

Proposal for a Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights

Comments by the Law Society of England and Wales

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The Law Society



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PROPOSAL FOR A DIRECTIVE ON CRIMINAL MEASURES AIMED AT ENSURING THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS¹

Comments by the Law Society of England and Wales

1. The Law Society of England and Wales (“the Society”) is responsible for the representation and regulation of approximately 120,000 solicitors in England and Wales. The Society regularly comments on domestic UK legislation, as well as EU legislative initiatives through its Brussels Office. The Society’s comments aim to ensure laws are clear and workable. This position paper has been drafted by the Society’s Intellectual Property Working Party, which is composed of practitioners with an expertise in this field, with additional input from members of its EU Committee.

INTRODUCTION

2. The Society has a number of serious concerns about the Commission’s amended proposal for a Directive on criminal measures aimed at ensuring the enforcement of intellectual property (“IP”) rights (hereafter “the Directive”). Such are the strength of these concerns that we would oppose the adoption of this Directive in its present form for the following reasons.
 - a. We do not believe that there is a sufficient legal base in the EC Treaty for all the provisions contained in the proposed measure. It is inappropriate for an EC Treaty measure to be so prescriptive in relation to criminal sanctions.
 - b. We do not believe it is appropriate or practicable for criminal sanctions to be extended to the full range of intellectual property infringements. For instance, we are very concerned by the extension of criminal sanctions into the field of patents.
 - c. We question whether there is a public interest in the EU adopting such a measure and whether sufficient thought has been given to its practical implications.
3. As such, we would recommend that the current measure be limited to cover only matters of counterfeiting and piracy and not patent or design rights. The Commission should submit a new proposal for a framework decision containing some of the elements of the original measure proposed in 2005². A number of practical issues set out below will also need to be addressed before we could support the proposal.
4. It is worth noting that the deadline for the implementation of the IP Enforcement Directive³ has only recently passed (29 April 2006); in fact, we understand its implementation by Member States has not been completed. Article 3 of Directive 2004/48 creates a general obligation on Member States to “provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. [...] Those measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.” It follows that, if Directive 2004/48 achieves its stated aims, there will be effective, proportionate and dissuasive remedies throughout the EU

1 Amended proposal for a Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights, (COM(2006)168 final) of 26 April 2006

2 Commission proposals for a Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights; proposal for a Framework Decision to strengthen the criminal law framework to combat intellectual property offences, (COM(2005) 276 final) of 12 July 2005

3 Directive 2004/48 of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights OJ L157/45, 30 April 2004

without the need for creating further criminal sanctions. The contemplated criminal IP regime should therefore be unnecessary. It would be prudent to observe the impact in practice of Directive 2004/48 before legislating further.

1. LEGAL BASE

The scope of this measure has serious defects as regards legal base

5. In light of the European Court of Justice's ruling in case *C-176/03 Commission v Council*, we understand that the Commission has felt it necessary to amend its proposal in order to bring it in line with its interpretation of the ruling. The ECJ in its judgment concerning the Framework Decision on the protection of the environment through criminal law⁴ confirmed that "as a general rule neither criminal law nor the rules of criminal procedure fall within Community's competence". But the Court went on to state that any acts adopted under the provisions of Title VI of the EU Treaty ("the third pillar") must not affect the powers conferred by the EC Treaty ("the first pillar"). Furthermore it held that neither the Treaty nor its case law prevent the legislature:

"when the application of effective, proportionate and dissuasive criminal penalties by the competent national authorities is an essential measure for combating serious environmental offences, from taking measures which relate to the criminal law of the Member States which it considers necessary in order to ensure that the rules which it lays down on environmental protection are fully effective."

6. The consequences of the ruling mean that measures adopted under the first pillar are not prevented from requiring criminal sanctions where these are the only effective remedy. As a matter of general law, directives would normally stipulate only that "Each Member State shall take the measures necessary to ensure that the infringements referred to [...] are subject to effective, proportionate and dissuasive sanctions".
7. While the Commission has been keen to stress that it is not insisting on setting criminal sanctions at EU level for all policy areas but only in cases where Community level rules are necessary to ensure effective enforcement, a minimum EU harmonisation of the maximum level of criminal sanctions available in the Member States clearly goes beyond the scope of the ruling in *Commission v Council*.
8. Even on a most extensive reading of the ruling, the Community can only require a particular type of penalty to be imposed. And that very extensive reading is contrary to the Advocate General's views. It also remains unsupported by the decision of the Court which was focused on the subject matter of the proposal and annulled the whole of the Framework Decision without separate consideration of how far the Community could go. Moreover the Court's decision is in the specific field of the environment and relies upon the unique competence for areas with Member States' own sovereign powers in Article 175(2) EC. Lastly, it should also be borne in mind that the Framework Decision did not go nearly as far as this proposed Directive in specifying sanctions. It terms of the criminal sanctions to be made available, it limited itself to stating in Article 5(1):

