



European Economic and Social Committee

INT/283
**Criminal measures/
intellectual property rights**

Brussels, 12 July 2007

OPINION

of the
European Economic and Social Committee
on the
**Proposal for a European Parliament and Council Directive on criminal measures aimed at
ensuring the enforcement of intellectual property rights**
COM(2005) 276 final – 2005/0127 (COD)

On 21 September 2005, the Council decided to consult the European Economic and Social Committee, under Article 95 of the Treaty establishing the European Community, on the

Proposal for a European Parliament and Council Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights *
COM(2005) 276 final – 2005/0127 (COD)

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 4 June 2007. The rapporteur was Mr Retureau.

At its 437th plenary session, held on 11 and 12 July 2007 (meeting of 12 July), the European Economic and Social Committee adopted the following opinion by 76 votes to three.

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1. **Conclusions**

- 1.1 The Committee will continue to monitor the coordinated implementation of the 2004 Directive, the amended proposal for a Directive under consideration, and the relevant supplementing Framework Decisions in order to assess the long-term effectiveness of the fight against counterfeiting and its international repercussions, also outside the Community.
- 1.2 Although the Committee supports the general approach adopted in the proposed provisions, it nevertheless calls on the Commission to consider the comments made in this opinion, which recommends placing the main emphasis on judicial and customs cooperation and efforts to combat large-scale counterfeiting and counterfeiting by criminal organisations or where the offence involves risk to people's health or safety.
- 1.3 In particular, the Committee believes that the Directive should cover industrial property rights as a whole, and that, as a result, invention patents, which are the most important area for European industry, should not be excluded.
- 1.4 The EESC notes that certain legal concepts are unclear, such as "on a commercial scale" or "commercial activities" in relation to the criminal practices referred to in the proposal for a Directive, which conflicts with the basic principles of criminal law that require a clear and

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This proposal has been substantially modified by 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 COM(2006) 168 final – 2005/0127(COD).

precisely defined, objective substantiation of a crime. The EESC also criticises the way in which crimes covered by Article 2 of the proposal are defined, since it believes that only one general framework should be provided for criminal sanctions (imprisonment or financial penalties and fines), so that responsibility for defining the punishments remains exclusively within the national jurisdictions.

2. Introduction

- 2.1 In MEMO/05/437 of 23 November 2005 summarising its Communication of the same date, the Commission welcomed the Court of Justice judgment recognising the competences of the Community to adopt dissuasive and proportionate criminal law measures to ensure the application of TEC provisions on Community policies.
- 2.2 In its communication, the Commission sets out its interpretation of the judgment of 13 September 2005 by which the Court of Justice annulled a Framework Decision on the protection of the environment through criminal law. In the Commission's opinion, the Court held that the Community had sole competence to take the criminal law measures needed to ensure the effectiveness of Community law. The scope of this judgment exceeds by far the field of the environment, taking in the whole range of Community policies and the fundamental freedoms recognised by the Treaty. The insertion of criminal penalties in Community law must be based on a duly justified need and respect the overall consistency of the construction of the criminal law of the Union.
- 2.3 This broad interpretation of a judgement concerning the environment was not unanimously endorsed by Member States and legal doctrine. Several believe that criminal charges and the corresponding level of criminal penalties are essentially subject to subsidiarity and that their possible harmonisation at EU level should be achieved through judicial cooperation between States, as provided for in the TEU.
- 2.4 It should be noted that this interpretation is very widely shared by the European Parliament since the areas liable to be covered by Community criminal law measures are no longer exclusively subject to the unanimity of Member States in Council, but to a qualified majority and co-decision procedures involving the European Parliament, whose competences as co-legislator are thus extended¹.
- 2.5 However, this constitutes a substantial broadening of Community competences, resulting from a court decision, and the risk of divergences of interpretation among the institutions could, inter alia, delay the adoption of legislation entailing criminal law measures, or subsequently restrict their scope through, for instance, further court cases or compromises. In the case of this proposal for a Directive, the question of whether or not to protect invention

¹ The UK and Irish opt-ins and the Danish exemption would no longer prevail against the legislation, as is the case for relevant actions under the third pillar.

patents under criminal law remains open since the European Parliament considers that only Community law is affected by the court judgement, whereas the Commission's intention is to include all legislation, be it Community or national, on intellectual property rights.

