

INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

2002 SPECIAL 301 REPORT

ITALY

EXECUTIVE SUMMARY

Incorporating real deterrence into the Italian legal system has been, and still remains, the key enforcement issue. With the Anti-Piracy Law entering into effect in September 2000, Italy must now implement it. Initial indications are that the law is being enforced in a more aggressive manner. It remains imperative that the new higher level of fines and jail terms be imposed in practice, with the goal of deterring piracy. Piracy rates in Italy exceed 20% and higher across the board – still among the highest rates in Western Europe. Organized crime elements are involved in commercial piracy, and Internet piracy in its many formulations is beginning to threaten the development of new and existing markets.

Enforcement in Italy should proceed in a TRIPS-compatible manner with deterrent penalties. Such deterrence includes exempting high technology products (particularly software) from a burdensome and TRIPS-inconsistent “stickering” provision of the Anti-Piracy Law and ensuring that such products still receive criminal protection. Enforcement should be targeted also at piracy by organized criminal enterprises in the south and the full panoply of new remedies applied against the real owners and operators of pirate enterprises. Judicial reform should be expedited to remove the long delays that have caused problems not only in the anti-piracy area, but which have made Italy’s system a subject of scrutiny within the entire EU. For these reasons, IIPA recommends that Italy remain on the Watch List for 2001.¹

ITALY: ESTIMATED TRADE LOSSES DUE TO PIRACY (in millions of U.S. dollars) and LEVELS OF PIRACY: 1996 - 2001

INDUSTRY	2001		2000		1999		1998		1997		1996	
	Loss	Level										
Motion Pictures	140.0	20%	140.0	20%	160.0	25%	200.0	30%	220.0	30%	278.0	35%
Sound Recordings / Musical Compositions	40.0	23%	50.0	25%	60.0	25%	60.0	20%	60.0	20%	51.0	22%
Business Software Applications ²	285.0	46%	327.0	46%	338.4	44%	276.5	45%	216.4	43%	291.9	58%
Entertainment Software	NA	74%	NA	65%	60.9	52%	58.2	50%	61.8	53%	65.0	55%
Books	23.5	NA	23.5	NA	23.0	NA	21.0	NA	20.0	NA	20.0	NA
TOTALS	488.5		540.5		642.3		615.7		578.2		705.9	

¹ For more details on Italy’s Special 301 history, see IIPA’s “Special 301 History” summary (appendices D and E of this filing).

² BSA loss numbers for 2001 are preliminary.

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Piracy Levels Remain High Across All Industry Sectors

Piracy rates in Italy across all industries remain at 20% or higher, as has been true for the last 10 years. These high piracy levels have been fueled by Italy's having had among the lowest statutory criminal penalties in Western Europe and a judicial system infamous for crushing delays. This had been combined with a national attitude, reflected in the Judiciary, that even serious economic crime generally does not deserve high fines and jail terms. This attitude extends to where intellectual property offenses are concerned. The 2000 Anti-Piracy (AP) Law contains all the elements necessary to start the downward trend in piracy rates and losses, with higher maximum criminal penalties making it a "serious" crime, clarification of the criminality of business end-user piracy, the addition of administrative sanctions, and a number of other provisions specifically targeted at copyright piracy. IIPA and its members have praised the Italian government for finally taking this important legislative action, but the copyright industries remain concerned about implementation and the failure to date to further fix certain deficiencies that seriously impact the business software industry. On the positive side, enforcement actions by the authorities in 2001 have increased following passage of the AP Law (see enforcement section, below).

Video piracy of motion pictures before and during their Italian theatrical release remains a serious piracy problem in 2001 and continues to cause the film industry's highest losses in Western Europe. Annual losses to the U.S. motion picture industry due to audiovisual piracy in Italy are estimated to be \$140 million in 2001. The video piracy rate is around 20%, of which only a small portion is due to optical disc piracy. The piracy rate remains in the 30%-40% range in southern Italy. Pirates normally use stolen theatrical prints as masters, or they duplicate directly from cinema screens. The areas of Italy most affected by this kind of piracy are Campania and Lazio, Puglia, Calabria and Sicily in the south, as well as Veneto and Lombardy in the north. Organized criminal groups dominate this prerelease video piracy. Back-to-back copying of videos for copy depth in video shops is also a persistent problem, particularly in the high demand period immediately after a title's video release.