*"Each Member State shall take the necessary measures to ensure that the conduct referred to in Articles 2 and 3 is punishable by effective, proportionate and dissuasive penalties including, **at least in serious cases, penalties involving deprivation of***

⁴ Council Framework Decision 2003/80/JHA of 27 January 2003 on the protection of the environment through criminal law, OJ L 29/55, 5 February 2003

liberty which can give rise to extradition.”

9. It is worth noting, as mentioned above, that in his Opinion, Advocate General Colomer did state that the Community had competence to set down that criminal sanctions should be used in respect of serious environmental offences, but that it could not specify in detail what these should be. He considered however that a Framework Decision was the appropriate place for a provision concerning the deprivation of liberty. In relation to Article 5, for instance, he found that:

“94. However, the requirement, in Article 5(1) itself, that the most serious conduct should be punished with the deprivation of liberty, giving rise to extradition, transgresses the boundaries of the first pillar, since, within the criminal law context, it is for the State to choose the appropriate penalty.”

10. The Advocate General did not recommend that the entire Framework Decision be annulled, instead listing the actual articles that should be. His Opinion was not expressly contradicted by the ruling of the Court, which did not examine this aspect of Article 5. The Court merely stated that the Framework Decision was indivisible, thus annulling it in its entirety.
11. The proposed Directive goes even further than the annulled Framework Decision in specifying the criminal sanctions to be applied. Accordingly the scope of this measure has serious defects as regards legal base and it is difficult to see how litigation will be avoided if the proposal is pursued in its present form as opposed to splitting the proposal into a directive and a framework decision.
12. We understand that a similar case pending before the European Court of Justice (C-440/05, *Commission v Council*) may clarify further the scope of the Community competence in this field. The current proposal should not be adopted before this ruling is given.

2. SCOPE OF CRIMINAL SANCTIONS

The scope of an EU measure should be limited to counterfeiting and piracy

13. The Directive obliges Member States to ensure that all “intentional infringements” of an IP right on a “commercial scale” as well as “attempting, aiding or abetting and inciting such infringements, are treated as criminal offences”. We are extremely concerned by the broad, all-encompassing nature of this provision, as well as the fact that the Member States will have no choice but to treat such IP infringements as criminal matters. We would question its wisdom and the extent to which it will work in practice.
14. In the UK, criminal offences exist already in relation to serious infringements of copyright and trade marks, as well as performers’ rights and conditional access law (Copyright, Designs and Patents Act 1988, as amended, and Trade Marks Act 1994 as amended). Other statutes such as the Trade Descriptions Act can also be utilised to tackle problems of piracy. We believe that the existing scope of the criminal law in the UK in this field is appropriate and are aware that similar criminal-law provisions exist already in other EU Member States.
15. The proposal would however have the effect of extending the criminal law to cover patent infringements of a commercial scale, which have until now remained a matter for civil litigation. We are opposed to the imposition of criminal sanctions in relation to IP infringements beyond those of counterfeiting and piracy. Such an extension of the criminal law regime will create problems. 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.

16. The issues of claim construction and validity often dominate proceedings on patent issues in the UK (and many other Member States), and so it is difficult to envisage how such matters would be dealt with in a criminal trial - how would the prosecution be able to demonstrate the requisite level of criminal knowledge and intent of someone accused of such an infringement? We believe therefore that there may be practical difficulties relating to the establishment of the requisite criminal act if criminal sanctions are to be applied to patent infringements. Assessing a patent infringement may simply be too uncertain to be an appropriate trigger for criminal sanctions.
17. The imposition of criminal sanctions for IP infringements should be limited to instances of counterfeiting and piracy.

3. THE PUBLIC INTEREST AND PRACTICAL CONCERNS

18. The current proposal raises a number of practical concerns. Given the possible impracticalities and likelihood of effective enforcement of the measures at hand, we question whether an across-the-board criminalisation of commercial scale IP infringements throughout the EU is actually in the public interest and whether it serves justice effectively.

