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COM(2006) 168 final (8866/06 DROIPEN 31 PI 27 CODEC 405)

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Subject : 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

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**I. INTRODUCTION**

On 2 May 2006 the Commission submitted an 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. The amended proposal for a Directive replaces the earlier Commission proposals for a Directive and a Framework Decision (COM(2005) 276 final). The provisions of the earlier proposals have been incorporated into the amended proposal.<sup>1</sup> The legal basis for the amended proposal is Article 95 TEC (the establishment and functioning of the internal market).

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<sup>1</sup> The only material provisions that have not been included in the amended proposal are those relating to jurisdiction and the coordination of proceedings. The Commission has issued a Green Paper on conflicts of jurisdiction and the principle of ne bis in idem in criminal proceedings, adopted on 23 December 2005, COM(2005) 696 final.

By judgment of 13 September 2005, the European Court of Justice annulled Framework Decision 2003/80/JHA on the protection of the environment through criminal law (C-176/03 Commission v. Council). The European Court was of the view that Article 175 TEC, which refers to Community measures intended to protect the environment, gave the Community competence to adopt measures relating to the criminal law of the Member States. On this basis, the European Court ruled that the framework decision encroached on Community competence, and did not respect Article 47 TEU.

The Commission submitted a Communication to the Council and the Parliament on the consequences of the Court's judgment (COM(2005) 583 final). The amended proposal of 2 May 2006 referred to above, for a Directive on criminal law measures aimed at ensuring the enforcement of intellectual property rights, was issued in line with this Communication.

The outstanding questions concerning the amended proposal for a Directive were submitted to the consideration of Article 36 Committee on 13 September 2006 on the basis of document 11856 /06 DROIPEN 50 PI 44 CODEC 790.

## **II. OUTSTANDING ISSUES**

During the meeting of Article 36 Committee following outstanding issues have been examined:

### **a) Need for criminal measures aimed at ensuring the enforcement of Intellectual property rights**

The Commission has justified its proposal on the basis of research which shows that there are considerable differences regarding criminal penalties in the legislation of the Member States. In the view of the Commission, such disparities between the national systems of penalties hamper effective action against counterfeiting and piracy.

However, during the meeting of Article 36 Committee several Member States (NL, UK, IE, CZ, HU, LV, PL) reiterated their concerns with respect to the need for further criminal measures against the violation of intellectual property rights. While acknowledging the phenomenon of cross-border and organised counterfeiting and piracy, those Member States have expressed doubts as to whether or not the harmonisation of criminal sanctions at the European level would be effective in eradicating such crime. Furthermore, those Member States queried whether such measures would be in accordance with the principle of subsidiarity as set out in Article 5 TEC.

It has also been pointed out that the time-limit for bringing into force the laws, regulations and administrative provisions necessary to comply with the Directive 2004/48/EC has expired only recently, on 29 April 2006. Consequently, from this point of view some Member States (at least DK, HU, UK, AT) considered it premature to enter into discussions about future criminal measures before the effectiveness of the civil law and administrative measures at the Community level has been assessed.

The Presidency notes out that the need for criminal measures in the field of intellectual property rights may be discussed irrespectively of the question of the appropriate legal basis and/or the nature of the future legal instrument (Directive or Framework Decision).

#### **b) First Pillar v. Third Pillar**

At the informal JHA meeting in Vienna on 13 and 14 January 2006, the Ministers of Justice of the Member States held an exchange of views on the Commission's Communication. The JHA Council of 22 February 2006 took note of the results of the informal meeting in document 6466/06 JAI 62, Procedural consequences of the judgment of the Court of Justice in case C-176/03. The following principles, **DELETED**, were accepted in general by the JHA Council as the basis for considering the impact of the Court's case-law on other Community policies:

- As a general rule, criminal law as well as the rules of criminal procedure fall outside the Community's competence. The Community must therefore interpret and apply any exception to this general rule in a narrow sense.
- The Community legislator is entitled to take those legislative measures which relate to the criminal law of the Member States which it considers necessary in order to ensure that the rules which it lays down are fully effective. This implies that the Community legislator cannot oblige Member States to provide for criminal penalties for violations of rules which the Community legislator has not, or not yet, established or which have been established pursuant to national law only.
- The Community legislator must leave to the Member States the choice of the criminal penalties to apply, as long as they are effective, proportionate and dissuasive. Consequently, Community acts cannot determine in detail and exclusively the level of penalties to be introduced. This should be left to the discretion of the Member States.

