

EICTA Response to the Proposed Directive on Criminal Measures aimed at ensuring the Enforcement of Intellectual Property Rights

October, 2006

EICTA welcomes the proposed Directive on Criminal Measures in intellectual property rights (IPR) enforcement, in so far as it relates to a harmonised regime of criminal sanctions for counterfeiting and piracy.

Counterfeiting and piracy represent a serious drain on the proper rewards available to rightholders in the European Union and in this regard the Directive provides an important opportunity to harmonise and, where necessary, strengthen the enforcement of IPR in Europe, in relation to the application of criminal sanctions specifically including penalties and powers of confiscation.

Against this background, it is vitally important for the economic well-being of innovation-based business in Europe that the Directive strikes the right balance between protecting the interests of rightholders without unfairly impeding others from competing in the same market. The proposal in its present form does not achieve this balance and puts unnecessary barriers in the way of businesses involved in innovation in Europe, in particular by proposing to criminalise patent infringement throughout the EU. This would have serious implications not only for large companies but also (and perhaps even more so) for SMEs.

1. Scope should be limited to Counterfeiting and Piracy:

The thrust of the draft Directive is chiefly concerned with combating counterfeiting and piracy. Criminal penalties are entirely appropriate when piracy and counterfeiting are involved, especially when such offences are committed under the aegis of a criminal organisation. However, as it stands, the draft Directive does not discriminate between these types of infringements and what might be called “good faith” infringements.

Good faith infringements are in fact a normal – and indeed healthy and competitive - part of the everyday risk landscape faced by all businesses, especially those concerned with technology innovation. It is a fact of life that launching any new product or service risks infringing third party patents, utility model and/or design rights. The way the product or service is marketed might also infringe existing trade marks. This is part of the everyday risk of doing business and even the most diligent business cannot ensure or guarantee that its products or services will not inadvertently infringe third party rights. “Good faith” infringements (meaning that counterfeiting or piracy is not involved) should not be subject to

criminal sanctions and, as such, should preferably be outside the scope of the Directive altogether.

Introducing such harsh remedies for good faith infringements would present new risks and liabilities for companies conducting bona fide business in Europe. These are risks and liabilities which do not exist in other parts of the world, and so would make Europe an unattractive home for innovative businesses. This holds true not only for big companies but also for SMEs. Indeed SMEs are potentially more at risk in that they are generally less likely to take 'IPR clearance' advice before launching a new product, or undertaking other kinds of infringement risk analysis.

It is also noted that criminal remedies for good faith infringement put unduly strong weapons in the hands of a rightholder with a very weak, possibly even invalid right. It would allow – arguably even *encourage* - a holder of such a weak right to hold a bona fide business to ransom because the threat of criminal sanctions inevitably change the whole dynamic of the business risk assessment and decision making process. Further in cases of commercial dispute between parties where the ownership and potential infringement of IPRs is incidental to the main subject matter of the dispute, affording harsh remedies to the rightholder creates imbalance in the resolution of that dispute and an increased likelihood of an unjust outcome.

Accordingly, the present Directive should be restricted to counterfeiting and piracy, and as such the Directive should apply only to infringement of copyright, designs, or trade marks*. Infringements not involving counterfeiting or piracy should be outside the scope of this Directive altogether. This will necessitate clear definitions of "counterfeiting" and "piracy" to ensure they are distinguished properly from "good faith infringements" generally.

1.1 Patents[†] and Utility Model rights should be excluded:

It is seldom a black or white choice whether a patent can validly be used to prevent a new competing version of a patented technology. This is part of the normal business risk that businesses have to take as a matter of routine when introducing innovative new technology products to market. Although civil sanctions are flexible enough to enable companies to judge the risks and make an informed decision, so encouraging healthy competition, business managers are going to be less inclined to make the same decisions if they risk being held personally criminally liable.

