

8 Criminal measures to enforce intellectual property rights

(a) (26729) 11245/05 COM(05) 276	Draft Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights Draft Framework Decision to strengthen the criminal law framework to combat intellectual property offences
(b) (27460) 8866/06 COM (06) 168	Amended Draft Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights

<i>Legal base</i>	(a) Directive: Article 95 EC; codecision; QMV Framework Decision: Articles 31 and 34(2)(b)EU; consultation; unanimity (b) Article 95 EC; codecision; QMV
<i>Department</i>	Home Office
<i>Basis of consideration</i>	(b) EM of 16 May 2006
<i>Previous Committee Report</i>	(a) HC 34–xiii (2005–06), para 7 (14 December 2005), HC 34–viii (2005–06), para 8 (2 November 2005) and see (24313) HC 63–xxii (2002–03), para 6 (21 May 2003) and (25394) HC 42–xii (2003–04), para 15 (10 March 2004) (b) None
<i>To be discussed in Council</i>	No date set
<i>Committee’s assessment</i>	Legally and politically important
<i>Committee’s decision</i>	(a) Cleared (b) Not cleared; further information requested

Background

8.1 A number of instruments have been proposed or adopted at Community level relating to the substantive law on intellectual property, including measures on patents,²⁵ trade marks²⁶ and copyright.²⁷ The European Parliament and the Council adopted a Directive (Directive 2004/48/EC) on the enforcement of intellectual property rights in 2004.²⁸ This Directive was concerned to harmonise the measures, procedures and remedies under the

25 A Community Patent Regulation has been proposed, but has not been adopted.

26 Council Regulation (EC) 40/94 on the Community trade mark, OJ No. L11, 14.1.1994, p.1.

27 See Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs OJ No. L122, 17.5.1991, p.42 and Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society OJ No. L167, 22.6.2001, p.10.

28 OJ No L195, 2.6.2004, p.16.

law of Member States in relation to intellectual property rights, but it did not require criminal measures to be adopted.

8.2 On 2 November and 14 December 2005 we considered a draft Directive containing provisions on criminal penalties and proposed by the Commission under Article 95 EC (document (a)). We noted that the proposal would require Member States to ensure that “all intentional infringements of an intellectual property right on a commercial scale, and attempting, aiding or abetting and inciting such infringements” were treated as criminal offences, and obliged Member States to provide for sentences of imprisonment, with fines and confiscation of the infringing goods also applying to both natural and legal persons. We viewed with grave concern the possibility that Member States could be forced, under the codecision procedure provided for in the EC Treaty (as opposed to the unanimity required under the EU Treaty), to introduce new criminal offences into their national laws without the prior consent of the national parliament.

8.3 The draft Framework Decision (document (a)) supplementing the draft Directive required Member States to provide for a sentence of at least four years’ imprisonment where an intellectual property offence was committed “under the aegis of a criminal organisation” or where such offences “carry a health or safety risk”. The proposal also obliged Member States to ensure that holders of intellectual property rights, or their representatives, and experts, were allowed to assist the investigations carried out by joint investigation teams. The draft Framework Decision also contained rules on criminal jurisdiction.

8.4 We shared the Minister’s concerns over the use of Article 34 EU to adopt a Framework Decision going beyond promoting co-operation between the authorities of the Member States, and viewed with particular concern the provisions of Article 4 of the Framework Decision (which obliged Member States to allow private persons to become involved in the conduct of police investigations). We asked the Minister if she considered it contrary to the principles of Article 33 EU to make such detailed rules as to how police investigations were conducted in the Member States.

The amended proposal for a Directive

8.5 Following the decision of the Court of Justice of the European Communities (ECJ) in Case C-176/03 *Commission and European Parliament v. Council* of 13 September 2005, the Commission has submitted an amended proposal for a Directive under Article 95 EC making provision requiring the imposition of criminal penalties. In its decision of 13 September 2005 the ECJ indicated that the Community could adopt criminal measures in relation to environmental policy under Articles 174 to 176 EC where these were “essential” for combating serious environmental offences and where the Community legislature considers such measures to be necessary to ensure that the Community rules on environmental protection were fully effective.

