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No. Cion prop. : 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.

## **II. 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, some delegations have raised 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, many delegations have expressed doubts as to whether or not the harmonisation of criminal sanctions at the European level would be effective in eradicating such crime. In consequence, there have been doubts whether there is need for criminal measures taken by the Community and 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 it has been considered 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).

### **III. 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.

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>

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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).

<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.

At the Council's first reading under the co-decision procedure set out in Article 251(2) of the TEC, the majority of the delegations in the Working Party suggested that the Council should wait for the judgment in case C-440/05 before pursuing the discussions on the amended proposal. Another option proposed is to continue the discussions at the Working Party level at the same time as the Council is waiting for the new judgment. There is no deadline stipulated in the TEC for the Council's first reading. The Commission and some delegations are, however, opposed to these options and regard it as unnecessary to wait for the judgment.

#### IV. 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.

Several delegations 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 delegations have referred to the conclusions of the informal JHA meeting held in Vienna of 13 and 14 January in this matter (see point III).

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<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.

Some delegations were nevertheless 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 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.

## V. QUESTIONS

- 1) Do the Member States, irrespective of the legal basis of the future legal instrument, deem there to be need for further criminal law measures in order to protect intellectual property rights? Should the work await the evaluation process of Directive 2004/48/EC on civil law and administrative measures in order to clarify whether there is a need for criminal law measures?
- 2) Should the outcome of case C-440/05 between the Commission and the Council, currently pending before the Court of Justice, be awaited in order to clarify Community competence in the field of criminal law in different policy fields?
- 3) If the work with the Directive is to be continued at present, should this be done on the basis of the amended Commission proposal for a Directive or should the scope of the Directive be limited to the intellectual property rights harmonised in Community legislation?

**The Article 36 Committee is invited to discuss the questions mentioned above.**