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Response to the UK Intellectual Property Office's consultation on Penalties for Copyright Infringement (the "Consultation")

The City of London Law Society (CLLS) represents over 13,000 City lawyers, through individual and corporate membership including some of the largest international law firms in the world. These law firms advise a variety of clients from multinational companies and financial institutions to Government departments, often in relation to complex, multi-jurisdictional legal issues.

The CLLS responds to a variety of consultations on issues of importance to its members through its 17 specialist committees. This response to the UK Intellectual Property Office's consultation on Penalties for Copyright Infringement (the "Consultation") has been prepared by the CLLS Intellectual Property (IP) Committee. The Intellectual Property (IP) Committee is made up of representatives of members' firms that have significant IP practices with extensive experience of helping clients protect, enforce and exploit IP rights. Our members operate principally in the field of civil IP law and, as such, tend not to get directly involved in criminal IP prosecutions or defences although our clients often assist Trading Standards and the Police in prosecutions. Accordingly, we have experience of dealing with such matters in the context of assisting our clients both as victims of the crime and as prosecution witnesses and generally to support their anti-piracy and anti-counterfeiting campaigns.

The CLLS welcomes this consultation so far as it goes. However, we consider it should go wider and look in more depth at the law and practice of confiscation orders made under the Proceeds of Crime Act 2002 ("POCA") following convictions for any IP offences. We consider POCA to be the single most powerful legal weapon in the fight against IP criminals. In particular, we believe that it would have a very material impact on this trade if confiscation orders were sought and made almost routinely for the majority of such offences, not just the large-scale cases. For this to happen, the process for obtaining them needs to be made much less complicated, protracted and expensive for prosecuting authorities. In addition, it should ideally also be at least a cost-neutral process for law enforcers.

We believe it was a mistake for POCA to remove the power of the Magistrates' Courts to make confiscation orders for IP cases. We would like to see this power reinstated, if only in relation to a streamlined process (both as to the financial investigation and prosecution procedure). This may mean Magistrates' Courts making confiscation orders up to a maximum of £10,000 (at least, but preferably £50,000). For larger cases, the Magistrates' Court could remit the case to the Crown Court.

As regards the main purpose of the consultation, the CLLS is fully supportive of the legislative change being proposed. It corrects an anomaly in the law that was out of touch with reality, as a result of ever improving internet broadband and download speeds, 3G connectivity for mobile media players, greater computer RAM and more content generally in digital format

(even if encrypted or protected by other digital rights management software). As a result, online infringement of all types of copyright is on the increase and on a scale that is commercially very damaging to copyright owners. Because, relative to the physical world, the start-up costs for such acts of infringement are so low and the detection and prosecution rates are also low, the incentive is there for criminals to focus their efforts on making large profits online.

For Magistrates' Courts to be restricted to imposing fines of no more than £5,000 for such offences is not only an insufficient deterrent but sends the wrong message about such crimes to the public. The option of a fine of £50,000 at least sends a message that the law sees distribution of pirate copies online etc. as a serious criminal offence, which may go some way to reducing what is clearly an existing public appetite to purchase such copies.

Whilst it is possible that large scale infringers will not be deterred by this, not least as prosecutions for this level of crime can already be heard in the Crown Court, hopefully the effect will be that more of such cases are investigated and prosecuted when previously that might not have been the case due to the additional cost of prosecuting in the Crown Court.

To address the UK IPO's questions in turn:

1. OPTION 1 – MAKE NO CHANGE TO THE LAW

1.1 *Do you think that POCA already provides an effective means of depriving offenders of the profits from IP crime?*

Potentially yes. POCA is clearly a formidable asset in the fight against IP crime. Our experience is that removing money and assets from criminals is considerably more effective than imprisonment or fines alone. As far as we know, the power to do so in the context of IP crime is unique to the UK. In our experience, gained working with clients internationally and from representation on international trade bodies, this power is viewed with considerable envy by law enforcement bodies, IP lawyers and IP rights holders in many other countries.

In practice, however, we think POCA is not being as effective as it could be. We consider it is important that local Trading Standards Departments (TSDs) are both able and inclined to seek POCA confiscation orders for lower value offenders, as well as in the bigger cases. This is not least because it is these offenders that are commonly infringing the IP rights of many rights holders, but none on a sufficiently large scale to justify the time and expense of any one of them commencing civil infringement proceedings to sue for damages. In our view, the fact that a criminal has reaped a lesser benefit from his crimes than others may have done is no reason not to deprive him of those gains. It seems just as likely that those gains will form the foundation for further, expanded, criminal operations in the future. As a result, we consider that POCA orders should be used even more than is currently the case.