8.6 A communication of 24 November 2005 from the Commission on the implications of this ruling²⁹ refers to the draft Framework Decision as a proposal which is “potentially

29 (27117) 1544/1/05; See HC 34–xvi (2005–06), para 4 (25 January 2006). The report was debated in European Standing Committee on 28 March 2006.

affected” by the ECJ decision and which, in the Commission’s view, requires amendment. In its explanatory memorandum to the amended proposal for a Directive (document (b)), the Commission explains that it has withdrawn its proposal for a Framework Decision, and has transferred its provisions on penalties and powers of confiscation to the Directive. The Commission also explains that the provisions on jurisdiction and the coordination of proceedings have not been included in the amended Directive.

8.7 Article 1 defines the objective and scope of the Directive. It describes the Directive as laying down the criminal measures which are “necessary” to ensure the enforcement of intellectual property rights and provides that the measures are to apply to intellectual property rights under both Community and national law. Article 2 defines “legal person” as any legal entity having such status under the applicable national law, except for States “or any other public bodies acting in the exercise of their prerogative of public power, as well as public international organisations”.

8.8 Article 3 requires Member States to ensure that “all intentional infringements of an intellectual property right on a commercial scale” including attempts, aiding and abetting and incitement are treated as criminal offences.

8.9 Article 4 requires Member States to provide for the imprisonment of natural persons for offences under Article 3 and for fines and confiscation for legal and natural persons. Member States are also required to provide for the destruction of infringing copies, for closure of the establishment used to commit the offence and a ban on engaging in commercial activities, and for the possibility of being made subject to judicial supervision or winding-up.

8.10 Article 5(1) obliges Member States to provide for a sentence of imprisonment of at least four years where the offence under Article 3 is committed by a natural person “under the aegis of a criminal organisation” (as defined in the proposed Framework Decision on the fight against organised crime) or where the offences “carry a health or safety risk”. Where the offence is committed by a natural or legal person, Article 5(2) obliges the Member States to provide for “effective, proportionate and dissuasive penalties”. Such penalties must include “criminal and non-criminal fines” of a maximum of €100,000 and €300,000 in the cases referred to in Article 5(1).³⁰

8.11 Article 6 requires Member States to provide for the confiscation of goods belonging to a convicted person in accordance with Framework Decision 2005/212/JHA of 24 February 2005 on Confiscation of Crime-related Proceeds, Instrumentalities and Property, “at least” where the offence is committed in the circumstances referred to in Article 5(1).

8.12 Article 7 requires Member States to ensure that the holders of intellectual property rights, or their representatives, and experts are “allowed to assist the investigations carried out by joint investigation teams”.

8.13 Article 8 requires Member States to ensure that investigations or prosecutions of offences under Article 3 are not dependent “on a report or accusation made by a person

30 There is a drafting problem with the text, since Article 5(1), to which reference is made, does not apply to legal persons.

subjected to the offence”, at least where the acts were committed in the territory of the Member State.

The Government’s view

8.14 In his Explanatory Memorandum of 16 May 2006 the Parliamentary Under-Secretary of State at the Home Office (Mr Gerry Sutcliffe) draws our attention to the fact that the proposal for a Directive is the first instrument to be considered since the judgment of the ECJ in Case C-176/03 *Commission and European Parliament v. Council*. The Minister points out that the draft Directive contains provision for extended powers of confiscation, joint investigation teams and the initiation of criminal proceedings in addition to that dealing with offences and penalties, and that these provisions apply to both Community and national law.

8.15 The Minister further informs us that at the first Council working party following the submission of the new text:

“... a very clear and broad consensus against such a wide interpretation of the judgment [in case C-176/03] emerged with Member States, including the UK, stating that as a matter of principle obligations can be created in relation to Community law only. Moreover, Article 4 was drafted in too much detail and Articles 5, 6, 7 and 8 were outside the scope of First Pillar competence. It was clear that no further progress can be made without guidance at the political level, pending the outcome of the recently mounted Commission challenge to the Ship-source pollution Framework Decision (Council Framework Decision 2005/667/JHA of 12 July 2005 to strengthen the criminal-law framework for the enforcement of the law against ship-source pollution), which will take at least another year”.

