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In summary

– The Commission of the European Communities has issued an amended Criminal Sanctions Directive covering scope, general sanctions and harmonised prison terms and fines. One of the key changes is criminalisation of patent infringements

– The Commission and European Parliament have moved forward aggressively with the proposed directive but the Council of the EU has shown little enthusiasm

– The Advocate General has ruled the Community's competence to legislate in the area of criminal sanctions extends beyond environmental maters and the Community can legislate with regard to criminal measures only at a very general level

– If the European Court of Justice follows the Advocate General's ruling, the Commission will need to withdraw its proposed Criminal Sanctions Directive and revise it

Criminal sanctions remain complex

The EU Criminal Sanctions Directive

Lisa Peets of Covington & Burling LLP thinks the future of the proposed Directive will be as complicated as its past

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As many readers are aware, the EU has long been at work on controversial legislation to harmonise the criminal measures applicable to intellectual property (IP) infringements. The legislation has had an active history: introduced and quickly withdrawn by the Commission, then reintroduced and hotly debated in the European Parliament.

The controversy does not look set to subside any time soon. A recent decision by the Advocate General in *Commission of the European Communities v Council of the European Union*, Case C-440/05, suggests that the Commission may be headed back to the drawing board.

Background

Following on the EU's 2004 Directive on the Enforcement of Intellectual Property Rights (2004/48/EC), which harmonises the ***civil*** rules governing IP infringements, the Commission has been looking to similarly harmonise the relevant ***criminal*** rules. Harmonisation in the criminal field is a more complex undertaking, however, as it touches on sensitive issues of Community competence. Criminal measures have traditionally been viewed as 'third pillar issues' over which the Member States retain authority.

Because of competence issues, the Commission first attempted to tackle IP-related criminal measures in 2005 by proposing two separate pieces of legislation: a Directive, covering the very general areas where the Commission perceived itself as having competence, and a Framework Decision, laying down more detailed rules that the Commission deemed to belong to the purview of the Member States. While the Directive would be subject to the Community's 'co-decision' procedure and could be agreed by a qualified majority of Member States, the Framework Decision required the agreement of all Member States before it could be adopted.

Shortly after the Commission published its proposal, the European Court of Justice (ECJ) issued a decision – C-176/03, *Commission v Council* – that suggested that the Commission might have greater competence than originally thought. Specifically, the ECJ held that the Community could adopt measures requiring Member States to prescribe criminal penalties for a number of environmental offences. It left open the question of whether its holding was limited to environmental matters, however, and also how far the Community's competence extended.

The Commission took an expansive view of the ECJ's decision, reading it to extend to areas beyond environmental matters – an interpretation disputed by the Council, who believed the ECJ's ruling should be construed restrictively. The Commission withdrew its proposed Directive and Framework Decision and reissued the two proposals in a single Directive.

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The proposed Directive covers the following areas, among others:

- **Scope**: In a provision that echoes Article 61 of the WTO's TRIPS Agreement, the proposed Directive (Article 3) requires Member States to criminalise all IP infringements that are (1) intentional and (2) committed on a 'commercial scale'. Article 3 would also criminalise aiding, abetting or 'inciting' intentional infringements on a commercial scale. Significantly, the Commission's proposal does not define 'commercial scale', leaving the phrase open to interpretation by the Member States.
- **General sanctions:** Article 4 of the proposed Directive lists the sanctions that Member States must provide for intentional infringements on a commercial scale. These include custodial sentences; fines; confiscation of the products stemming from the infringement or goods whose value corresponds to those products; destruction of infringing goods; total or partial closure of the establishment used to commit the offence; a ban on commercial activities; judicial winding up; a ban on access to public assistance or subsidies; and publication of the judicial decision.
- **Harmonised prison terms and fines:** The proposed Directive imposes what has become known in Commission-speak as 'mandatory minimum maximum' penalties. Where intentional, commercial scale infringements are committed *'under the aegis of a criminal organisation'* or *'carry a health or safety risk'*, they must be punished by a maximum prison sentence of at least four years (Article 5.1). In addition, intentional, commercial scale infringements must be subject to a maximum fine of at least €100,000 (Article 5.2). Where the offence involves a criminal organisation or health/safety risk, the maximum available fine must be at least €300,000.

