

*Reto Hilty, Annette Kur and Alexander Peukert**

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

I. Issues Regarding Legal Competence

1. It is uncontested that the Community has room for discretion regarding measures taken for harmonisation in the internal market. Nevertheless, the Community legislature is obliged to embark on a thorough investigation as to the legal and factual conditions for new legislation before action is taken. Apart from very general remarks regarding its competence, nothing in the explanatory memorandum to the proposal indicates that such an investigation was undertaken by the Commission, and, if so, what specific results it produced.

2. Pursuant to the ECJ's judgment of 13 September 2005 (C-176/03),¹ the Community is competent to take measures relating to the criminal law of the Member States when the application of effective, proportionate and dissuasive criminal penalties by the competent national authorities is considered necessary in order to ensure full efficiency of rules enshrining important Community policies. It is not put in doubt therefore that the Community as a matter of principle is competent to harmonise criminal law aspects of intellectual property (IP) rights.

3. However, a distinction must be drawn between the general issue of competence and the question whether the conditions for its exercise have been satisfied in a given case. In the ECJ decision, it has been held with a particular view to criminal measures that they must be *necessary* to achieve the aspired aims. Moreover, for a measure to be founded on Art. 95 EC it is generally required that it is essential for the *proper functioning of the internal market* (Art. 14 EC), i.e. that without harmonisation a *distortion in trade between Member States* would occur.²

4. As a matter of fact, *serious concern* exists as to whether *non-harmonisation* of national provisions of IP criminal law would *impede* commerce in goods and services between Member States as compared to commerce within a Member State alone:

- Violations of IP rights are prohibited in all Member States. The fact that illegal counterfeit and piracy products nevertheless may be available in Member States does not as such furnish sufficient ground for harmonisation. The requirements of Art. 95 are only met if the diversities have noticeable effects

* This text was written by Prof. Dr. Reto Hilty, based on discussions in a working group, with substantial contributions made by Prof. Dr. Annette Kur and Dr. Alexander Peukert.

¹ *Commission of the European Communities v. Council of the European Union*. See also Communication from the Commission to the European Parliament and Council on the implications of the Court's judgment of 13 September 2005, 24 November 2005, COM(2005) 583 final/2.

² See e.g. ECJ judgments of 30 May 2006, C-317/04 and C-318/04, *European Parliament v. Council of the European Union* (processing of personal data), reflecting a cautious approach towards the applicability of Art. 95.

on the internal market; mere obstacles to trade are *insufficient* for the adoption of a Community measure according to Art. 95 EC after the ECJ abandoned its jurisprudence to the opposite effect with the *Keck* decision in 1993.³

- The differences presently subsisting in the criminal law provisions would only pose a concern in that sense if a Member State, as a reaction to insufficient criminal sanctioning of IP violations in another Member State (only criminal sanctions, not sanctions under civil law, are of relevance in that context), subjects goods imported from there to stricter border controls than those stemming from other countries, or otherwise engages in directly or indirectly discriminating practices with regard to such goods. However, no reference was made to such impediments to the proper functioning of the internal market, nor does their occurrence appear plausible.
- Relevant distortions of the internal market may further result if the lack of harmonisation of criminal penalties were likely to produce conspicuous locational disadvantages for businesses. No reference is made to that point either. It must be noted in this context that differences regarding the range of sanctions do not as such furnish evidence for the existence of such distortions. Instead, it would be decisive to know how modest or harsh penalties are in practice and/or whether the differences have an impact on the overall cost structure or other aspects that are of relevance to entrepreneurial decisions taken by business in the individual Member States.
- The necessity of harmonising measures in environmental law does not allow drawing direct conclusions for other legal fields. In environmental criminal law, distortions may indeed occur, as private companies active in states where environmental regulations have not been implemented in national law can, under certain conditions, produce at a lower cost. Conversely, even in the absence of harmonisation of IP penalties, potential differences between business locations can be compensated for through an application of the – already harmonised – enforcement rules under civil law.⁴ This results from the fact that IP law – as opposed to environmental criminal law – is not concerned with a (new) uniform regulation of otherwise legal businesses; on the contrary, pirates conduct a business that is already illegal everywhere and therefore forbidden. Against this background, the relevance to the internal market can *only* result from such barriers to entry that would impede legal, intra-Community commerce.

