CONCERNS WITH APRIL 2010 ACTA TEXT

On April 21, 2010, after two years of pressure from information technology companies, library associations, and consumer advocacy groups, the countries negotiating the Anti-Counterfeiting Trade Agreement (ACTA) finally issued a "Consolidated Text for Public Release." The Consolidated Text appears largely consistent with drafts that had been previously leaked, and thus contains the same problems as those drafts.

One major difference between the Consolidated Text and the leaked drafts is that the Consolidated Text does not identify countries' positions with respect to bracketed language; that is, language for which there is not yet substantial agreement among the negotiating countries. