ECIS European Committee for Interoperable Systems

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ECIS RESPONSE TO THE PROPOSED DIRECTIVE ON CRIMINAL MEASURES AIMED AT ENSURING THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

The European Committee for Interoperable Systems ("ECIS") welcomes the discussion engendered by the Commission's proposal for *a Directive on Criminal Measures Aimed at Ensuring the Enforcement of Intellectual Property Rights* ("**IPRED2 Directive**"),[1] which is intended to "strengthen and improve the fight against counterfeiting and piracy" by providing additional legal tools to "supplement Directive 2004/48/EC of 29 April 2004 on the enforcement of intellectual property rights."[2]

While ECIS supports the aim of the proposal, it is concerned that the scope of the current proposal is too broad, and creates a serious risk to innovation in the ICT industry, *inter alia*, by discouraging the development of interoperable new technologies. For reasons set out below, in order to ensure that the Directive achieves its intended aim, it is vital that the Parliament takes into account the following three key principles when proposing amendments to the Commission's proposal:

(i) patents should be excluded from the scope of the IPRED2 Directive;
(ii) only acts of counterfeiting and piracy should attract criminal liability; and
(iii) criminal sanctions for aiding and abetting should be either removed from the scope of the Directive or limited to acts committed by criminal organisations.

[1] COM(2006)0168.

[2] *See*, 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, page 2 of the explanatory memorandum; *see* also Counterfeiting & piracy: Frequently Asked Questions, section titled 'What are the current Community legal instruments and initiatives aimed at combating counterfeiting and piracy?, available at http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/05/364&format=HTML&aged=0&language=en&guiLanguage=en.

Patents should be excluded from the scope of the IPRED2 Directive

The development and use of new products in the ICT industry often requires the use of technology covered by tens or even hundreds of patents. While the majority of these patents are valid, the fact is that when patents are challenged *many* are invalidated.[3] So when a company is planning its product development strategy, it will often conclude that certain patents it would infringe were it to launch a new product are unlikely to be found valid if challenged. In such a case, it might well decide to take the risk and launch its product without taking a licence. In other words, to use the Commission's language, the company would "intentionally infringe" the patent, and it would do so on a commercial scale.

Criminalizing patent infringement would have especially serious implications for software development. Although in Europe patents are not permitted for software “as such”, many patents do exist on software technologies, though their validity can often be questionable. European software developers may know of these patents and infringe them in good faith believing that they are invalid, but cannot be certain on this score. The decision on validity rests with a patent office or a court. However, if the consequence of potentially infringing such patents is prison, the developers will be dissuaded from taking the risk and proceeding with the development work. The impact would be particularly grave in the area of software interoperability, where the lack of a clear interoperability exception to patents has enabled patent holders to threaten developers of interoperable products with lawsuits. Imposing the threat of criminal sanctions on such developers would aggravate the harm even further. The consequences would be equally drastic for the open source communities in Europe, as the fear of a criminal conviction would discourage open source developers from making valuable contributions to society and the European economy by writing and contributing open source software.

Criminalizing such ordinary product development will threaten the balance in the patent system by encouraging the pursuit and enforcement of weak patent claims. And if the risk of infringing a patent with the ultimate aim of challenging the validity of a patent is so high, innovation will seriously suffer. This would be an unfortunate result for a directive intended to foster innovation.

Only acts of counterfeiting and piracy should attract criminal liability

As regards infringements of intellectual property rights in general, ECIS' main concern is that the proposal does not distinguish between truly criminal activity (*i.e.*, counterfeiting and piracy), and infringements that regularly occur in the course of ordinary business, especially in high-tech industries, but which lack criminal intent.

Examples are numerous. The most obvious case is that of patents (which should in any case be excluded from the scope of the Directive). As is well known, the scope of patent claims is often difficult to interpret, and therefore it is difficult to predict with certainty whether a third party patent is infringed by the company's own implementation of the technology. Nevertheless, a company that knows of a third party patent but which believes it is unlikely that

[3] "Roughly half of all litigated patents are found to be invalid, including some of great commercial significance." Mark A. Lemley and Carl Shapiro, *Probabilistic Patents*, Journal of Economic Perspectives, Spring 2005, at page 1.

its implementation infringes the patent, can be held criminally liable if a court ultimately decides that the patent is infringed.