3. **Commission proposals**

- 3.1 The amended proposal for a Directive (COM(2006) 168 final), seeks to establish a harmonised, horizontal criminal-law framework to ensure the enforcement of industrial, literary and artistic property rights and other similar incorporeal rights (grouped under the term "intellectual property rights"). It concerns the internal market and was prompted by the clear need for European-level action in this field, in accordance with the principles of subsidiarity and proportionality. The legal basis for these measures is Article 95 TEC.
- 3.2 It sets out a general criminal-law framework defining protected intellectual property rights (IPR), infringements of these rights and maximum criminal penalties to ensure the uniform application throughout the internal market of measures to combat the counterfeiting of material goods, services and intellectual and artistic property protected under substantive European and national law as well as the relevant international Conventions including the TRIPS Agreement², signed in 1994 under the auspices of the WTO, which sets out the provisions for criminal procedures³ to be applied in cases of infringement of specific protected rights.
- 3.3 A Directive adopted in 2004 already provides a framework for safeguarding against reproduction, piracy or counterfeiting for commercial purposes⁴. A detailed list of rights protected under Article 2 of this Directive is set out in a Statement by the Commission⁵. These rights apply to industrial property (invention patents and supplementary protection certificates, utility certificates, trademarks, designations of origin, designs and models, and plant varieties) and copyright and related rights, as well as the sui generis rights established under Community law to cover integrated circuit topographies and databases. They are exclusive rights, considered by the law as incorporeal property rights. Some of these rights are included in the *acquis communautaire*, or even covered by specific forms of Community protection (designs and models, trade marks, plant varieties)⁶. Others, such as patents, remain entirely subject to national law, pending the European patent so much awaited by all industrial sectors. Thus, the term "intellectual property" actually covers a very heterogeneous field of incorporeal rights with widely differing characteristics and legal statuses.

² Agreement on Trade-Related Aspects of Intellectual Property Rights.

³ TRIPS Agreement, Article 61.

⁴ Directive 2004/48/EC on the enforcement of intellectual property rights.

⁵ Statement by the Commission concerning Article 2 of the abovementioned Directive 2004/48/EC (2005/295/EC).

⁶ With the significant exception of the Community Patent, which is still in limbo (NdA).

- 3.4 Member States are subject to the terms of the TRIPS Agreement, which requires the implementation of appropriate domestic legislation on criminal procedures and penalties for counterfeiting for commercial purposes. However, States are granted some leeway for interpretation. Furthermore, some States have not yet adopted proportionate criminal measures for IPR infringements occurring within their jurisdiction, and this includes EU Member States. The 2004 Directive enables the victims of such infringements to obtain compensation by compelling the Member States to investigate, initiate procedures, confiscate⁷ and compensate, with a view to bringing the applicable law into line in the fight against organised crime⁸, a context where counterfeiting is rife. However, the Directive only covers civil, commercial and administrative procedures and penalties that consist primarily in obtaining damages for owners of rights who have instituted anti-counterfeiting proceedings. Moreover, some Member States have yet to transpose the Directive.
- 3.5 The protection of intellectual property rights is enshrined in the Universal Declaration of Human Rights as well as the EU Charter of Fundamental Rights, a solemn declaration adopted in Nice in December 2000. International protection is also provided and safeguarded by Conventions concluded under the auspices of the relevant United Nations specialised agencies (WIPO, UNESCO) or at regional level (Munich Convention (1973) establishing the European Patent Office and the European patent). So far, only the TRIPS Agreement makes provision for minimum criminal penalties. The Commission proposal seeks to achieve a degree of uniformity at EU level by obliging Member States to include criminal penalties in their domestic laws and define offences and a common standard for penalties.
- 3.6 The amended proposal for a Directive therefore aims to approximate the level of penalties for IPR infringements such as imprisonment, criminal fines and confiscation. It seeks to establish jurisdiction rules to centralise legal proceedings in a single Member State, wherever possible, if the offence concerns several Member States, and to facilitate investigations. It further proposes involving the victims or their legal representatives in the investigations.
- 3.7 The main amendment vis-à-vis the previous proposals consists in setting the level and nature of penalties applicable to persons convicted of any infringement of intellectual property rights, also defined in the proposal.
- 3.8 Natural persons convicted of the offences referred to in Article 3 of the Directive will be liable to a maximum sentence of at least four years' imprisonment when they are acting under the aegis of a criminal organisation or when the offence carries a health or safety risk. (Article 2(1)).