VCDs and DVDs are slowly supplanting traditional piracy of videocassettes. While there is no concrete evidence of counterfeit DVDs flooding the market, DVDs are being used to create masters for illegal video copies. VCDs and CD-ROMs containing film recordings are being sold in flea markets located mostly in the South of Italy. DVDs and VCDs can be found at large laboratories and duplication centers which are producing not only VHS copies, but also mass quantities of other pirated goods ranging from audio-visual and musical products, to software and video games. The impact of optical disc piracy is expected to continue to grow over the next couple of years, unless improved enforcement and the application of deterrent penalties occurs.

Other problems facing the motion picture industry include unauthorized public performances in social centers and broadcast TV piracy. Unauthorized public performances in social centers and private clubs remain a problem. Such clubs exhibit first release theatrical films to their "members" during, or even in advance of, legitimate theatrical release. They also exhibit videos rented from nearby shops, and in some cases, purchase sell-through videos, which they then rent to their clients. This type of piracy is also practiced by hotels, cruise ships, and ferries. Obviously, such violations increase during the summer months and the tourist season.

Broadcast television piracy, among the almost 700 local private television stations, is a continuing concern, particularly in southern Italy and Sicily. These companies engage in the practice of transmitting motion pictures without having previously acquired the rights and sometimes even airing illegally copied VHS tapes of first-run films. It appears that the TV stations are being duped by phony licensing agreements and "ghost" companies. FAPAV, the local anti-piracy organization, works with the Authority for Communications Security and files criminal complaints against broadcasters engaged in piracy.

With the introduction of commercial pay television in Italy, satellite signal theft piracy is growing at a strong rate. The two Telepiù terrestrial channels ("Telepiù White" and "Telepiù Black") and the three Telepiù satellite channels ("Telepiù White", "Telepiù Black" and "Telepiù Grey") and their digital "bouquet" "D+," as well as other encrypted satellite channels from abroad, are received and descrambled without authorization using illegal decoders and smart cards. Italian satellite television magazines and some newspapers market these illegal materials with numerous pages of advertising. The trade in illicit smart cards has increased significantly over recent years, and more pressure from pirates on the legitimate industry is expected. MPA reports that pirates are increasingly using the Internet as a resource to sell counterfeit copies and equipment modified for illegal use.

The sale and use of pirate smart cards is a major problem, the piracy rate being in excess of 50%. The problem has been severely aggravated by the effect of Legislative Decree 373/00, which has been held by the Court of Cassation to have nullified the corresponding criminal provision of the Anti-Piracy Law. A bill has been presented in the Senate to reinstate the former criminal provision, which needs to be passed into law as a matter of the greatest urgency.

CD-R burning has remains the most common type of music piracy in Italy and is the recording industry's largest problem. Large illegal CD-R burning centers are active all over Italy (especially in the south), and consolidated street vendors networks take care of distribution of these illegal products. The estimated piracy rate declined slightly to 23% in 2001. In March 2001, the recording industry believes that a world record was set with the largest seizure ever of the new, and dangerous, phenomenon – the CD-R "factory." In this raid, 189 linked CD-R burners were seized. Organized crime is often behind this CD-R production. Especially in the south, some of the most infamous criminal networks manage the CD-R production and distribution and invest the huge profits in both illegal practices like smuggling, drug dealing, weapons trading and other illegal activities. CD burners are usually hosted in private apartments (students and/or unemployed people are provided with a monthly fee in order to host and to run the machinery 24 hours a day) as are printing machines for labels and cover art. Burned CD-Rs and printed inlays are then delivered to clandestine warehouses where the material is assembled and distributed to street vendors.

There are also intricate distribution networks including "megastores" in which the front men operating retail facilities are paid by these gangs to "take the rap" when raids are conducted and arrests made. CD-R piracy and distribution of recorded music has become a serious problem in Italy. While counterfeit product also was a problem in past years, in 2001 little evidence of counterfeit goods came to the police force's attention. However, there was one major raid carried out in December 2001, with more than 30,000 counterfeit CDs imported from Eastern Europe seized by the *Guardia di Finanza*.