On 14 June 2006, the European Parliament adopted a resolution on the consequences of the judgment in case C-176/03.<sup>2</sup> While welcoming the judgment, the Parliament nonetheless asked the Commission to apply the judgment only to those fields that are among the main principles, objectives and competences of the Community and to apply it with caution on a case-by-case basis and always in cooperation with the Council and the European Parliament.

Thus, while it has been affirmed in the judgment that the Community has criminal law competence in the field on environmental policy, it has not been established that the Community would have corresponding competence in other policy areas in the first pillar. Also the extent of such competence in terms of defining the level and nature of penalties remains an open question. In the present context, the legal situation thus remains unclear as to whether and to what extent the Community has competence to adopt criminal law measures in the field of intellectual property rights on the basis of Article 95 TEC.

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<sup>2</sup> European Parliament resolution on the consequences of the judgment of the Court of 13 September 2005 (C-176/03), A6-172/2006 of 14 June 2006).

Further guidelines as regards the competence of the Community legislator in the area of criminal law on community fields other than environmental protection might be gained from a judgment in a case still being considered by the European Court, C-440/05 (Commission v. Council). This action concerns the annulment of Framework Decision (2005/667/JHA) to strengthen the criminal law framework for the enforcement of the law against ship-source pollution.<sup>3</sup>

During the above mentioned meeting several Member States ( SE, CZ, LT, UK, DK, SK, IE, PL, SL, MT, HU, AT) suggested that the Council should wait for the judgment in case C-440/05 before pursuing the discussions on the amended proposal. There is no deadline stipulated in the TEC for the Council's first reading. Other Member States (BE, FR, DE, IT, GR, PT, LU, CY) wished for the continuation of the discussions at the Working Party level and some of them proposed leaving the question of legal basis open to be discussed at a later stage.

### c) The scope of the Directive

According to the Explanatory Memorandum to Article 1 of the amended proposal, Commission Statement 2005/295/EC would list the rights which are in the scope of the Directive.<sup>4</sup> Since all of the enumerated rights are not harmonised at the Community level, the list contains both rights which are regulated in Community law and rights which are regulated only in national laws of the Member States.

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<sup>3</sup> The Commission states in its action that the proper legal base for criminal law provisions on ship source pollution should have been Article 80(2) regarding common transport policy.

<sup>4</sup> The rights listed are copyright, rights related to copyright, the sui generis right of a database maker, rights of the creator of the topographies of a semiconductor product, trademark rights, design rights, patent rights (including rights derived from supplementary protection certificates), geographical indications, utility model rights, plant variety rights and trade names (in so far as these are protected as exclusive property rights in the national law concerned. The statement also declares that the Commission considers that *at least* these rights are covered by the scope of the Directive. The list, therefore, might be only indicative.

The majority of the Member States have underlined the necessity to make a distinction between rights under Community law and rights under national law. They are of the view that intellectual property rights which are not harmonised at the Community level should be excluded from the scope of the instrument. This view is closely related to the question of the competence of the Community legislature in adopting criminal measures. Several Member States have referred to the conclusions of the informal JHA meeting held in Vienna of 13 and 14 January 2006 on this matter (see point II b)). The Commission representative objected this option.

Some Member States (FR, IT, ES, BE) have nevertheless been of the opinion that the scope of the instrument should be the widest possible and cover not only the rights harmonised at the Community level but also rights regulated only in national laws. They have stressed the need to combat counterfeiting and piracy effectively at the Community level irrespective of whether the offences concern rights under Community law or rights under national law.

### **III. QUESTIONS FOR DISCUSSION**

#### **The Presidency proposes the following positions as the basis for discussion:**

- 1) The protection of intellectual property rights is of utmost importance. Bearing in mind the principles of subsidiarity and the fact that the use of criminal law is considered as a means of last resort, further scrutiny is needed regarding the need for criminal measures on the EU level in order to protect intellectual property rights.
  
- 2) Noting further that the current evaluation of Directive 2004/48/EC should provide information on the efficacy of EU provisions on civil and administrative measures to protect intellectual property rights, and that fundamental questions concerning Community competence in adopting criminal law measures can better be addressed after the Court of Justice has given its judgment in case C-440/05, discussions should nonetheless be continued at the Working Party level on the substantive provisions of the proposed instrument.

- 3) These substantive provisions of the proposed instrument should be discussed on the basis of a limitation of its scope to intellectual property rights harmonised in Community legislation, in line with the principles stated in the conclusions of the informal JHA meeting in Vienna of 13 and 14 January 2006.

**Coreper/Council is invited to confirm these positions.**

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