## EUROPEAN UNION

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### Criminal Sanctions, Counterfeiting and Piracy and European Union Competence

**C-655/21 G.ST.T, EU:C:2023:791 (Court); EU:C:2023:356 (AG)**

### Introduction

The niceties of European Union constitutional law rarely concern intellectual property lawyers. But sometimes the Court of Justice of the European Union hands down what might seem to be an obscure decision but one which may well turn out to be significant. The Court of Justice's decision in *G.ST.T*[1] might be such a case as, for the first time, the Court held that certain *criminal* aspects of intellectual property law (counterfeiting and piracy) fall within the scope of EU law. The reason why this is so significant is nearly twenty years ago the Commission of the European Communities tried to use criminal enforcement, by way of proposing a Directive,[2] as a "Trojan Horse" to move EU competence into the area of criminal law.[3] But ultimately the project failed[4] and was withdrawn. This happened in large part because Member States did not want EU competence to creep into criminal law. Now, through the *G.ST.T* case, this competence has been acknowledged and developed.[5]

### Background

In 2016, G.ST.T[6] was accused of committing several counterfeiting offences to the value of BGN 1,404,590 (priced as original clothing) or BGN 80,201 (priced as counterfeit clothing).[7] The goods were seized and destroyed. The trader was charged with criminal offences under the Criminal Code[8] and these offences were largely complimented by administrative offences.[9] The minimum sentence under the relevant provision of the Code was five years imprisonment (and a maximum of eight years imprisonment) and a fine between BGN 5,000 and BGN 8,000. The referring court asked the Court of Justice various questions about this regime.

### Relationship to the Enforcement Directive

The first two questions related to the relationship between criminal sanctions and Directive 2004/48/EC on the enforcement of intellectual property rights. By way of background, this Directive relates to civil enforcement and the proposed Directive on criminal enforcement was introduced largely because Directive 2004/48/EC did not extend to criminal matters.[10] Unsurprisingly, the Court of Justice was able to deal with this aspect of the case quite quickly.[11] The Civil Enforcement Directive has nothing to do with criminal enforcement as is made clear in a number of its provisions[12] and so that Directive has no role in determining how criminal sanctions are imposed.

### The application of the Charter of Fundamental Rights

The Charter of Fundamental Rights of the European Union sets out various rights which must be guaranteed when Member States are implementing EU law.[13] But it is not possible for the Court of Justice to consider the infringement of one of those rights where it does not fall within the scope of EU law.[14] Accordingly, the Charter is only relevant to criminal sanctions imposed by Member States if they can be tied to an aspect of EU law. In *G.ST.T* this link was made out through the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS").[15] The Court has previously held that obligations on Member States resulting from the EU's membership of an international treaty makes those obligations fall within the scope of implementing EU law.[16] It has also accepted that WTO Agreements, including TRIPS , form an integral part of EU law.[17] Accordingly, when Member

States are giving effect to their obligations under TRIPS they are considered to be implementing EU law.[18] Also TRIPS includes Article 61 which reads as follows:

> *Members shall provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed wilfully and on a commercial scale.*

Accordingly, the obligations under Article 61 form part of EU law irrespective of the lack of harmonisation in the field of criminal sanctions (or the failure of the proposed Directive[19]). So the Charter of Fundamental Rights applies to the implementation of this Article,[20] and in turn the relevant provisions of the Bulgarian Criminal Code and the administrative offences in its Trade Mark Law.[21] This in turn meant the Principle of Legality and Proportionality applied to these laws.

**Principle of legality**

The Court of Justice moved on to consider the Principle of Legality enshrined in Article 49(1) of the Charter. This requires offences and penalties to be accessible and predictable,[22] and so clearly they must be clearly defined.[23] This requirement is discharged "where the individual is in a position, on the basis of the wording of the relevant provision and if necessary with the help of the interpretation made by the courts and a legal opinion, to know which acts or omissions will make him or her criminally liable".[24] There was nothing in the definition of the Bulgarian offences which were found to offend this principle. The Court went on to conclude that there was nothing in the Principle of Legality that prevented the same acts constituting both an administrative and criminal offence[25] or prohibited forfeiture or destruction being imposed as well as other punishments.[26] There is therefore no need to have some distinguishing element between administrative and criminal offences.[27]

**Proportionality**

The Court of Justice moved on to consider whether the sanction under the Bulgarian Criminal Code was proportionate to the crime as required by Article 49(3) of the Charter.[28] It accepted that in the absence of harmonisation, the nature and level of the offences is a matter for Member States.[29] But nevertheless, the sanctions must be commensurate with the seriousness of the infringement and ensure there is a genuine deterrent.[30] The (Bulgarian) referring court's view of the minimum sentence was clear – describing it as "extremely long"– likewise it had concerns about the imposing a "high" fine in addition to imprisonment.[31] In relation to the latter concern, this was dealt with quite quickly by the Court of Justice on the basis that Article 69 of TRIPS provides that the sanction must include imprisonment "and/or" monetary fines. But the Court stated that where the sanction is both imprisonment and a fine then the *combined* penalty must not be disproportionate to the seriousness of the offence.[32]

The reason the Bulgarian Criminal Code failed the proportionality test was the law's failure to allow the individual circumstances of the case to be taken into account.[33] The very nature of mandatory sentences makes this impossible. So, even though the Court accepted that a sentence of five to eight years and a fine of BGN 5,000 to BGN 8,000 was appropriate to attain the objectives of Article 61 of TRIPS,[34] it also took the view that in some cases the penalty might be too severe because the individual circumstances of case could not be taken into account.[35] In short, this suggests that any mandatory

minimum penalty[36] (whether imprisonment or a financial penalty) would not be compliant with EU law.[37]

**Concluding thoughts**

The implications of *G.ST.T* could, in theory, be profound. The decision opens up the possibility of courts in Member States reading down or disapplying[38] counterfeiting and piracy offences where they are insufficiently clear or certain, or require excessive punishment. Whether this will happen or whether it will lead to further references to the Court of Justice is unclear. But as individuals cannot bring claims before the Court of Justice that their rights under the Charter have been infringed and domestic courts (other than final courts) have a discretion as to whether to refer questions to the Court of Justice, it might be some time before any further clarity is achieved at the EU level. But the important point is it is now clear that this could have happened. However it is probably not the impact on individual cases that is most significant but the creeping competence the decision gives to the EU institutions. In the future, it will be easier for the Commission to issue guidance, to negotiate treaties or even attempt another proposal for a harmonising directive covering piracy and counterfeiting.