Piracy of entertainment software has continued at high levels, both in sales of hard copies of PC and console games, and through persistent hacking and Internet piracy. This piracy is also

under the tight control of the Mafia, not just in the south (like Naples) but throughout Italy. Illegal immigrants are often used to distribute these pirated products. The entertainment software industry also experiences high levels of imported pirated product from production centers in Eastern Europe, the C.I.S. and Asia, particularly Ukraine, Russia, and Malaysia, with Malta and Croatia continuing as transshipment points for pirate game product. Estimated trade losses due to videogame piracy are not available.

Piracy of business applications software by corporate end users (end user piracy) – the major focus of the business software industry in Italy – remains among the highest in Europe. As described below, however, there have been recent positive developments on the enforcement front since passage of the AP Law. However, these gains could be substantially eroded, if not nullified, by a burdensome and TRIPS-inconsistent provision of the law that Italian officials are interpreting to require that certain software products bear a sticker of the Italian collecting society, SIAE, in order to benefit from the protections afforded by the new law. This issue is discussed in greater detail below. Estimated 2001 trade losses due to software piracy in Italy amounted to \$285 million, with a 43% piracy level.

Wide-scale photocopying piracy has been a consistent problem in Italy, due primarily to the failure of the enforcement authorities to take action. Frustrated by the breadth of the problem and the failure of the government to combat it, the publishing community sought and received in the new AP Law the authority to require remuneration for the act of photocopying. Thus, the new AP Law now requires payment per photocopy made. An accord was signed between the copy shops and the Italian Publishers' Association on December 18, 2000, setting payments at 65 lire (\$0.029) per page after January 1, 2001. This increased to 85 lire (\$0.038) per page from September 1, 2000 and increase every year until 2005, when it will be 135 lire (\$0.061) per page. However, no similar agreement has yet been reached with librarians, so copying in universities continues. The Italian reproductive rights organization (RRO) has been negotiation with the Association of University Librarians, but a final arrangement has not yet been reached. In 2001 the amount of unauthorized copying made by students in universities has declined somewhat as the universities have had to make payments. Estimated losses due to book piracy in Italy last year were \$23.5 million.

The Growing Threat: Internet Piracy

The Internet is a fast-growing market in Italy, with pirates using its resources to sell counterfeit copies and equipment modified for illegal use. MPA reports that there are also sites that contain information about instructions for smart card production or updates of the latest protection codes. In fact, one major case involving university students who downloaded large numbers of films is currently within the Italian court system. The Postal and Telecommunications Police have begun to expand their activities to include this kind of piracy. IDSA also reports widespread use of Internet piracy involving distribution of videogames.

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In addition to high piracy levels in Italy, the copyright-based industries also are united by the common problem of a judicial system that is in dire need of reform so that caseloads can be

reduced and brought to final judgment. Italian judges must also take more seriously the need to set deterrent-level fines and, in particular, significant jail time for major organized crime elements. With the increased penalties, the judges have the tools. The question is whether they will be used. While the anti-Mafia police and prosecutors have generally done a good job in raiding and prosecuting organized crime, resources are insufficient and the courts have been a continuing problem.

Italy has not been in compliance with its TRIPS enforcement obligation for years, with respect to low criminal penalties in its law, the failure to impose deterrent penalties, and long delays and cumbersome court processes. The AP Law solves the first of these problems, but the others remain. First, these new penalties must be applied in practice. Many Italian magistrates are reluctant to impose deterrent penalties on pirates, especially where, as is often the case, the defendant is not a native Italian. This is particularly regrettable as such persons are in fact the preferred channel used by organized crime for the distribution of illegal product. The government must set a clear policy of deterrent action against all pirates, whatever their origins.