5. Further reservations against the proposal result from the subsidiarity principle (Art. 5(2) EC):

³ ECJ, Cases C-267/91 and 268/91, 1993 Digest I-6097, 25 IIC 414 (1994).

⁴ By Directive 48/2004, see *also* below.

- Article 61 TRIPS⁵ already contains relatively wide-reaching *provisions against trade mark and copyright piracy* which are binding on the Member States and the EU. The necessity of *wider-reaching* harmonisation appears doubtful. Whether EU Member States have implemented *Art. 61 TRIPS* according to their obligations (Art. 300(7) EC) and in an appropriate manner has – to our knowledge – never been examined. Only when this implementation has proven *insufficient* is a *further* harmonisation justifiable.
- The effects of Directive 2004/48 of 29 April 2004⁶ harmonising civil and administrative sanctions for IP infringements are not yet known. Implementation of the directive is not yet concluded in all Member States, so that experience is lacking as to whether the harmonisation of civil law will prove insufficient.
- In many countries (e.g. in Germany), the criminal law provisions on IP infringement – although well developed – 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 narrow field of actual counterfeiting and piracy (see also below). There is no explanation at all in the motivation for the proposed directive as to whether and why this situation is regarded as detrimental to the internal market, and to what extent the proposal aims at inducing changes in that regard.

6. If one were to assume that harmonisation of criminal penalties for IP infringement is necessary with respect to the proper functioning of the internal market – which is *explicitly doubted* here – and that it does respect the subsidiarity principle, the appropriateness of the measures proposed still needs to be assessed according to the principle of *proportionality*. As a consequence of that principle, the *qualification characteristics of the elements of a crime* must be *defined as clearly and narrowly as possible*. Furthermore, the harmonisation of *penalties* must not go beyond what is necessary to achieve the aims of the EC Treaty (see below, III).

II. Issues Concerning Fundamental Rights

7. Pursuant to recital 12, the proposed directive respects fundamental rights and observes the principles recognised by the Charter of Fundamental Rights of the European Union. In particular, it seeks to ensure *full respect* for intellectual property in accordance with Art. 17(2) of the Charter.

⁵ Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trade mark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistent with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of IP rights, in particular where they are committed wilfully and on a commercial scale.

⁶ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of IP rights, OJ L 195/16-25 of 2 June 2004.

8. If the latter statement should imply the notion that IP protection should be granted *without interference* by public interests and conflicting fundamental rights, this would be incompatible with the guarantee of property rights which, according to the European Convention on Human Rights and the non-binding Charter of Fundamental Rights is a feature common to all national constitutions.

9. Pursuant to Art. 17(2) of the Charter, intellectual property enjoys protection. This does not mean, however, that Community institutions are obliged to reserve all possible use options to the proprietors of such rights, and to impose maximum penalties for infringements. The fundamental rights do not guarantee property rights in an abstract and absolute manner; instead, the right to property is defined and limited by its social purpose. The public interest, as well as the interests of those who have to respect the intellectual property of others, needs to be balanced against the proprietors' interest in protection (see Art. 1, 1st additional protocol to ECHR, Art. 17(1) of the Charter). For instance, in terms of German constitutional law, it is prohibited to focus exclusively on the interests of beneficiaries when promulgating the rules for protection of property guaranteed under the Constitution. Finally, unlimited protection for intellectual property would also clash with the obligations following from the TRIPS Agreement that are also binding on the Community. The preamble should therefore make reference to the necessity of respect being paid to public interests as well as to conflicting fundamental rights.