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[1] C-655/21 *G.ST.T*, EU:C:2023:356 (AG), EU:C:2023:356 (Court).
[2] Proposal for a Directive on Criminal Measures aimed at ensuring the enforcement of intellectual property rights (COM (2005) 276 final).
[3] See Johanna Gibson, 'The Directive Proposal on Criminal Sanctions', in Christopher Geiger (ed), *Criminal Enforcement of Intellectual Property* (Elgar, 2012), 245.
[4] It was withdrawn in 2010: see Withdrawal of Obsolete Commission Proposals [2010] OJ C252, 7.
[5] Only the Austrians intervened to argue that the EU should not have competence. It is also the case that the criminal competence in other areas has been developed.
[6] It is common practice in many countries in Europe for courts not to name criminal defendants in case names.
[7] Court, [5]. Using a conversion rate of Bulgarian Lev to Australian dollars on 9 January 2024, this would be AU$1,179,855.60 and AU$67,368.84.
[8] Nakazatelenkodeks (NK), Art 172b (note the names are transliterations as Bulgaria uses the Cyrillic alphabet).
[9] Zakon za Markie I geografskite oznacheniya (Law of Trade Marks) (ZMGO), Art 81.
[10] The text of much of this Directive has made it into many of the Free Trade Agreements between the EU (and the UK) and third countries: see Phillip Johnson, *Intellectual Property, Free Trade Agreements, and the United Kingdom* (Elgar, 2021), ch 8.
[11] Court, [25] to [32].
[12] See Directive 2004/48/EC, Art 2(3)(b) and (c), Art 16 and recital 28.
[13] Charter, Art 51(1).
[14] C-617/10 *Åkerberg Fransson*, EU:C:2013:105, [17] and [19]; C-83/20 *BPC Lux 2*, EU:C:2022:346, [25] and [26] and Court, [37].
[15] *Marrakesh Agreement establishing the World Trade Organization*, opened for signature 15 April 1994, 1867 UNTS 3 (entered into force 1 January 1995) annex 1C ("*Agreement on Trade Related Aspects of Intellectual Property Rights*").
[16] C-66/18 *Commission v Hungary*, EU:C:2020:792, [69] and [213]; Court, [38].
[17] C-135/10 *SCF*, EU:C:2012:140, [39] and [40]; C-414/11 *Daiichi Sankyo and Sanofi-Aventis Deutschland*, EU:C:2013:520.
[18] Court, [42]; AG, [30].
[19] AG, [33].
[20] Court, [44].
[21] Court, [45].
[22] Court, [49]; also see C-634/18 *JI*, EU:C:2020:455, [48].
[23] Court, [50]; also C-205/20 *Hartberg-Fürsetnfeld*, EU:C:2022:168; Court, [50].
[24] Court, [51]; C-42/17 *MAS and MB*, EU:C:2017:936, [56]; C-570/20 *BV*, EU:C:2022:348, [38]. This accepted the position of the Advocate-General that the scope of a criminal offence can be affected by case law: AG, [43].
[25] Court, [55]. But the overall penalty (that combined administrative and criminal penalty) would still have to be proportionate. It is also the case that the criminal conduct can create civil liability, but this is not contentious: see Court, [79]; but in the United Kingdom, see *R v Johnstone* [2003] UKHL 28, [2003] 1 WLR 1736, [33], [34], [73].
[26] Court, [75].

[27] Court, [58].
[28] It reads "The severity of penalties must not be disproportionate to the criminal offence."
[29] Court, [64]; AG, [46]; also see C-77/20 *K.M (Master of a Vessel)*, EU:C:2021:112, [36].
[30] Court, [65]; C-77/20 *K.M (Master of a Vessel)*, EU:C:2021:112, [37] and [38].
[31] See Court, [72].
[32] Court, [66] and [74].
[33] Court, [67].
[34] Court, [70]. The Court did not consider what "five" or "eight" years imprisonment meant. The severity of the sentence can depend on things such as earlier release and parole (and also matters such as whether it is with labour or the nature of the prisons themselves): see Johanna Gibson, 'The Directive Proposal on Criminal Sanctions', in Christopher Geiger (ed), *Criminal Enforcement of Intellectual Property* (Elgar, 2012), 257 (and her discussion of varying "jail" time when prison terms were mandated by the proposed Directive).
[35] Court, [81].
[36] The Court being allowed to dis-apply the mandatory minimum where there were mitigating circumstances which were exceptional or numerous was not sufficient to be taking into account the individual circumstances: Court, [86].
[37] Unless there was no possible case where the offence would not warrant the minimum term, but it is difficult to imagine this in relation to counterfeiting and piracy cases.
[38] By way of the *Marleasing* Principle (C-106/89 *Marleasing SA v La Comercial Internacional de Alimentacion SA* [1990] ECR I-4135 and the disapplication principle (C-213/89 *R. v Secretary of State for Transport Ex p. Factortame Ltd* [1990] ECR-2433) both resulting from the Supremacy of EU law over the law of Member States.