and he is doing it intentionally with the malice aforethought. Criticism regarding the vagueness of the wording "intentional" concerns the distinction that must be made as an IPR infringement should not be considered intentional simply because it is part of an intentional activity such as listening to music or watching films.

The TRIPS Agreement uses the criterion of "willfulness", while the proposed Directive uses the term "intentional". Although this might simply be a choice of words, "*willful*" *may be interpreted as indicating the propensity of TRIPS to circumscribe its applicability to situations in which there exists a psychological nexus between criminal conduct and intended criminal result, on an evaluation on whether or not there was a foresight of the prohibited result, and a willful desire to cause such a consequence to occur. The term "intentional" maybe less specific and more encompassing*".¹⁵²

Abetting and inciting

Additional language on "aiding and abetting, and inciting" infringements is also considered to be insufficiently precise. These are ambiguous concepts which are not defined in the law of all Member states. However, the Article 3 of the IPRED2 fails to make plain that IPRED2 applies only to *intentional* efforts to aid, abet and incite IPR violations. The current text consequently permits a broad interpretation under which the mere provision of a technology or service that has both lawful and unlawful uses might be considered as a criminal offence.

¹⁵¹ Id. FN. 150.

¹⁵² Id. FN. 147.

It is considered that this provision may have a damaging impact on innovation. *“Looking backwards, it might have prevented the emergence of both video recorders and peer-to-peer communications.”*¹⁵³ Criminal sanctions for abetting and inciting any criminal act must be saved for the most serious crimes; to penalize abetting and inciting is disproportionate in case of infringement of intellectual property rights. The Charter of Fundamental Rights must be fully respected, in particular Paragraph 3 of Article 49 which states that “the severity of penalties must not be disproportionate to the criminal offence”.

ECTA for instance, points out that the concept of “incitement” or “inducement” of infringement is not generally accepted in Europe and does not exist under many European laws. Thus, ECTA is concerned that the proposed Directive may create a new category of infringement only available through criminal proceedings. In many EU laws “aiding, or abetting” a crime is considered a crime under the accomplice theory. And in many countries such activities can also fall under civil penalties under the theory of “contributory infringement”. Moreover, from the EU constitutional point of view a definition of the “inciting” of IPR infringements vis-à-vis the freedom of speech and other constitutionally protected (at National level) freedoms of expression may be a very difficult task. *“Although ECTA has always sought to further the knowledge and proper enforcement of IP rights, ECTA wonders where freedom of speech and expression on the one hand, and “inciting” infringement, on the other hand, intersect? And what is the level of “inciting” which reaches the critical mass necessary for criminal prosecution?”*¹⁵⁴

4.2.4. The level of penalties

In respect of Article 5 of the proposed Directive, some subjects¹⁵⁵ support extending harmonization measures, specifically the penalty of imprisonment, to cases other than those considered as the most serious ones, where any act of counterfeiting or piracy involves criminal organizations or a threat to health and safety. Moreover in the German version of Art. 5.1, before the words “vier Jahre” (four years), the word “mindestens” (at least) is missing, so now it reads “sentence of four years’ imprisonment” instead of “sentence of at least four years’ imprisonment”.¹⁵⁶

¹⁵³ Id. FN. 150.

¹⁵⁴ Id. FN. 147.

¹⁵⁵ Id. FN. 147. See also the *Statement of the Max Planck Institute for Intellectual Property, Competition and Tax Law on the Proposal for a Directive of the European Parliament and of the Council on Criminal Measures Aimed at Ensuring the Enforcement of Intellectual Property Rights*. IIC 436, 22.9.2006.

¹⁵⁶ Id. FN. 147.

4.2.5. Judicial Cooperation matters

The Article 7 on joint investigation teams provides for the IP rights holders the rights to assist in the investigations carried out by joint investigation teams. EU scrutiny Committee disagrees with the nature of the provision since, “*provisions of this kind should be in overarching all-crime instruments such as the 2000 Convention on mutual legal assistance.*” The Committee adds that there is no reason to single out intellectual property theft as a unique form of crime requiring exceptional provision in relation to joint investigation teams, and that there are also practical concerns about the utility, for prosecution purposes, about having holders of intellectual property rights participating in joint investigation teams.

The scope of the 2002 Framework Decision establishing Joint Investigation Teams is limited to the same category of serious crimes. Thus, by requiring the participation of rights holder representatives in Joint Investigation Teams, Article 4 introduces an unjustifiable assumption that all commercial scale IPR infringements can be classified as “serious crimes” alongside acts of terrorism. This represents a dangerous blurring of important distinctions via a “backdoor” route. Accordingly, we suggest the complete deletion of this Article.¹⁵⁷

4.3 Amendments of April 25, 2007

On March 20, 2007 the European Parliament considered in the first reading the amendments for a draft resolution on the proposal for a directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights adopted by JURI.