We are particularly concerned to ensure that the TSDs have sufficient resources to exploit fully the POCA confiscation procedure for IP crimes. Unfortunately, for many cases, it seems that TSDs see a POCA claim as not worth the extra hassle and cost. This is something which we consider requires further investigation and wider consultation, with LACORS amongst others. Such a consultation should consider the following:

(a) *Accredited Financial Investigators (AFIs)*

It is not clear to what extent all TSDs across the UK have ready access to AFIs. This is particularly important since only the AFIs can seek some of the ancillary orders central to the process, e.g. account monitoring orders, production

orders, disclosure orders and search & seizure warrants. Where a TSD does not have an AFI 'in-house', it must outsource the function to the Police, SOCA¹ or another TSD: any one of which may be suffering from a similar shortage of resources. The CLLS is aware of anecdotal evidence² to suggest that this is particularly difficult where the investigation is not of a sufficiently high value. If this is correct, assuming many TSDs lack an AFI, it is likely that a significant number of potential confiscation orders are not being sought.

One option to consider is allowing TSDs to pursue a confiscation order up to a certain limit without the involvement of an AFI. Alternatively, no AFI could be required if the order seeks only to confiscate the benefit derived from the "particular criminal conduct" and not the "general criminal conduct" (the latter sweeping up previous conduct under the criminal 'lifestyle' presumptions).

(b) *Incentivisation scheme*

Those TSDs without an in-house AFI are further discouraged from pursuing POCA orders as a result of the government's incentivisation scheme. Whilst the scheme itself is commendable, these TSD miss out on a sixth (soon to be a fifth) of the recovered confiscation amount because it will not have conducted the financial investigations itself. This will particularly discourage POCA actions against lower value offenders.

(c) *POCA in the Magistrates' Courts*

Apart from AFI resource issues, smaller cases that are otherwise likely to be prosecuted in the Magistrates' Courts now have to be remitted to the Crown Court if any POCA order is being pursued. This adds to costs and delay to the process which can only serve to discourage pursuit of these orders by TSDs, the vast majority of whose prosecutions occur in the Magistrates' Courts. This was not originally the position and is a change made by POCA that, we submit, should be reconsidered as part of a wider consultation process. In particular, for now, it means those TSDs incur the additional cost of hiring counsel to attend separate Crown Court hearings.

We note that there is an option in [section 97 of the Serious Organised Crime and Police Act 2005](#) for secondary legislation to restore the power but only for orders up to £10,000. We believe there would be a benefit in exercising that option, provided this was combined with changes that address the matters set out elsewhere here.

(d) *Specialist advice and assistance for TSDs*

Given the complications in the current POCA procedures, it is important that suitable bodies of expertise are built up amongst TSDs or otherwise made available to them. Provided SOCA or Regional Asset Recovery Teams (RARTs) can continue to provide TSDs with the level of specialist experience and knowledge that used to be focussed in the Asset Recovery Agency, then it is less material that all TSDs themselves have this expertise. However, at present there are no RARTs for many regions in the UK and we are concerned that SOCA will only be interested in helping in the very large-scale cases.

¹ Serious Organised Crime Agency, which has assumed the some of the duties of the now defunct Assets Recovery Agency.

² <http://www.newport.gov.uk/stellent/groups/public/documents/report/cont219794.pdf>, paragraph 1.13

(e) *Omission of certain copyright offences from POCA*

Four copyright offences are not expressly covered by POCA. These offences are:

- (A) s.107(2A)(a) – infringement of copyright by communicating a work to the public in the course of a business
- (B) s.107(2A)(b) – infringement of copyright by communicating a work to the public otherwise than in the course of a business to such an extent as to affect prejudicially the owner of the copyright
- (C) s.198(1A)(a) – infringement of a performer's making available right in the course of a business (in the knowledge or reasonable belief that the act in question so infringes)
- (D) s.198(1A)(b) - infringement of a performer's making available right otherwise than in the course of a business to such an extent as to affect prejudicially the owner of the making available right (in the knowledge or reasonable belief that the act in question so infringes)

It would seem that these offences are not specifically classed as Schedule 2 POCA 'lifestyle offences' because they were inserted into the CDPA after POCA was enacted. However, as it stands, none of these offences can give rise to a confiscation order unless it (a) generates income of £5,000 or more and (b) is committed over a period of at least 6 months or as part of a 'course of criminal activity'. Adding these offences to Schedule 2 POCA would contribute to the equalisation of the penalties for 'online' and 'physical' infringements and would therefore seem to be in the spirit of the Gowers Review.

In order to assess the effectiveness of the POCA confiscation regime specifically in respect of copyright offences, the CLLS also looks forward to the 2008 edition of the IP Crime Report. This should be more informative than the 2007 edition, which captured only one month of ss.107A and 198A CDPA being in force.