The criminal versus civil balance

19. We are concerned that the introduction of broad criminal sanctions may upset the balance that exists between the use of civil and criminal proceedings. Currently the use of criminal sanctions is rarely a significant factor in relation to cases of IP infringement. An increase in the use of criminal sanctions could create imbalances with related areas of law where criminal sanctions were unavailable. It could become more difficult to draw a distinction between where the civil or the criminal law should be applied, and all that this implies in terms of evidence, process and standards of proof. Prosecutors as well may find it difficult to differentiate between the civil and criminal sanctions available. How will the proposals sit with the current confiscation regime? Could the ability to enforce closure of businesses pending criminal proceedings lead to large claims for damages where no criminal offence is in fact found at the end of a trial?

Likelihood of successful prosecution

20. Who would actually bring such prosecutions? Private prosecutions are possible in the UK but are seldom used. We believe it would be excessively difficult to meet the requisite standards of proof. We are not convinced that local authorities or other public bodies with an interest in trading standards would have sufficient financial resources to bring prosecutions, which would undoubtedly be lengthy and expensive. On the other hand, could an overzealous pursuit of criminal sanctions by enforcement bodies actually hamper the justice system because prosecuting authorities are unable to stop a prosecution in order to settle a case.

Abuse of process

21. We are also concerned that there may be issues pertaining to access to justice, which would undoubtedly arise from the length of time and probable delays that would be associated with this type of complex criminal prosecution. This would raise real concerns over the fairness of proceedings and may amount to an abuse of process.

22. The cases that are the most obvious candidates for criminal actions tend also to be cases where the civil courts would be willing to grant search-and-seize orders and interim injunctions. By their nature, these orders are granted rapidly and would tend to be in place before a criminal prosecution had progressed. There is an inevitable tension between the potential for such civil-emergency remedies, awarded on the balance of probability and without criminal law safeguards such as the right against self-incrimination, and later criminal action. Extending the role of criminal IP enforcement would further heighten that tension.

Certainty for prosecutions

23. Given the difficulty in establishing a definition for an IP right, and the use of experts in order to prove breaches in civil courts, the question arises as to whether it is possible to afford sufficient certainty in order to bring criminal proceedings against a person. Will an investigator need to go to the expense of instructing an expert in order to establish whether there has been an offence? If Joint Investigation Teams (JITs) are allowed, would it be incorrect for the police to rely on the experts of the person alleging a breach? The inherent problems in relying on the JITs include accuracy of evidence, integrity of evidence, impartiality etc. Where there is a dispute between two commercial parties, will it come to a point where he who can make allegations to the police first becomes part of the investigation team? Could this be used unfairly by bigger companies to bully smaller companies or individuals?

Stifling competition

24. We are concerned that the possibility of criminal sanctions will lead solicitors and other IP advisors to give more cautious advice and lead clients to take an overly cautious approach in relation to any potential infringement of third-party patents, even though they may be invalid. We would agree with the comments made by other interested parties that the threat of criminal sanctions could have the effect of stifling innovation and competitiveness unnecessarily. It could also lead to moves by certain companies to re-locate outside the EU to jurisdictions where only the possibility of civil litigation exists in relation to patents.

Clarity of terms and definitions

25. Given that this Directive would have the effect of criminalising other IP infringements, we believe that it is necessary to have greater clarity as to the circumstances in which IP rights are infringed. We are also keen to ensure that the rights of defence and the requisite standards of proof in criminal cases are not diminished by the current proposal.

“Commercial scale”

26. Given that this forms such an important part in establishing the offence, a clear definition is required. Using a simple example, does it catch the market trader selling 50 copies of a fake DVD per day? Does this change where he has been doing so for a period of 5 years? Does it impact on the person who has set up a factory to turn over 200,000 fake DVDs per day, but who has not yet started processing them – i.e. does the intent attach to the mens rea of the infringement alone (i.e. that it was intentional), or must there also have been an intention that the infringement would be used on a commercial scale? If, for example, a person copies the text of a book for his daughter, changing it in some places and providing his own illustrations and through some unforeseeable means (e.g. an internet blog), it becomes a bestseller, has he committed this offence despite the fact that he did not intend the infringement to be on

a commercial scale? Is there a de minimis of items, capability, income?