Second, judicial reform and public education must be taken seriously. As IIPA has recommended for the last two years in our Special 301 submission, Italy should pursue and maintain a national, well coordinated anti-piracy campaign. Last year SIAE made a small start in this direction by broadcasting a number of television spots on video and music piracy. More work needs to be done. Such campaigns can help in establishing a proper atmosphere, as would the establishment of regional coordination groups in each prefecture with the participation of special IPR-trained prosecutors. Italy should conduct an extensive public information campaign to convince enforcement authorities and the public of the damage being done to the Italian economy from failing to effectively fight piracy.

Criminal Enforcement and Italy's TRIPS Obligations

Effective criminal enforcement has been hindered for years by the weakest statutory criminal penalties in Western Europe and the continued unwillingness of judges to impose them. Now, with the significant increases in statutory penalties, Italy is poised to attack the piracy problem anew with the proper tools. Police have generally been cooperative despite the frustration of criminal cases rarely being concluded, or any eventual penalties being so low that there is virtually no disincentive to be in the piracy business.

A particular problem is the use of the *Giudizio Direttissimo* (Immediate Judgment) to reduce the backlog of criminal cases. Pirates are routinely brought straight before a judge under this procedure to receive a low suspended sentence of imprisonment. The pirate is then released to resume his offending. Using false names, a pirate may go through this process a number of times without any serious interruption to his piracy.

All industries use the criminal system; the civil system is even slower and less efficient.

The 2000 Anti-Piracy Law On the Books

The new AP Law raised maximum fines from 3 million lire (\$1,348) to 30 million lire (\$13,480). Minimum prison terms are increased from three months to six months, but still may be suspended at this higher level. Maximum prison terms are raised from three to four years,

rendering piracy a more serious crime as a result. In a precedent-setting decision, the Parliament established consumer fines in the law for possessing infringing material, to be imposed instantly, of 300,000 lire (\$135).

Despite the salutary changes accomplished by the 2000 Anti-Piracy Law, there remain many enforcement deficiencies common to all industries:

- **Failure to impose deterrent criminal penalties in commercial piracy cases:** Before the new AP Law, Italian courts did not impose even close to the maximum penalties now available resulting in minimal deterrence to infringement. This was often the result of plea bargains agreed by prosecutors anxious to remove cases from their workload. Before the new law, penalties *actually* imposed on pirates remained among the lowest in the EU. When jail terms were imposed, they were nearly always suspended or, in past years, pirates were subject to general amnesties, reducing the deterrent effect of these actions. Perhaps most pernicious was that recidivism was rampant, with examples of pirates being convicted numerous times with no increase in penalties. The recording industry gives the example of one person in Naples having been denounced 84 times. And the software industry reports that, to the best of their knowledge, although the law extending copyright protection to software was adopted in 1992, Italian courts have to date never imposed a prison sentence on an end-user pirate. In order for Italy to meet its TRIPS obligations, the prosecutors and judges must ensure that the new penalty structure is *actually* implemented.
- **Absence of expeditious criminal remedies and avoiding unwarranted delays:** Under the old law and continuing in 2001, it takes many months following a raid before charges are filed commencing a criminal case in court. Indeed, in some software industry cases, criminal proceedings were not begun until *four years* after the raids against the defendants. It is often difficult or impossible for right holders to obtain any information about the progress of cases and learn of plea bargains months or years after the fact, with few opportunities for comment. This is reflected in the absence of reports from industry on the actual progress of criminal cases. Once filed these cases can drag on, often taking two to three years or more, significantly reducing the deterrent value of any increased raiding activity undertaken by the police. When the case gets too old (five years), it is barred or simply dismissed. Defendants are aware of this five-year limit within which to conclude the case, and their lawyers merely delay the proceedings until this limit is reached. This failure violates TRIPS Article 41. However, the picture is not wholly negative. In Decision 6899/01 of December 14, 2001, the Court of Naples imposed immediate sentences of imprisonment on a number of the defendants in a case of organized commercial piracy. This contrasts, however, with the indulgence with which immigrant vendors of pirate material are treated. As mentioned above, this leniency plays into the hands of organized crime.
- **Conditioning criminal remedies for software infringement on using an SIAE sticker:** Troublingly, Article 171*bis* of the AP Law may be misinterpreted to legalize all pirate software that merely bears an SIAE sticker. Worse, the criminal remedies provided in the current version of Art. 171*bis* for software infringement are arguably not available if a work does not bear the SIAE sticker. This stickering requirement violates several provisions of the TRIPS Agreement by constituting an impermissible formality to copyright protection,

denying the availability of efficient criminal remedies in cases of copyright piracy, and erecting a costly barrier to legitimate trade (see further discussion below).