We believe it would have a real impact on this very damaging illegal trade in the UK if confiscation orders were routinely handed out in even the smallest of cases. It may mean a sentence of 100 hours community service plus a £500 fine (not untypical for counterfeiting offences) might be accompanied by, perhaps, a £4,000 confiscation order. This could lead to a van or truck being forfeited and not just the seized stock. It turns the overall penalty from being an irritating cost of doing the illegal business into a serious set back to their trade. Achieving this would require a careful look at how to make the process of obtaining confiscation orders much easier, cheaper and more attractive for law enforcement agencies.

2. OPTION 2- INTRODUCE EXCEPTIONAL STATUTORY MAXIMA OF £50,000 FOR COPYRIGHT OFFENCES

2.1 *Should exceptional summary maxima be introduced for all copyright offences in the CDPA?*

As outlined above, the CLLS supports the increase of the maximum fine for copyright offences. It is likely to be of most impact on prosecutions where the income accruing to the defendant is between £5,000 and £50,000. It would also be of use against less

sophisticated offenders whose substantial but ‘one-off’ offences do not require extensive investigation nor satisfy the ‘lifestyle’ requirements under POCA to engage the confiscation order procedure in the Crown Court. That assumes the POCA process remains as it currently is. As noted above, such offenders could be dealt with more swiftly and at lower public cost than via committal to the Crown Court.

The CLLS considers that the following are required to maximise the effectiveness of the increase:

- (a) A robust addition to the Magistrates’ Sentencing Guidelines to cover copyright offences in the same way that offences under section 92 of the Trade Marks Act 1994 are currently covered. Without this the risk is that Magistrates, in the absence of tailored guidance, will simply commit to the Crown Court for sentencing any cases which relate to gains obviously in excess of £5,000 and the statutory increase will achieve very little. There may be no need for any modification to the Guidelines’ *‘Approach to the assessment of fines’* as the section dealing with *‘offences committed for ‘commercial’ purposes’* already provides for illegal income derived (or expenditure illegally avoided) to be taken into account when setting the amount of the fine to be imposed. However, in order to allow the new maxima to bite fully, the CLLS suggests that this section be clarified so as to guide the court in applying the derived income amount within the new £50,000 framework. The CLLS recommends that the guideline fine be the amount which is closest to the derived income amount but which does not cause undue hardship.
- (b) Further judicial training in the area of copyright and IP offences (as noted in the Gowers Review, Recommendation 44).
- (c) A national media campaign to publicise the change and generally to contribute further to public awareness (including that of law makers and enforcers) about IP crime. It may be effective to have a campaign run through local TSDs to alert would-be offenders that the Magistrates’ court just half a mile from their home has just had its fining powers increased 10-fold in respect of these offences.
- (d) Effective enforcement of the fines imposed. This should not require any additional measures, as fines currently imposed by the Crown Court (which could be between £5,000 and £50,000) are enforced by the referring or designated Magistrates’ court.

Finally, we note that although this proposal accords with the spirit of the Gowers Review’s Recommendation 36, it does not actually implement the Review. This is because it does not address the increase in maximum term of imprisonment for the offences at ss.107(2A) proposed by the Review. The CLLS agrees with the Gowers Review that the imprisonment penalties for these offences should be increased. This would equalise the penalties for online and physical copyright infringements and would indicate the government’s commitment to its promise of tackling IP crime comprehensively and forcefully.

2.2 *Do you agree that one level (not to exceed £50,000) of exceptional statutory maxima should be set for all offences in the CDPA?*

The CLLS agrees that there is no reason to distinguish between the various copyright offences for the purpose of maximum fines and feels that the level of statutory maximum fine should not be less than £50,000 in order to achieve its purpose as discussed above.

2.3 *Do you have any general comments on how the magistrates' courts deal with copyright offences?*

Not other than as set out above.

2.4 *Do you think that different levels of exceptional statutory maxima should be set for the various copyright offences?*

As noted in our response to question 2.2 above, the CLLS sees no reason to distinguish between the various copyright offences for the purpose of maximum fines. To do so would send confusing messages to the public in our view.

3. OPTION 3- INTRODUCE EXCEPTIONAL STATUTORY MAXIMA OF £50,000 FOR ALL IP OFFENCES

3.1 *Do you think exceptional statutory maxima should be introduced for all IP offences and should different levels be set for the various IP offences?*

The CLLS does not feel that the legislature should draw a distinction between the merit and value of different IP rights, so far as their infringement by criminals is concerned. As the Consultation notes, many prosecutions relate to acts which infringe both copyright and trade mark rights and many of the considerations and issues explored above are equally applicable to all IP offences. The nature of the criminality and the harm to rights holders, consumers and the wider community are broadly similar regardless of whether a trade mark right or copyright is infringed. On that basis the CLLS agrees that the maximum fines for these other IP offences should be increased in line with copyright offences. Again, we see no reason to distinguish between IP offences for the purpose of maximum fines.