The amendments were adopted following the presented position of JURI rapporteur Nikola Zingaretti regarding the 2005 IPRED2 proposal by the Commission and the following criticism concerning in particular the scope of the directive that included patent rights and rights derived from supplementary protection certificates. However, as the Rapporteur pointed out applying criminal penalties laid down at Community level to infringements of patent rights does not seem to be either particularly appropriate in itself, or consistent with the approach followed in recent years by the Community legislator. Seeking to apply criminal penalties in the area of patent law seems to be plainly in breach of the position taken by the European Parliament when, at its plenary sitting of 6 July 2005, it rejected the Commission proposal for a directive on the patentability of computer-implemented inventions.¹⁵⁸ Given that an overwhelming majority of the

¹⁵⁷ Id.

¹⁵⁸ Communication from the Commission to the European Parliament pursuant to the second subparagraph of Article 251(2) of the EC Treaty concerning the common position of

European Parliament¹⁵⁹ considered at that time that it was inappropriate to adopt legislation on the subject, any attempt now to provide for criminal penalties to protect patents would be a limited and dangerous interference into a very complex area which requires a regulatory framework that it as systematic and widely endorsed as possible.¹⁶⁰

In the light of the foregoing, the rapporteur proposed amendments to Articles 1 and 2 of the proposal to narrow its scope and exclude patents and utility models from it and focus on infringements related to counterfeiting and piracy. In particular, the purpose of the Directive set forth in Article 1 has been amended to be defined in the context of counterfeiting and piracy. It is submitted that the goals of the proposals will be best achieved if the directive expressly focuses on counterfeiting and piracy, since its current wording could indeed criminalize IP disputes that are essentially of a civil nature and occur between legitimate commercial enterprises. The amendment seeks to establish more precisely the scope of the directive by referring to the definitions in a subsequent amendment.

Amendments 9, 10 and 11 clearly set forth that the Directive shall not apply to any infringement of an intellectual property right related to patents, utility models and supplementary protection certificates as well as parallel importation of original goods, which have been marketed with the agreement of the right-holder in a third country. Such wording would clearly limit the scope of the Directive to counterfeit and pirated goods and exclude trademark and patent disputes related to parallel trade from its scope as well.

Amendments also proposed to provide the relevant definitions to avoid prejudging the content of any future legislation on patents and restrict the scope of the directive to those intellectual property rights provided for by Community legislation. IP rights for the purposes of the directive were limited to copyright and related right, *sui generis* right of a database maker, rights of the creator of the topographies of a semiconductor product, trademark rights, in so far as extending to them the protection of criminal law is not inimical to free market rules and research activities, - design rights, geographical indications, and trade names, in so far as these are protected as exclusive property rights in the national law concerned.

The amendments further defined the term of “infringement on commercial scale” – in line with the Directive 2004/48, which excluded the acts carried out by private users for personal and not for profit purposes. It also defined the meaning of an “intentional infringement” as deliberate and conscious infringement of the right in question for the purpose of obtaining economic advantage on a commercial scale.

the Council on the adoption of a directive of the European Parliament and Council on the patentability of computer-implemented inventions, 14 March 2005, 2002/0047(COD)

¹⁵⁹ 648 votes to 14, with 18 abstentions.

¹⁶⁰ Id. FN. 121.

For reasons of internal consistency, the rapporteur proposed minor amendments to recital 5 and the text of Article 2, and clearer and more rational wording for Articles 5, 6 and 7.

Moreover, following the request of several European actors to bring the proposal in conformance with the UN recommendation¹⁶¹ and provisions of the Charter of Fundamental Rights, legislators have amended the draft obliging member states to ensure the freedom of press and its protection from criminal measures. Thus the fair use of a protected work, including such use by reproduction in copies or audio or by any other means, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship or research, does not constitute a criminal offence. This however does not mean that rights are not protected since civil measures shall be in place and civil damages possible.

As regards penalties, the amendments provide the possibility for the counterfeiter to be required to pay the costs of guarding the goods retained for the purposes of the investigation, especially since such costs can be substantial if the products retained, even in limited numbers, are bulky and the investigation is lengthy.

Moreover, Amendment 22 touched on the case of repeated offences providing that Member states shall take the necessary measures to ensure that repeated IPR offences committed by natural and legal persons in a Member State other than their country of origin or domicile are taken into account when determining the level of penalties. The amendments also touched on the misuse of threats of criminal provisions providing that national legislation shall ensure penalties for that. This provision is necessary to ensure that the right-holder does not deter competitors by threatening them with criminal penalties. Both international and European law require the prevention of misuse of IP rights. Misuse disrupts free competition, in contravention of Articles 28-30 and 81-82 EC.