The 2000 Anti-Piracy Law Applied In-Practice During 2001

The recording industry reports that the implementation in 2001 of the AP Law has resulted in improvements with law enforcement cooperation as well as an increased number of operations and arrests. FPM, the Federation Against Music Piracy, was involved with 355 operations last year. Its anti-piracy efforts in 2001 resulted in a 55% increase in seizures of illegal music CD-Rs from the prior year – 1.23 million in 2001, up from almost 800,000 in 2000. 726 CD-R burners were seized. The number of pirate audiocassettes seized in 2001 was only 62,863 units, a 45% drop from the prior year. FPM reported 510 arrests – an astounding 431% increase over the prior year, and formal criminal complaints to the judicial authority were filed against 546 people.

Most of these actions were taken by using the administrative provisions of the AP Law. These actions have had a noticeable, positive impact on resellers, businesses and Websites. The impact on reducing the extent of street vendor sales has not been as visible; however, the new AP Law has been used to produce arrests. The police can arrest infringers where more than 50 infringing copies are found. The recording industry reports that there were many more arrests followed by immediate administrative fines during 2001, 85% of which involved street vendors. In cases of recidivists, jail terms of 1 year have also been imposed. The fast track procedures have meant the immediate convictions of the defendants with sentences imposed of more than five months in jail. However, all first convictions will be, and have been, suspended. Most of the defendants dealt with in this way have been immigrant street vendors.

MPA reports that since the AP Law was passed, the amount of raids by the police on video stores, laboratories, and street vendors has risen dramatically. In addition, the statistics show that judges are assessing higher fines and even issuing imprisonment in 30% of the cases involving FAPAV (the local anti-piracy organization). The media coverage and greater awareness by the public has been an unexpected bonus. There is no news yet of the sentences being imposed under the new law, but recent trends and the raising of penalties should provide satisfactory results.

The motion picture industry reports that in the 17 criminal cases in which FAPAV assisted the prosecutor and that ended in 2001, 88% resulted in a prison term (26 defendants received an average of 14 months imprisonment). Fines were imposed in 14 of the 15 cases in which a jail term was imposed, with the following levels: 13 cases ended with a fine up to \$1,000 (92.85%), one with a fine ranging between \$1,000-5,000 (7.15%). There were two acquittals (11.75%).

The business software industry continues to report positive developments on the criminal enforcement front following adoption of the Anti-Piracy Law. In 2001, the *Guardia di Finanza*, the national fiscal police, continued its strong support for the business software industry, conducting 233 criminal raids nationwide (mostly on a regionalized basis), and seizing over 550,000 illegal products (a 200% increase over 2000). Local police also engaged in substantial criminal enforcement activities. In Savona, the magistrate and local police raided the city's *entire* population of suspected end-user pirates. In Veneto, police raided 59 companies in six months, 75% of which had infringing products (police found nearly 2000 unlicensed programs worth over one million dollars). In all, approximately 100 individuals were charged with criminal piracy and counterfeiting of business software in Italy in 2001. And overall, several industry members did notice appreciable gains as the year wound to a close. Much of this new activity is due to the new

law. Unfortunately, however, the lack of transparency to the software industry in the criminal system has not permitted accurate cataloguing of the progress of a case and the fines and jail terms ultimately imposed.