Including patent infringement is likely to have a chilling effect on competitive risk-taking and the supply of alternative products in the market place. If a competitor makes goods similar to those made by a patent owner, and believes that his goods probably do not fall within the scope of the patent or that the patent is likely to be invalid, but nevertheless there is a risk that they could be found to infringe, then - under the current regime - the competitor is (quite rightly) likely to launch his product and leave it to the patent owner to test the situation by negotiation or bringing an action. Under the Commission's proposal the competitor's behaviour may well be regarded as "intentional infringement", and thus criminal.

[†] Including rights derived from supplementary protection certificates

For these reasons several Member States have chosen not to criminalise patent infringement. As we are not aware that the existing differences between national laws would prejudice the functioning of the Internal Market, no harmonisation on this point is called for.

Consequently, patent infringement should be excluded from the scope of the Directive altogether.

Removing patents[‡] from the scope would not impact the central aims or effectiveness of the directive, because, in the event of genuine piracy or counterfeiting there will inevitably be copyright and/or trade mark infringement, and so there is no *need* to include patents within the scope from the point of view of combating counterfeiting and piracy.

Similar arguments apply to utility model rights where generally no examination is made as to the validity of the rights before registration so that the legal rights of the utility model owner are even more uncertain at the enforcement stage. For this reason utility model rights should also be excluded from the scope of the directive.

2. “Intentional infringement” needs to be clarified:

To ensure clarity of what constitutes a criminal offence under the Directive the term “Intentional” in the context of “intentional infringements” in Article 3 needs to be clarified so that it can be applied consistently and fairly throughout all Member States.

The explanation on page 4 of the proposal, namely that the act must be “deliberate” does not help. The standard for criminal sanctions to apply has to be genuine bad-faith behaviour in the sense that the perpetrator has **criminal** intent (*mens rea*).

In particular “intentional infringement” needs to be properly distinguished from mere “knowing” infringement, especially in the case of patents, where – as explained above - a competitor may very well know of the existence of an IPR which is probably invalid and may offer a competitive product or service. If a court were to conclude that such a competitive product or service infringes, this would seem to be a case of knowing infringement which is both deliberate and intentional but by no means should it be criminal simply because the infringer turned out to be wrong in his bona fide belief that the competitive product and/or service did not infringe and/or that the IPR was invalid. Indeed, making such bona fide behaviour criminal would hurt competition as we have explained above.

Furthermore, it is important to guard against creating a climate in Europe where it becomes necessary for companies involved in bona fide innovation to seek a formal and carefully written legal opinion to help shelter from criminal liability, which has echoes of the extremely undesirable and well-known situation in US where legal opinions have to be routinely obtained from IP lawyers to shelter from so called “wilful infringement” and the consequential risk of triple damages. This would become a very onerous and costly additional burden on business in Europe. Furthermore, such a practice would minimise the benefits of the proposal to help innovators license their technologies.

[‡] in line with the definitions of ‘**counterfeit** goods’ and ‘**pirated** goods’ introduced in Article 1 of Council Regulation (EC) No 3295/94 (amended by Council regulation (EC) No 241/1999).

3. Aiding, abetting or inducing should be out of scope:

In referring to “aiding or abetting or inciting such an offence” Article 3 appears to create a new type of IPR infringement, namely inducement to infringe, which is generally not treated as infringement under Member States’ national laws. In this way Article 3 seems to be creating at EU level a new type of IPR infringement that would be subject only to criminal, and not to civil, sanctions. This is a most undesirable – and probably unintended – consequence which can and should be avoided by omitting acts of complicity from the scope of the directive, which can be done by deleting the reference to “aiding or abetting or inciting” in Article 3, and instead simply allowing Member States’ relevant national laws on complicity to apply.

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EICTA, founded in 1999 is the voice of the European digital technology industry, which includes large and small companies in the Information and Communications Technology and Consumer Electronics Industry sectors. It is composed of 56 major multinational companies and 37 national associations from 27 European countries. In all, EICTA represents more than 10,000 companies all over Europe with more than 2 million employees and over EUR 1,000 billion in revenues.

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