The current proposal would also have a harmful impact on licensing negotiations. It would, for example, impose criminal sanctions on a licensee in a situation where a periodically renewable licence has expired, but a renewal is being negotiated between the licensor and the licensee. If the licence has expired, even where good faith renewal negotiations are on-going the licensor can threaten the licensee with criminal prosecution if the latter does not agree to terms that are more favourable to the licensor. The scenario is far removed from the types of criminal acts intended to be covered by the directive, but would nevertheless unintentionally fall within its scope.

Another licensing example, which is very topical, arises in the context of standard-setting. Where a licensor for a standard has made a commitment to license its essential patents on fair, reasonable and non-discriminatory ("FRAND") terms, but where there is disagreement between the licensor and a potential licensee on the meaning of FRAND, the licensee risks incurring criminal liability if it attempts to practice the IP covered by the licensor's FRAND commitment. This is the case even if it declares a willingness to pay FRAND royalties and abide by FRAND terms and conditions. Such criminalisation of deliberate use of intellectual property rights pending resolution of the FRAND dispute would void the FRAND promise of all practical meaning, and allow the IP owner to hold the licensee and the standard hostage. As a consequence, the roll-out of new technologies such as those used for third and fourth generation wireless communication devices could be seriously hindered.

A final, everyday example, is the circulation of copyright protected material within an enterprise. If an employee forwards a copyright-protected article to a group of fellow-employees in breach of the copyright licence, then this is certainly an infringement with intent (and can make the employee or the company liable for damages), but is far from a truly criminal act. However, due to the vagueness of the meaning of 'intentional infringement' and 'commercial scale', it would also be likely to result in criminal liability for the employee and/or the company.
The solution is straightforward. Intentional infringement must be defined in the Directive in a way that criminalizes only infringements with malice. In addition, commercial scale must be defined in a manner that excludes isolated acts of infringement within an enterprise, and which does not place criminal liability on enterprises merely because they are entities engaged in commercial activities.

Criminal sanctions for aiding and abetting should be either removed from the scope of the Directive or limited to acts committed by criminal organisations

The proposed directive also aims to criminalize the "aiding or abetting and inciting" of intentional infringements of intellectual property rights.[4] To the extent that the provision aims at criminalizing the behaviour of criminal organisations offering assistance to primary infringers, ECIS considers it a welcome provision.

However, as currently drafted, the provision has much wider implications. It has the potential to make for example device manufacturers criminally liable for selling devices used for copying or for the storing of copies, thus exposing manufacturers of CD/DVD writers, music players and

[4] See article 3 of the proposed IPRED2 Directive.

mobile phones and other similar products to criminal liability for the mere act of manufacturing and selling the good in question. In addition, it risks making providers of web-based services such as social networking sites, auctions, photo-sharing sites and other similar web-based services criminally liable for the distribution of illegal content via their websites.[5]

Such an expansion of criminal liability would be an unwelcome development for Europe, which is endeavouring to become the leading ICT economy in the world. Achievement of that goal would be unlikely, if European companies were criminally prosecuted for infringements committed by their customers.

As the current provision is too broad, it is necessary to either remove it from the Directive altogether, or to define it more narrowly, so as to limit its scope only to aiding and abetting for the purposes of intentionally assisting organised crime.

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About ECIS

ECIS is an international non-profit association founded in 1989 that endeavours to promote a favourable environment for interoperable ICT solutions. It has actively represented its members regarding issues related to interoperability and competition before European, international and national fora, including the EU institutions and WIPO.

ECIS' members include large and smaller information and communications technology hardware and software providers Adobe, Corel, IBM, Linspire, Nokia, Opera, Oracle, RealNetworks, Red Hat, and Sun Microsystems.

The association strives to promote market conditions in the ICT sector that ensure that there is vigorous competition on the merits and a diversity of consumer choice.

[5] The new offence introduced by the proposed IPRED2 Directive would also introduce uncertainty into the interpretation of the limitations of intermediary liability for providers for information society services as set out in articles 12-14 of Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (the "**e-Commerce Directive**").