In 2001, business software piracy rates remain too high and the industry suffered some setbacks in criminal enforcement. For example: Following raids by the GdF in Parma, magistrates refused to allow three of the cases to proceed. The cases are especially disturbing, as they all arise under the AP law. One magistrate ruled that architects could not be pursued for criminal end-user piracy under the law because architects are not organized as corporate commercial entities under Italian law. A second magistrate ruled that the law's criminal end-user provisions do not apply to ordinary business, but rather only to organized crime. There is no support in the law for either of these conclusions. A third magistrate ruled that the GdF lacks competence to pursue criminal end-user piracy under the new law, as that power is granted to SIAE, the royalty collections agency. The software industry also has continued to have difficulty in using public media to communicate its anti-piracy message. The Italian Advertising Standards Authority has adopted a pattern of challenging industry-sponsored campaigns, demanding that industry amend a 2000 television campaign and a 2001 raid spot.

The deficiencies in the Italian criminal enforcement system, especially at the level of judicial resolution of criminal cases, are perhaps best illustrated by the following partial enforcement statistics:

COPYRIGHT ENFORCEMENT STATISTICS IN ITALY: CRIMINAL CASES

ACTIONS	MPA		IFPI		BSA	
	2000	2001	2000	2001	2000	2001
Number of Raids conducted				355	257	233
Number of indictments filed			309		130	105
Number of defendants convicted (including guilty pleas)	19	26		670	NA	6
Ratio of convictions to the number of raids conducted					NA	NA
Ratio of convictions to the number of indictments				85%	NA	NA
Total number of cases resulting in jail time		26		620	NA	NA
1 to 12 months	12	13				
13 to 24 months	5	13		1		
25 to 36 months				3		
37 to 60 months						
Over 61 months						
Number of cases resulting in criminal fines	2	14		4		
Total amount of fines levied						
US\$0-\$1,000		13				
\$1,001-\$5,000		1				9
\$5,001-\$10,000						3
\$10,000 and above				5		2
Total amount of restitution ordered) in how many cases (e.g. \$XXX in Y cases)						

Civil Enforcement Is Slow and Ineffective In Italy

Civil enforcement continues to be slow also, cumbersome and difficult. The law does provide for effective search and seizure orders, which are usually granted one to two weeks after the petition has been filed. The software industry has, however, experienced some difficulty in getting search orders granted. In one case, for example, the High Court in Voghera refused, on privacy grounds, to grant a petition for a search order. The Court reasoned that the plaintiffs, while conducting the search, could examine the target's data and thus violate its privacy. In reaching this conclusion, the Court ignored the numerous safeguards used during the execution of a search order to ensure that only evidence relevant to the infringement is examined. In another case, the High Court of Rome rejected a software industry application for a search warrant on the grounds that the "tip" came from an anonymous source. Reasoning that the search would thus be exploratory, the Court denied it. The Court's reasoning reflects a misunderstanding of the relevant precedents, under which search orders are typically granted when the plaintiff lacks evidence adequate to support proceedings on the merits. Further complicating proceedings against infringers to obtain definitive injunctive relief and/or compensation for damages, plaintiffs are obliged to commence full-fledged proceedings on the merits, which has often been paralytically slow and difficult, despite the recent modification of the civil procedural code. (The software industry received a judgment in 2001 in a case that dated back to 1992.) Furthermore, many Italian courts still award damages on the basis of the "reasonable royalty" or "license fee" criteria, which lack any deterrent effect, as the infringer still benefits from his misdeeds. Progress does seem to be occurring in this area, however, and in two software piracy cases (one in Milan in 2000 and one in Caserta in 2001), courts awarded civil damages at full retail price and an additional amount for compensation of moral damages.

Overall, the civil court system remains in need of reform. Among the problems are:

- **Absence of expeditious civil remedies and unwarranted delays:** The civil courts still remain notoriously slow, with cases taking up to eight years to reach a decision on the merits. There appear to be no statutory deadlines, and inordinate delays in civil cases have substantially undermined the deterrent effect such actions might otherwise have.
- **Lack of deterrent civil damages:** As noted above, there are concerns that Article 2043 of the Italian Civil Code, which establishes rules for the calculation of civil damages, may be read to restrict damages to the lost profit to the right holder – a measure that is inadequate to deter infringers. Profit to the *infringer* may not be recoverable. To the extent that this reading of the law prevails, Italy is in violation of TRIPS articles 41 and 45, as piracy remains a rational business for infringers.

Civil case statistics from the business software industry are shown below.