Provisions on judicial cooperation and involvement of the right holders in joint investigation teams have previously also caused concern regarding the rights of the defendant in such case. Therefore, the amendments also introduced a provision on the duly protection and guarantees of the rights of defendants in criminal proceedings. Amendments also limited the *involvement* of the right holders in joint investigation teams to the degree of mere *cooperation* according to the Council framework decision on joint investigation teams. Moreover, member states must ensure that such involvement would not deteriorate the rights of the defendant by affecting accuracy, integrity and impartiality of evidence. In addition the

¹⁶¹ See e.g. General Comment No. 17 (2005): The right of everyone to benefit from the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he or she is the author (article 15, paragraph 1 (c), of the Covenant) 2/01/2006. E/C. 12/GC/17, Committee on Economic, Social and Cultural Rights, 7-25 November 2005

amendments refer to the Article 8 of the Charter of Fundamental Rights concerning the protection of personal data. They also provide for Cooperation at EU level between the public and private sectors. Public authorities including law enforcement authorities should be given the ability to share information and evidence with the private sector in order to ensure that legal actions, both civil and criminal, can be taken effectively and proportionately based on sound factual evidence against counterfeiters and pirates.

5. Suggestions regarding harmonization of criminal measures

5.1 The need for harmonization

It is widely accepted that the problems of counterfeiting and piracy are the ones of a growing importance – especially with the development of information technologies and cyber space. In such situation, joint efforts for preventing crimes and penalizing infringers are desirable. Criminal punishment for IP-related offences were introduced already in TRIPS, however a speedy development of information technologies requires a more integrated approach to the problem on the European level as well.

Moreover, due to the increased market value of the IP-protected products, including software, circuit layouts and databases, the damages in result of the infringement of IP rights could be significant. While TRIPS agreement obliges states to take public (criminal) action only against serious cases of counterfeiting and piracy, many member states have introduced criminal penalties for the infringement of other IP rights as well.

As the analysis has revealed, measures regarding IP enforcement are extremely diverse in various states. This weakens the level protection in the Community in general, where IP rights are increasingly applied in cross-border activity not only with the third countries but also in the common market. Greater coordination of action between authorities of different member states is needed to tackle the offences repeatedly committed on the territory of different member states. National discrepancies would allow pirates and especially the ones acting under auspices of organized crime groups move their activity to the countries where they can avoid liability and freely disseminate infringing products around the EU. In such conditions further approximation of the enforcement of IP rights on the Community level is needed. Harmonization of procedures and penalties will increase the efficiency of action against infringers.

However, such harmonization can be possible only in case there are in-depth studies of the effects of the Enforcement Directive 2004/48 and the problems related to its transportation in national legislation. Moreover, whether EU member states have implemented Art. 61 TRIPS according to their obligations set forth in Article 300(7) EC and in an appropriate manner not been properly examined.¹⁶² Such studies may reveal the “holes” in the wording of the Directive itself, where different national courts interpret broad provisions in accordance with national practice. Studies may also

¹⁶² Statement of the Max Planck Institute for Intellectual Property, Competition and Tax Law on the Proposal for a Directive of the European Parliament and of the Council on Criminal Measures Aimed at Ensuring the Enforcement of Intellectual Property Rights. IIC 436, 22.9.2006

indicate insufficiencies in the IP enforcement on the Community level and the results of the application of the “best practices” measures in countries where they. Likewise, an analysis of the “best practices” and their effects concerning criminal measures for IPR enforcement shall be carried out.

5.2 The scope of the proposal

Civil measures regarding all IPR infringements have been harmonized by the Directive 2004/48. Further studies of the effects of the implementation of this directive in national legislation of the member states will indicate whether these measures were sufficient. As regards harmonization of criminal measures in IPRED2, there are too many concerns regarding negative effects of the Directive on business, competition and consumers in case all IP rights fall in scope of the Directive. Even after patents, utility models and supplementary protection certificates were taken out of the proposal’s scope, concerns regarding criminal measures for infringements other than serious cases of counterfeiting and piracy remain. While large software and pharmaceutical businesses pressure for as broad scope of the directive as possible, smaller businesses, consumer protection organizations, national law associations, think tanks and national governments support the idea of narrowing the Directive’s scope.

A suggestion regarding the scope of the Directive could be to leave only the serious cases of trademark counterfeiting and copyright piracy as problems that are one of the top priorities for the European Community at the moment, while preserving the possibility for further harmonization of enforcement of other IP rights following the study of the results of harmonizing counterfeiting and piracy measures and domestic implementation of the Directive 2004/48 and its impact on actors at the European scene, including businesses, consumers, librarians etc.