8.16 The Minister recalls that the Directive 2004/48/EC initially contained provisions setting out criminal sanctions but that these “were dropped at the insistence of Member States who disputed the competence to include such provisions”. The Minister explains that in the Government’s view the judgment of the ECJ in Case C-176/03 should be interpreted restrictively and that any obligations created must be limited to Community law. Even if a competence in relation to offences and some basic provision on penalties were to be accepted, the Government is not convinced that further approximation is necessary, noting that the date for implementation of Directive 2004/48/EC expired as recently as April 2006 so that insufficient time has passed in order properly to assess the need for any further action.

8.17 The Minister makes a number of detailed comments on the proposal, emphasising that these are subject to the Government’s views on First Pillar competence and the need for any further approximation of law in this area. In relation to Article 1, the Minister points out that the reference to “intellectual property rights provided for in Community and/or national legislation” follows the scope of Directive 2004/48/EC, but that the definition of intellectual property rights on that occasion proved too difficult so that no definition was adopted. The Minister states that the Government’s view, based on consultation with interested parties, is that the scope of the Directive should be limited to

counterfeiting and piracy (i.e. trade mark and copyright infringement). The Minister points out that the requirement in Article 61 of the TRIPS Agreement³¹ for the imposition of criminal procedures is limited to wilful trademark counterfeiting or copyright piracy. The Minister adds that in the UK's view there is no evidence to justify any extension of the scope of criminal remedies as defined under TRIPS, that the Government strongly believes that patent rights should not be included within the scope of the proposal and that “the validation of patent rights and the resolution of disputes relating to alleged infringements is a particularly complex area of the law which does not ... lend itself to the certainty required of good criminal law. We will be looking at this very closely.”

8.18 In relation to Article 3 the Minister draws attention to the lack of clarity in the reference to infringements “on a commercial scale” and to the concern by prosecuting authorities about the risk of confusion if such terms are not clearly defined. In relation to the provisions of penalties in Article 4, the Minister explains that the Government has been seeking to ensure that these provisions, in particular those in Article 4(2) are indicative rather than mandatory and are not so detailed as to impinge on the principle of subsidiarity.

8.19 The Minister notes that Article 7, on joint investigation teams, provides for the holders of intellectual property rights to assist in the investigations carried out by joint investigation teams (JITs). The Minister states that, although the Government supports the use of JITs in EU law enforcement and co-operation, it will resist this particular Article because its approach has always been that provisions of this kind should be in “over-arching all-crime instruments” such as the 2000 Convention on mutual legal assistance. The Minister 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.

Conclusion

8.20 We thank the Minister for his helpful Explanatory Memorandum. We agree with the points the Minister makes, both on the general issue of using the EC Treaty to make detailed provisions of criminal law, and in relation to the particular proposal. In our view, the proposal exceeds what is permissible by a wide margin.

8.21 In our previous consideration of the proposal, when it was in the form of a Framework Decision, we drew attention to the likelihood of an infringement of the principles of Article 33 EU by seeking to make such detailed rules on the conduct of police investigations. For such provisions to appear in an EC instrument seems to us clearly to involve a breach of the principles of subsidiarity and proportionality. We wholly endorse the comments the Minister has made about the provisions giving right holders a privileged position in relation to joint investigations. We consider these to be entirely unjustified and likely to be conducive to infringements of Article 6 ECHR in

31 The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

relation to the fairness of trials, especially in cases where a criminal investigation is followed by civil proceedings by the right holders.

8.22 The Minister has drawn attention to the vagueness of drafting of a number of key concepts under the proposal, and we would draw attention to the serious risks of confusion arising from the import into domestic criminal law of such concepts as “commercial scale”, “under the aegis of a criminal organisation” or offences which “carry a health or safety risk”, each of which would be given a Community meaning as a result of ECJ case law. We consider it most undesirable that the criminal law should have to cope with such uncertainty.

8.23 We infer from the Minister’s remarks that no further progress is expected on this proposal until the outcome is known of further proceedings brought by the Commission against the ship-source pollution Framework Decision. We therefore ask the Minister to keep us informed of any resumption of negotiations on this proposal. We clear document (a) on the grounds that the draft Directive has been superseded and the draft Framework Decision withdrawn, but we shall hold document (b) under scrutiny.