Max Planck Institute for Intellectual Property, Competition and Tax Law

European Parliament – Committee on Legal Affairs

Public Hearing on the Effective Protection of Intellectual Property: A Challenge for Europe

The Harmonisation of Criminal Sanctions in the Field of Intellectual Property

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I. Questions of Competence

1. Considering the most recent judgments by the European Court of Justice (ECJ), the *competence* of the EC with respect to the harmonisation of the *criminal* law aspects of intellectual property (IP) should, as a matter of principle, be beyond all question.[1]

2. However, a distinction must be drawn between the general question of competence, and the question of the *conditions* for its exercise. This is also related to the question of the delineation of *types* of measures in European law.

3. Following the most recent rulings of the ECJ, the instrument of the framework decision (Art. 34(2)(b) EU) is *no longer* available in this regard, as the legal material in question can be harmonised through a *directive*.[2]

4. Issuing a directive on the basis of Art. 95 EC presupposes that it is essential for the *realisation of the single market* (Art. 14 EC), i.e. that without harmonisation a *distortion in trade between Member States* would occur.

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

[1] Judgment of the Court of 13 September 2005 in Case C-176/03: *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, KOM(2005) 583 final/2.
[2] ibd.

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- Whether pirated goods are available within individual Member States is irrelevant from the point of view of *European law*. Relevant are only *barriers to entry to national markets*, for example, in the form of border controls, and *direct or indirect discrimination*.

  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 of 1993.[3]

- Article 61 TRIPS[4] already contains relatively wide-reaching *provisions against trademark and copyright pirating* which are binding on the Member States and the EU. It is doubtful whether additional *wider*-reaching harmonisation would be permissible (*see below* 5).

- In many countries (e.g. Germany), the IP criminal law – although well-developed – only plays a *subordinate role in actual practice*; criminal judgments in patent law are seldom; they have only marginal significance in copyright and trademark law.

- The indispensability to harmonisation of, for example, environmental criminal law does not permit automatic conclusions with regard to other areas of law; what needs to be *examined in each individual case* is whether a lack of harmonisation results in a distortion of competition.[5]

5. If one were to assume that harmonisation were impermissible with respect to the realisation of a single market – which is *explicitly doubted* here – it would have to be assessed according to the principles of *subsidiarity* and *commensurability*.

   Indeed, there are *considerable doubts* as to whether a harmonisation of IP criminal law, *over and above currently existing law*, is *necessary* and *appropriate*:

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[3] ECJ, Cases C-267/91 and 268/91, Digest 1993, I-6097.

[4] Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark 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.

[5] In the area of environmental criminal law, distortion can indeed occur as private companies active in nations 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 a harmonisation of IP criminal law, potential differences in business locations can be compensated for through an application of the – already harmonised (*see* footnote 6) – enforcement rules of civil law. This is because 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 which is already today illegal everywhere and thereby forbidden. Against this background, the relevance to the single market can *only* result from such barriers to entry which would hamper legal, inner-union commerce (*supra* No. 4, 1. bullet point).

- 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 2004[6] are not yet known; it has to be implemented by 29 April 2006, and *all manner of experience remains outstanding as to whether the harmonisation of civil law will prove insufficient*.

- The principles of subsidiarity and proportionality demand that the *qualification characteristics of the elements of a crime* be *defined as narrowly as possible* (*compare* II). Beyond this definition, the *national* legislature remains *free* (subject to III).

- The principles of subsidiarity and proportionality demand that the harmonisation of *criminal sanctions* go only as far as the purposes necessary for reaching the goal of the EC Treaty. The *concrete implementation* remains the responsibility of the *national legislature*.

II. Questions Concerning Elements of a Crime

6. *Criminal* sanctions can have a far more decisive impact than civil sanctions by comparison. Because of this *threat potential*, *hampering* the (desired) *freedom to act on the part of participants in a market* should be avoided.

7. The harmonisation of IP criminal sanctions must, as a result, be limited *to cases of obvious pirating*; for ambiguous cases – in particular questions concerning the extent of protection in the *area of similarity* – civil sanctions are sufficient.

8. The term “commercial scale” mixes aspects and *fails to define the elements* of a crime *precisely enough*. Even the Regulation 1383/2003[7] defines the conditions of liability in a case of injury with more precision.

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[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.

[7] 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; *see also* Recital 14(3) Implementation Regulation Enforcement Directive (*see supra* note 6): “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.” In the interest of coherence with respect to European legislation, these decrees should be coordinated.

As a matter of fact, a harmonisation of IP criminal statutes can be justified from the point of view of the principles of subsidiarity and proportionality only in connection with actions by which the following *elements of a crime* are fulfilled *cumulatively*:

- *Identity of the exploited object of protection* (the good takes on characteristic elements of a protected product or label in a targeted and unmodified fashion – construction, assembly, etc.)

- *Commercial activity* with an *intention to earn a profit*

- *Potential to cause considerable damage*

- *Intent or contingent intent* (*dolus eventualis*)

9. *Parallel importation* of original goods, which have been marketed with the agreement of the rightholder in a country outside the EU and/or accessory measures *reveal no pirating*: In this respect, harmonisation of IP criminal law cannot be contemplated.

10. The *organisational form* of the principal actor is irrelevant with respect to the *elements of the crime*; however, a harmonisation of IP criminal sanctions appropriately demands a gradation in the *gravity of the penalty* according to the potential harm caused (in particular, *organised crime*).

11. Confusion must be avoided regarding *which* (national) IP rights are to be enumerated in a harmonisation of criminal sanctions. A catalogue, like that in the statement of the Commission concerning Regulation 2004/48,[8] belongs *directly in the regulation* itself.

III. Questions of Misuse

12. The *potential of a rightholder to deter infractions* increases considerably if criminal sanctions are threatened. Furthermore, *procedural misuses* are conceivable. A harmonisation of IP criminal sanctions, therefore, demands *countermeasures*.

13. Both international[9] as well as European law require the prevention of the misuse of IP rights.[10] Misuses disrupt free competition, in contravention of Art. 28 *et seqq*. and 81 *et seqq*. EC.[11]

[8] Statement of the Commission concerning Art. 2 of Regulation 2004/48/EG of the European Parliament and Council on the enforcement of IP rights, (2005/295/EG), OJl. L 94/37 of 13 April 2005.
[9] 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.
[10] *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.

14. Consequently, the Member States must be obliged to ensure that through *criminal*, *civil* and *procedural measures*,[12] the *misuse of threats of criminal sanctions* can be *prohibited* and/or *placed under sanction*.

15. Furthermore, Member States must be obliged to *prohibit procedural misuse*, especially as criminal measures are employed for the enforcement of the requirements of civil law.

16. Any kind of *prosecution* must remain at the discretion of the Member States. In order to prevent misuse, the involvement of *private* persons must remain limited to *procedural aspects* such as the right to access records.

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[11] *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, also social obligation of IP).

[12] A measure from criminal law would be the utilisation of the matter of fact of coercion; in civil law, the possibility of compensation for damages stands in the forefront; measures in procedural law can range from legal redress in actions up to process cost assistance in order to mitigate the threat potential of the threat of punishment. The specifics are to be determined according to the requirements of existing national legal principles from national legislatures.