III. Issues Concerning Elements of Crime

10. In contrast to substantive IP law, European harmonisation in the field of criminal law is not far advanced. This entails considerable risks regarding the – possibly diverging – understanding of certain *notions* (e.g. “intentional”; “aiding, abetting or inciting”) as well as the compatibility of the legal *concepts* underlying the proposal (e.g. criminal liability of legal entities) with the principles generally applying under criminal law.

11. 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 (*ultima ratio*). 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 (*nullum crimen sine lege*). It can be questioned already whether that principle is fully observed in pertinent national law concerning criminal prosecution of IP infringements. In any case it must be avoided that the potential for legal conflicts that exists at present is enhanced by measures taken by the Community legislature.

12. While there is no doubt that combatting 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 all kinds of IP infringement can be viewed as an appropriate and useful tool to safeguard protection of IP rights. There is even a risk that, by enhancing the threatening potential this entails, the (desirable) freedom of market actors to engage in business is curtailed beyond proportion, which would produce results adverse to the aims of the common market.

13. It follows that harmonisation of criminal law in the field of IP, if admissible at all, must remain confined to cases of clear piracy and counterfeiting. In less straightforward cases – in particular when the conflict concerns the scope of protection granted vis-à-vis similar goods or achievements – sanctions under civil law can usually be regarded as sufficient from a Community perspective (notwithstanding rules of national law).

14. Restricting the application of the directive to infringements carried out “on a commercial scale” fails to provide for an *appropriate and sufficiently precise definition* of the elements of a crime, all the more as it would practically only exclude acts undertaken in good faith by consumers.⁷ An example of a more precise definition of what constitutes counterfeiting and piracy can be found in Regulation 1383/2003.⁸

15. Indeed, when proper account is taken of the proportionality principle (see above, 6), harmonisation of criminal penalties can only be justified in relation to acts fulfilling the following elements *cumulatively*:

- *Identity with the infringed object of protection* (the infringing item emulates the characteristic elements of a protected product or distinctive sign in an unmodified fashion [construction, assembly, etc.]).
- *Commercial activity with an intention to earn a profit.*
- *Intent or contingent intent (dolus eventualis)* with regard to the existence of the infringed right.

16. *Parallel importation* of genuine goods which have been marketed with the consent of the rightholder in a non-EU country and/or measures accessory to such imports cannot be considered as piracy or counterfeiting. In accordance with what

⁷ See Recital 14(3) of the preamble to the Enforcement Directive 2004/48: “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.”

⁸ Council Regulation (EC) No. 1383/2003 of the Council of 22 July 2003 concerning customs action against goods suspected of infringing certain IP rights and measures to be taken against goods found to have infringed such rights, OJ L 196/7-14 of 2 August 2003. Article 2(1): “For the purposes of this Regulation, ‘goods infringing an intellectual property right’ means: (a) ‘counterfeit goods’, namely: (i) goods, including packaging, bearing without authorisation a trade mark *identical* to the trade mark validly registered in respect of the same type of goods, or which cannot be distinguished in its essential aspects from such a trade mark, and which thereby infringes the trade-mark holder's rights under Community law, as provided for by Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trademark or the law of the Member State in which the application for action by the customs authorities is made; ... (b) ‘pirated goods’, namely goods which are or contain *copies* made without the consent of the holder of a copyright or related right or design right, regardless of whether it is registered in national law, or of a person authorised by the right-holder in the country of production in cases where the making of those copies would constitute an infringement of that right under Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs or the law of the Member State in which the application for customs action is made ... (emphasis added).

was said above, harmonisation of IP penalties should not be contemplated for such cases.

17. Criminal law is primarily a tool for protecting the public interest, without excluding the use of that tool, in appropriate cases, also for the protection of private interests, like the protection of property. Nevertheless, in order to mark the priority given under criminal law to acts that are *particularly dangerous* from the viewpoint of the public interest, it would be recommendable to regulate specific forms of IP infringement falling into that category *separately* and impose qualified penalties for commitment of such acts. This concerns infringements that carry health or safety risks or severely jeopardise the economic interests of consumers; it would also concern infringements carried out in the form of organized crime. That those aspects shall be taken into account as qualifying elements for the fashioning of penalties based upon one single rule of criminal law, as envisaged (Arts. 5(1), 6(1)), is only the second-best solution.