Although the proposed Directive represents an ambitious foray by the Commission into the third pillar, the provisions of the Directive itself are relatively modest and largely mirror (or are weaker than) existing national laws. In the case of prison terms for copyright infringements, for example, the proposed Directive will have limited impact as a practical matter because (1) it imposes only a mandatory *maximum* sentence (meaning judges remain free to impose sentences of less than four years); and (2) most Member States already have copyright penalties whose maximums meet or exceed four years.

One of the key changes the Directive would introduce at national level is criminalisation of patent infringements. Currently, not all Member States criminalise such infringements (the UK is a prime example).

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A controversial proposal

Not surprisingly, the proposed Directive has proven controversial on two separate fronts – its substantive provisions and the questions it raises regarding the Community's competence.

Substantive provisions

Although the initial Commission proposal was quite modest in scope, several interest groups have nonetheless alleged that it is overly aggressive. The Foundation for Information Policy Research, for example, described the proposal as no less than *'a threat to competition and to liberty'*. Right holders responded that the Directive in fact was weaker than existing national laws in many instances.

These competing views were reflected during Parliament's 'first reading' of the proposal, completed in April 2007. Among the amendments adopted by Parliament are:

- **Patents:** Among Parliament's most 'popular' amendments was the one carving out patents from the Directive's scope. This was supported by both ' anti-IP' factions and a wide range of innovative industries, all of whom believed that criminalisation of patent infringements threatened to chill innovation in Europe.
- **'Commercial scale':** Less popular was Parliament's amendment on commercial scale. As noted above, the Commission's proposal requires Member States to criminalise IP infringements on a commercial scale, but leaves Member State authorities free to interpret the term. Unhappy with this approach, Parliament has limited the phrase to those infringements *'committed to obtain a commercial advantage'*. As many right holders have pointed out, Parliament's definition could exclude some of the most serious infringers from the Directive's scope. Among them are Internet release groups – sophisticated, highly-organised groups who some believe are the source of over 90 per cent of pirated movies, music and software now available online. These groups generally operate for the thrill and notoriety of being the first to leak a product to the Internet, and not for 'commercial advantage' (generally, they distribute works free of charge).

The Parliament adopted several other significant changes, including one amendment requiring that 'fair use' of a protected work not constitute a criminal offence and another obligating Member States to make the *'misuse of threats of criminal sanction'* (presumably in support of a claim of IP infringement) illegal.

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Competence

While the Commission and Parliament have moved aggressively forward with the proposed Directive, the Council has shown little appetite for it. As noted above, several Member States have taken the view that the Commission is overreaching and have urged the Council to delay consideration of the proposal until the ECJ provides further guidance on the scope of Case C-176/03.

Significantly, the ECJ is currently considering a case that should shed light on the competence question, Case C-440/05, *Commission v Council*. While the ECJ has yet to rule, the Advocate General issued its opinion in late June – an opinion that suggests that the Commission may indeed have overstepped its limits. The Advocate General reached two key conclusions:

- **First, the Community's competence to legislate in the area of criminal sanctions extends beyond environmental matters.** While recognising that the power to impose criminal sanctions is intimately linked to national sovereignty, the Advocate General nonetheless concludes that criminal law is by no means the absolute reserve of Member States under the EC Treaty. As the Advocate General explains: *'… the Community legislature has the power to adopt measures providing for the imposition of criminal penalties where it considers such penalties necessary in order to ensure that the rules which it lays down are fully effective and on condition that criminal measures are essential for combating serious offences in the area concerned.[1]'*
- **The Community can legislate with regard to criminal measures only at a very general level.** The Advocate General goes on to conclude that the Community legislature is entitled to constrain the Member States to impose criminal penalties and to prescribe that they be ***effective, proportionate and dissuasive***. Beyond that, the Community is not empowered to specify penalties to be imposed. The Advocate General justifies his decision by explaining that: *'… in accordance with the principle of subsidiarity, the Member States are as a rule better placed than the Community to "translate" the concept of "effective, proportionate and dissuasive criminal penalties" into their respective legal systems and societal context.'*[2]

Conclusion

If the ECJ follows the Advocate General's ruling (which is probable, but not guaranteed), the Commission will need to withdraw its proposed Criminal Sanctions Directive – which includes detailed sanctions (the purview of Member States) as well as general obligations – and revise it. The ECJ's decision is anticipated later this year. It looks likely that the future of the proposed Directive will be as complicated as its past.

Notes

1. Paragraphs 102
2. Paragraphs 108