COPYRIGHT ENFORCEMENT STATISTICS IN ITALY: CIVIL CASES

ACTIONS	2000 BSA	2001 BSA
Number of civil raids/searches conducted	7	8
Post-Search Action		
Cases Dropped	2	2
Cases Settled	8	3
Cases Adjudicated	4	4
Value of loss as determined by Court (\$USD)	\$20,900 ³	\$106,851
Judgment Amount (\$USD) in how many cases (e.g. \$XXX in Y cases)	\$20,900; 4	\$106,851 in 3 cases
US\$0-\$1,000		
\$1,001-\$5,000		
\$5,001-\$10,000		1
\$10,001-\$20,000		
\$20,001-\$50,000		
\$50,001-\$100,000		1
\$100,000 and above		
Settlement Amount (\$USD) in how many cases	\$105,000	\$96,000

COPYRIGHT LAW DEVELOPMENTS

Need to Fully Implement the Anti-Piracy Law and Eliminate the SIAE Sticker Requirements for Software

Positive Reforms with the AP Law

Passage of the 2000 Anti-Piracy Law resulted in a number of substantive, enforcement and administrative reforms:

- In reforming the criminal provisions, the AP Law provides prosecutors with a comprehensive array of possible charges. The offense of commercial production, distribution and exhibition of infringing copies is extended by the prohibition of importation of possession of infringing copies with intent to sell, distribute, transmit or exhibit.
- New offenses are created of producing, importing, selling (or possessing for sale) devices for defeating copy protection or decoders permitting access to encrypted programming without due payment. The unauthorized retransmission of encrypted programming is made an offense. The promotion, importation, sale and use of decoders for circumventing conditional access to transmissions, analogue or digital, also become offenses, whether the use intended is public or private. If no more serious violation is involved, the mere use of a pirate copy of a work or sound recording, or the reception of a transmission infringing copyright, attracts an administrative penalty of 300,000 lire (\$135), confiscation of any infringing materials, and the

³ Inclusive of cost awards; also note that one of four judgments reported provided for no damages, as discussed in the accompanying text.

publication of the offender's name in a national newspaper. Where the offender has a previous record for such violations or the case involves a large-scale infringement, the penalty may be as much as 2,000,000 lire (\$900), with revocation of any applicable trading licenses.

- The maximum punishment for unlawful commercial duplication or distribution of works goes up from three years, imprisonment and a 6,000,000 lire (\$2,690) fine to four years and a fine of 30,000,000 lire (\$3,445).
- The court is required in every case to confiscate infringing copies, together with any tools or materials used in the commission of the crime. In addition, the convicted offender can be prohibited from carrying on a specified trade or from being a company director. Where applicable, any broadcasting license he holds may also be suspended for one year.
- The promotion, sale and installation of illegal circumvention devices attract imprisonment from six months to three years and a fine of 5,000,000 to 50,000,000 lire (\$2,240 to \$22,414). Where the facts of the offense disclose aggravating features, the court must impose a sentence of at least two years' imprisonment and a 30,000,00 lire (\$13,445) fine.
- With this significant strengthening of criminal and administrative penalties, IIPA and its members have some reason to be hopeful that a downward trend in piracy rates will result. Moreover, this general increase in the severity of penalties comes with an incentive for cooperation from the criminal: If he voluntarily reports his offense, or provides information permitting the identification of ringleaders or the substantial seizure of infringing products, the main penalties may be reduced by one-third to one-half. This immunity/plea bargain analogue may prove very important in helping to conclude cases more expeditiously.
- Without prejudice to the criminal sanctions, an administrative penalty may also be imposed in respect of the offending conduct equal to twice the market price of the copy and in any event not less than 200,000 lire (\$97). Where the market price is uncertain, a penalty between 200,000 and 2,000,000 lire (\$90 and \$900) may be imposed.

As noted earlier, book piracy is now subject to the criminal provision and photocopying in commercial copyshops as well as within educational institutions, and is now subject to remuneration to the copyright owners.