⁷ Council Framework Decision 2005/212/JHA on Confiscation of Crime-Related Proceeds, Instrumentalities and Property (counterfeiting, piracy) OJ L 68, 15.3.2005.

⁸ Proposal for a Council Framework Decision on the fight against organised crime. Counterfeiting can also contribute to financing terrorist networks; money laundering and counterfeiting are also criminal acts that should be rigorously combated.

- 3.9 Natural or legal persons convicted of offences under Article 3 of the Directive will be liable to effective, proportionate and dissuasive penalties, including criminal and non criminal fines to a maximum of at least EUR 100 000 (EUR 300 000 for the serious cases referred to in Article 2(1), without prejudice to the application of more serious sentences in the case of risk of death or infirmity).
- 3.10 Domestic law should provide for the confiscation of crime-related counterfeit goods, property and instrumentalities, at least in serious cases (organised crime, health or safety risks) (Article 3).
- 3.11 The amended proposal permits Member States to apply more stringent provisions.
- 3.12 Following the withdrawal of the proposal for a Council Framework Decision accompanying the initial proposal, the Commission intends to apply a horizontal approach to the criminal procedures adopted on 23.12.2005, which are aimed at supporting mutual judicial assistance and aligning the levels of penalties in different countries in order to be able to involve Eurojust⁹.
- 3.13 Member States are responsible for initiating investigations and proceedings, which should not depend solely on a complaint by a victim.

4. **The Committee's general comments**

- 4.1 The Committee notes the growing use of an ambiguous term: intellectual property. The term merges distinct legal concepts and diverse methods of protection and use. Nevertheless, the term has gained currency in European and international law. The nature, duration and scope of each of the relevant incorporeal rights vary considerably. Each has its own specific legal framework, different territorial validity and specific institutions for the registration and protection of patents. Moreover, the interpretation of infringements of these rights may vary from one country to another and is changing rapidly in some cases.
- 4.2 The analysis of the composition of medicines (without using or publishing the results), or the inverse engineering of software or electronic components for the purpose of interoperability or exercising a legitimate right such as the right to private copying by circumventing a protection tool (generally quite weak) could constitute counterfeiting or illicit copying in several Member States, where the penalties might also be very high, even in the absence of commercial or criminal intent.
- 4.2.1 The Committee has already argued in favour of Community-level coordination to combat all forms of commercial counterfeiting affecting the European economy and to clamp down on

⁹ COM(2005) 696 final.

crimes against industrial property rights and copyright¹⁰ that do serious damage to the European economy. Large-scale counterfeiting is often carried out by criminal organisations or organised gangs and may endanger health, safety or life. The latter instances should be treated as aggravating circumstances in determining criminal penalties. The proposal for a Directive should set out the principle of increased penalties in all aggravating circumstances.