5.3 Clarity and wording

Due to the seriousness of consequences for the infringer it is common for many member states to have constitutionally set principles regarding the requirement for the elements of the offence to be defined in a clear and precise manner in legislative acts. While the European Parliament adopted definitions the meanings of “intentional infringements” and “infringements of commercial scale”, this may not be enough for clarifying the meaning of all elements of the offence. “Aiding or abetting and inciting” are still in – and this language is ambiguous enough to worry a great number of actors involved in the exercise of IP rights. The language must be further clarified to avoid situations when everyone – from public servers such as Google and Youtube to consumers and librarians - may find himself criminally liable.

6. Conclusion

The TRIPS Agreement expressly provides for criminal sanctions for trademark counterfeit and copyright piracy where the offences are committed willfully and on commercial scale. The Agreement also reserves a possibility for introduction of more severe national measures shall the countries wish so. Therefore approximation of criminal measures on the Community level regarding willful trademark and copyright infringements committed on commercial scale would be in line with TRIPS requirements, while criminal penalties for the enforcement of other IP rights would go beyond the minimum standards set out in the TRIPS. However, current analysis argues that for smoother functioning and protection of the internal market, the measures that ensure greater level of protection than the ones laid down in the TRIPS may be necessary.

The argument is based on the conclusion that there are considerable discrepancies on national level as regards procedures and measures against infringements of IP rights examined, including copyright piracy and trademark counterfeit, as well as infringements of design rights, database rights and rights of the creator of topographies. Different member states provide for civil or criminal measures against IPR infringements of similar type. This has a damaging effect on a single market allowing infringers, especially organized criminal groups, to take advantage of the national legal differences. The answer to the question raised in the introduction is therefore that the harmonization of criminal measures for IP enforcement on the Community level is needed.

However, there are not enough preconditions for further harmonization of enforcement measures for all IP rights on the Community level yet. For instance, not all EU member states provide for criminal sanctions for at least trademark counterfeit and copyright piracy. Whether EU member states have implemented Art. 61 TRIPS according to their obligations and in an appropriate manner has not been properly examined.

Moreover, the effects of the Directive 2004/48 harmonizing civil and administrative sanctions for IP infringements are not yet known. In addition, in many countries, criminal law provisions on IP infringement only play a subordinate role in actual practice. Criminal judgments in patent law are very seldom. In trade mark and copyright law, they only have significance within the field of actual counterfeiting and piracy.

Thus, while there is no doubt that addressing the issues of counterfeiting and piracy, also by means of criminal law, is an important and urgent task, it is more questionable whether the extension of criminal penalties and prosecution measures to other kinds of IP infringement can be a reasonable and useful tool to safeguard IPR protection at the moment. Many market players fear that by enhancing the threatening potential this entails, their freedom to engage in business would be curtailed beyond proportion, which

would produce results adverse to the aims of the common market. Moreover, they fear that the criminal sanctions (or often the mere threat of resorting to criminal procedures) for IP infringement may become a powerful tool to fight away competitors, especially in the cases where competitors are smaller businesses compared to the right owner. Finally, criminal measures as proposed may have an effect of criminalizing library workers and consumers – if not for offences themselves when not committed on commercial scale, then for abetting and inciting the infringements.

Market actors stress the point that criminal penalties can have a far more severe impact compared to sanctions under civil law. In most legal systems they are therefore regarded as a remedy of last resort. Furthermore, they are subject to specific principles frequently anchored in constitutional law, like the elements of a crime having to be set out specifically in a legal text in order to be punishable. Recent amendments of the proposed directive clarified the meaning of main elements of the offence – the terms “intentional” and “commercial scale” – however, the definitions still remain quite broad and ambiguous, and several terms have not been defined.

Along with that we agree that as online databases, semiconductor products, as well as certain designs and inventions continue to quickly grow in value, so does the potential market harm wrought by infringers. Along with greater integration of different IP rights, their effective enforcement may require the adoption of harmonizing EC instruments, however the European Communities are not ready for such a step yet.

Therefore, the answer to the second question will be, IPRED2 as it is currently worded would be an excessive instrument in fighting IP infringers. Taking in account the current state of development of legislation and national practices, the author supports the position of Max Planck Institute for Intellectual Property and the Chartered Institute of Patent Agents opting to limit the scope of IPRED2 to serious cases trademark counterfeiting and copyright piracy. In cases of other IPR infringement, sanctions under civil law can be regarded as sufficient from a Community perspective without prejudice to the possibility of criminal sanctions on domestic level. Likewise, criminal sanctions in national laws of member states would remain a tool to address the IP infringements in cases when the distinction between different IP rights is vague or somewhat not clear.

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