TRIPS, the SIAE Sticker and the Software Industry

Unfortunately, these positive reforms do not tell the whole story. The AP Law contains a provision that could essentially nullify many of the law's otherwise helpful provisions with respect to the software industry. Article 181*bis* of the law contains an extremely burdensome requirement that could require software producers either to physically place a sticker on each work sold in Italy or to file complex "product identification declarations" – or else potentially forfeit their right to pursue criminal remedies against infringers of their works. Even worse, legitimate producers who fail to "sticker" products are themselves subject to severe criminal penalties. Thus, absent an exemption for business software products as contemplated under the law, the owners of perfectly legitimate copyrighted works will be subject to criminal sanctions, while pirates who wish to copy and sell such works without authorization are potentially not liable under Article 171*bis* of the law.

The September 2001 regulation implementing the stickering scheme does not resolve these problems. Under the law, computer and multimedia programs containing less than 50% of a music, film or audiovisual work, as well as computer and multimedia programs exclusively containing music, film or audiovisual works expressly realized to be inserted into such programs are to be excused from the stickering requirement. The Italian government had assured industry that when this provision of the law was implemented in the regulation, it would exempt business software across the board. The exemption as set out in the regulation is not unconditional, however. Instead, the regulation provides that works meeting the “50% test” can be exempted *only* with SIAE’s consent. The regulation does not define the circumstances under which SIAE may grant or withhold its consent, the timelines under which SIAE must act, or how often such consent must be obtained. Nor is receiving consent adequate to trigger the exemption or ensure criminal protection of unstickered programs. A party that has obtained SIAE’s consent must file with SIAE a “product identification declaration” and a sample of the products that it intends to distribute at least 10 days prior to the date upon which the products enter the market. The declaration must also include detailed information regarding the products, as well as a listing of all works of art that the products contain and information regarding the company’s distribution channels. Absent such declaration, the products do not receive criminal protection under the law; indeed, distribution of such products is arguably illegal and subject to seizure by Italian authorities (indeed, Italian authorities seized unstickered computer programs in August 2001).

The stickering regime established in the law and its implementing regulation may violate several provisions of the TRIPS Agreement, namely Articles 9, 41 and 61. Article 9 of TRIPS requires compliance with the provisions of the Berne Convention, including Article 5(2), which prohibits countries from subjecting the “enjoyment and the exercise” of copyright rights to any formality. Italy’s stickering requirement, as well as its associated fee and declaration requirement, represent a prohibited formality. Moreover, given the unavailability of effective criminal remedies to enforce a copyright on unstickered works, the stickering requirement also violates articles 41 and 61 of the TRIPS Agreement. Finally, the burden imposed by the requirement makes criminal enforcement unnecessarily complicated and costly, and creates a barrier to legitimate trade, contrary to the requirements of TRIPS Article 41.

The stickering requirement has absolutely no logical relationship to the business software industry. There is no collective administration of business software copyrights in the EU. The industry is not represented by SIAE (the quasipublic royalty collections agency charged with implementing the stickering regime), nor do business software copyright owners receive any royalties from this agency.

A broad coalition of high-technology industries in Italy has held extensive discussions with representatives of the Italian government and with SIAE officials over the past 18 months to develop a consensus that would implement the exemption contemplated in the AP Law. Industry has also sought the support of the office of the USTR, the U.S. Embassy, and representatives of the European Union. As of the date of this submission, negotiations with the government are ongoing, and industry remains hopeful that a solution can be reached.

Stickering Costs Concerns

The Italian government continues to move forward on the issue of mandatory SIAE stickering. In addition to questions surrounding the exemption for computer software, there

continue to be critical issues concerning the costs for such stickers. SIAE wants a unified fee of 60 lire per sticker, which could produce annual revenue of some US\$9 million. SIAE defends the amount by arguing that it has to cover not just the administration of the sticker, but also the cost of its planned anti-piracy activities. SIAE is planning a US\$3 million anti-piracy program, but all local attempts to date to secure details of what it plans to do with such a budget have been unsuccessful. It is feared that SIAE may interpret its anti-piracy function under Law 248/00 as limited to the inspection of stickers. The funds set aside for anti-piracy work should be applied in the reduction of piracy, and not be limited to merely checking stickers.