- 4.2.2 As in the case of the 2004 Directive, the Committee approves of the fact that the proposed harmonisation is restricted to infringements committed on a commercial scale and therefore liable to impact substantially on the single market. It would also be useful to define the term "commercial" more clearly, for instance, by relating it to counterfeit goods or services which are intended to be sold in quantities large enough to result in significant financial loss or which are dangerous irrespective of the quantities sold, or in any case where those committing such offences do so with a view to obtaining an unlawful economic gain. The application of criminal penalties presupposes a clear threat to law and order, the intensity and gravity of which might vary. The offence and the penalty must be proportionate to the risk. However, one may question whether the distinctions between "infringements of an intellectual property right on a commercial scale" and "serious offences" are clear and whether the severity of the penalties corresponds to the principle of proportionality inherent to criminal law. Furthermore, private file sharing on the Internet or reproduction (or music remixes), or the representation of material or intellectual works amongst family members or private individuals for educational or experimental purposes are implicitly excluded from the proposed Directive's scope of application. It would be appropriate to spell out this exclusion.
- 4.2.3 The Committee would emphasise that the incorporeal rights affected by counterfeiting are not absolute rights. Each right has its own specificities and, in principle, grants exclusivity and a temporary monopoly on commercial use, which vary in duration and geographical validity. In other words, it constitutes a temporary protectionist measure (in exchange for the publication of inventions in the case of patents, and intellectual works in the case of copyright). Nevertheless, the licence holders and authorised or *bona fide* users of products and services or intellectual works also have rights, which are sometimes very extensive in the case of some licences¹¹. Several domestic systems of law contain inconsistencies and place the rights of producers, distributors and industries before consumers' rights. The intention of incorporating heavy criminal penalties into domestic law would appear to contribute further to this bias in many countries. This leads to a paradox whereby the maximum penalty for a commercial-scale infringement set out in the proposal for a Directive could prove to be equal or lighter than the maximum penalty for a single infringement.

¹⁰ See Mr Malosse's opinion (OJ C 221, 7.8.2001).

¹¹ Creative Commons Licence, General Public Licence, BSD Licence, BBC Creative Archive Licence (free access to audiovisual material) etc.

4.2.4 The Committee would like the Commission to initiate, perhaps by conducting an in-depth comparative study following transposition into domestic law, a thorough overhaul of domestic criminal law in the light of Community criminal law, in order to ensure genuine harmonisation throughout the EU. This is particularly important in the case of copyright and related rights, where ever more stringent lawmaking sometimes results in scales of sanctions and penalties that are disproportionate and serve no genuine purpose since the commercial models for the distribution of works are still in full development, with the projected elimination of DRM (protection against copying) in the short-term, and since, in some cases, the tax on support tools largely compensates the right holders for unauthorised copying.

4.3 **Specific comments**

4.3.1 The Committee would like the question of the nature of the offence of inciting acts of counterfeiting of products or services of intellectual property to be better clarified. A criminal offence must include an element of intent on the part of the perpetrator or his accomplices. The TRIPS Agreement refers to "wilful trademark counterfeiting" and the Directive uses the words "wilful", "intentional" and "deliberate". There must also be a material element to the offence, i.e. commission of the offence or, at least, an attempt tantamount to initiation of the offence. These two elements are cumulative; mere intention does not constitute an offence (unless we set up a thought police). In general, incitement to commit a crime can only be established if the inciter supplies the tools (generally illicit) for the specific purpose of committing the crime. Furthermore, the Committee believes that the mere provision of widely used materials or software, or access to the Internet, cannot be equated with complicity or criminal incitement (generally present in only a limited number of criminal law situations, and difficult to prove) if counterfeiters use these means. The concept of complicity should be sufficient in Community law since shared responsibility is regulated in detail by domestic law. Otherwise, this could result in convictions in the absence of intent, which would create great legal uncertainty for many equipment and service providers.