18. Considering the proposal is motivated by the claim that it is necessary for the proper functioning of the internal market (see above, 3., 4.), it appears inconsistent that it only prescribes a minimum level for the maximal sanction to be imposed. If divergences regarding the penalties imposed would indeed result in distortions of the internal market, one would expect that not only the minimum, but also the maximum level of such sanctions must be prescribed in order to arrive at more uniform conditions applying in that regard in the Member States.

19. Ambiguities must be avoided with regard to the question of *which* (national) *IP rights* are encompassed by the harmonisation of criminal penalties. A catalogue, like the one contained in the statement of the Commission concerning Directive 2004/48,⁹ needs to be set out *in the directive* itself.

IV. Issues Regarding Misuse

20. The *potential of a rightholder to deter potential infringers* increases considerably if criminal penalties are threatened. Furthermore, *procedural misuses* are conceivable. A harmonisation of IP criminal sanctions, therefore, calls for *countermeasures*.

21. Both international¹⁰ and European law require the prevention of misuse of IP rights.¹¹ Misuse disrupts free competition, in contravention of Art. 28 *et seq.* and 81 *et seq.* EC.¹² Consequently, the Member States must be obliged to ensure that the

⁹ Statement of the Commission concerning Art. 2 of Regulation 2004/48/EC of the European Parliament and Council on the enforcement of IP rights (2005/295/EC), OJ L 94/37 of 13 April 2005.

¹⁰ Art. 8(2), Art. 31(c) and (k), Art. 40(2), Art. 41, Art. 48(1)(1), Art. 53(1)(1) and Art. 63 TRIPS.

¹¹ *Misuse of IP rights* exists when rights are employed in a targeted manner, above and beyond the function intended by the IP right, in order to influence the market's economic structure; in particular in order to hamper the development of the European single market or free trade and in order to seal off markets from competitors.

¹² See *also* Art. 15(1), Art. 16, Art. 17(1)(3) and (2) of the Charter of Fundamental Rights as well as Art. 1 of the 1st additional Protocol of the Convention for the Protection of Human Rights and Fundamental Freedoms (free enterprise for the potential victims of misuse, and also the social obligation of IP).

misuse of threats of criminal penalties can be prohibited and/or sanctioned by criminal, civil and procedural measures.

22. A specific risk of misuse results from Art. 7 of the proposal, according to which Member States are obliged to ensure that the holders of the IP rights concerned or their representatives, as well as experts, are allowed to assist in the investigations by joint investigation teams into the offences referred to in Art. 3. As transpires from the explanatory memorandum, it is foreseen that the victims *actively participate* in the prosecution, in particular in the search for evidence. The directive obviously does not regard it as sufficient that the holders of IP rights may, at any time during the investigations conducted by the competent public authority, provide information that they have obtained within the framework of legal rules of general application.

23. The privatisation of criminal prosecution in favour of individual stakeholders' interests implied therein should be rejected for reasons of general legal policy. In democratic societies bound by the rule of law, the state is endowed with a legal monopoly over the use of force. Private parties are not entitled to avail themselves of criminal prosecution measures in order to combat violations of the law committed by fellow citizens. Instead, each individual only has the right to claim protection by the state, if necessary to be ensured by means of criminal law. The clearly defined rules of criminal procedure are only binding upon the criminal prosecution authorities. And even if criminal procedural law were equally applicable to all members of joint investigation teams, democratically legitimised control would be lacking, as proprietors of IP rights do not hold a public office and are therefore not bound by internal directions issued by the prosecuting authority. The obligation of Member States to delegate functions within the conduct of criminal investigations to private parties in such a diffuse manner is therefore *incompatible* with the fundamental structure of a democratic society.