“Aiding, abetting and incitement”

27. We are also concerned that the proposal states “attempting, aiding or abetting and inciting such infringements, are treated as criminal offences”. Does the person accused of aiding and abetting the offence have to have been aware that the infringement was to be on a commercial scale? For example, a person provides his video camera to a friend to film secretly the premiere of a new film. Unbeknown to him, the friend intends to create a batch of these and farm them off to various markets throughout Europe. Is there a presumption that he knew the consequences? Are there to be defences?
28. Similar questions exist in relation to incitement. The definition of “incitement” has already come in for much discussion and criticism in the UK, particularly in relation to racist or hate crimes. We are concerned that it could again be subject to varying interpretations and unintended consequences. For instance, could advice given to a third-world country regarding the production of generic drugs by a solicitor or IP advisor in the EU be considered incitement?

Impact on legal practitioners

29. If aiding, abetting or incitement require knowledge and some degree of provocation or encouragement causing the criminal act, then only a broad construction could bring the advice of solicitors itself within the ambit of the proposed provisions. Mere advice as to the rights and wrongs of a certain course of conduct would presumably not be caught. Where a solicitor draws up the contracts with suppliers for merchandise, which is found to be a result of intentional infringements of an IP right, could the solicitor be accused of aiding and abetting? A solicitor would probably need to have strayed from the giving of legal advice into the realm of commercial advice to risk realistically falling foul of the provisions and in any event this risk would be no greater than the risk of aiding, abetting or inciting any other criminal act in the course of acting as a solicitor.

Prescribed criminal sanction

30. Member States are to ensure that the following penalties are available:
 - a. custodial sentences for natural persons. Member States are also to ensure that a maximum sentence of at least four years is available for offences committed through organised crime (defined in a separate framework decision) or where there is a risk to health and safety posed;
 - b. fines for both natural and legal persons. A maximum amount of at least 300 000 euro in cases of organised crime, and at least 100 000 euro in other less serious cases, must be set by Member States; and
 - c. the possibility to confiscate “the object, instruments and products stemming from the infringement or goods of corresponding value to such products”.
31. It is interesting to note that neither the previous proposed Directive nor the subsequent Framework Decision on environmental crime specified actual levels of penalty in this way. The formula for setting a minimum level at which a maximum penalty can be set e.g. “at least 4 years” or a “minimum/maximum of four years” is a standard formula used under the third pillar to set out penalty levels. However, in terms of first pillar

measures this is a novelty. As noted above, Advocate General Colomer felt that it was not within the Community's competence to set down such sanctions, instead leaving Member States the choice of an appropriate penalty.

32. As stated above, we would question the necessity for penalties to be prescribed in this way and doubt the extent to which the EC Treaty provides a legal base. This Directive should state only that sanctions should be proportionate, legitimate and persuasive – levels of sanctions should be laid down in a Framework Decision.

Extradition

33. All 25 Member States have signed up to the European Arrest Warrant ("EAW"), as implemented under Part I of the UK Extradition Act 2003. The EAW replaces traditional extradition procedures between EU Member States and can be used for offences that are punishable with a custodial sentence or detention order where the maximum sentence is at least 12 months or in circumstances where sentence has already been passed, a sentence of at least four months (the current proposal is for a maximum sentence of at least 4 years). This means that only 'information' about the offence, rather than evidence of a prima facie case, will need to be provided in order to extradite somebody present in the UK. Moreover, for a number of offences the requirement of dual criminality – the verification that the offence is a criminal offence in the requesting and requested state – has been removed. This list of 32 offences includes "counterfeiting and piracy of products".
34. UK and other EU citizens will be vulnerable to this form of fast-track extradition in relation to counterfeiting and piracy of products. Given the uncertainty of the definition of an intellectual property right and the fact that the definition in some Member States may differ from the definition in the UK, it will be important to ensure that the definition given to an 'intellectual property right' provides certainty. We have concerns as to the definition of counterfeiting and piracy as set out in the proposed Directive and its implications in relation to the EAW. Given the likelihood that the wider offences detailed in the proposed Directive may be used in interpreting the definition in the list, we are concerned that a person may be liable to extradition via an EAW for wider offences, as drafted in the proposed Directive. Without greater precision of the definitions and concepts involved, continuing differences between the legislation of Member States might mean that a person could be liable to extradition for an act caught by the legislation of the requesting Member State but not the home Member State. A close coordination of the implementation of such definitions by EU Member States would be needed to safeguard the rights of citizens.

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