4.3.2 The unlawful reproduction of works, models, procedures or inventions protected by a temporary monopoly constitutes the offence of counterfeiting. It is advisable to stick to this definition, without extending it to include piracy (which generally involves gaining fraudulent access to IT systems in order to gain control of them and steal data or use the bandwidth, generally for illegal ends). Piracy differs from counterfeiting in the strict sense and strict definitions should continue to apply to criminal offences. The unauthorised hacking into IT systems, data or bandwidth theft, and attacks on privacy should unquestionably be subject to appropriate criminal proceedings, but they do not directly constitute counterfeiting. Combating IT piracy should be addressed specifically, even if the terms are applied inaccurately in a number of policy declarations, which tend to use them interchangeably and cause a degree of confusion. IT piracy is used by terrorist organisations and should be the focus of special attention and appropriate international cooperation.

- 4.3.3 The term "organised gangs" should be added to the terms "criminal organisation" and "organised crime" used in the explanatory memorandum, because the term already exists as an aggravating circumstance in some criminal law systems. Commercial counterfeiting committed by organised gangs or criminal organisations should constitute an aggravating circumstance justifying heavier penalties or fines.
- 4.3.4 The Commission states that Member States are free to adopt more severe penalties or to penalise other acts. This could be interpreted as encouragement to criminalise non-commercial acts or even extend the definition of criminal counterfeiting to acts that do not, strictly speaking, constitute the reproduction or copying of a product, procedure or intellectual work.
- 4.3.5 The Committee has reservations about the fact that Community law and certain other systems of national law are effectively equating copying software for circumventing or deactivating DRM systems¹² (copy-protection systems, equipment or software, often ineffective and non-encrypted) with the counterfeiting of DRM systems, whereas what is being defined as "counterfeiting" does not constitute copying or reproducing the original system. Furthermore, DRM systems are not standard. They differ according to their platform or provider, and file formats may be proprietary, which impedes interoperability or is intended to create a captive market by eliminating competition. The creation and use of copying methods to enable consumers or companies holding software licences to exercise their rights (copying for personal use, backup copy for use on different equipment) should not be penalised *per se* in the absence of criminal intent and active commission of a criminal act on a commercial scale.
- 4.3.6 The Committee supports the principle of making the initiation of criminal proceedings independent of any civil action or criminal charges brought by the victim. Indeed, where mafia-type criminal organisations are involved, the victim might be reluctant to initiate proceedings to protect his rights. Moreover, commercial counterfeiting, especially when carried out by organised criminal gangs or criminal organisations, not to mention terrorists, affects the economy and social welfare. For this reason, it is the State's responsibility to clamp down on it.
- 4.3.7 The Committee hopes that effective cooperation between Member States will make it possible to combat international counterfeiting networks effectively, especially those connected with criminal organisations and money laundering activities. In this context, we should bear in mind that many of these networks operate from third countries, and that it is vital to extend action beyond the EU's borders through the resources offered by international law.
- 4.3.8 At Community level, the Committee believes that joint police investigation teams should work together with customs teams as well as with the victims of counterfeiting and their appointed experts. The EESC welcomes the fact that victims are to be involved in

¹² Digital Rights Management (a euphemism for copy protection).

investigations but recommends limiting their role purely to providing information to the public authorities. It would be inappropriate for a company, following an accusation of commercial counterfeiting, to be involved in monitoring activities or confiscating the property of a competitor, who is presumed innocent until proved otherwise in Court. The Committee feels strongly that it is important to resist tendencies towards private justice or interference or intrusion in criminal proceedings by persons holding no public authority.

- 4.3.9 Finally, the Committee is concerned about the growing tendency for Internet networks to be taken over for commercial purposes and by calls for the extension of criminal law penalties provided under the TRIPS Agreement to this area, as clearly called for in the United States Department of Commerce's 2006 Special 301 and Super 301 Report¹³, in application of the WIPO treaties on intellectual property on the Internet, which is a free instrument in the public domain and a common universal good.

Brussels, 12 July 2007.

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

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¹³ 2006 SPECIAL 301 REPORT USA.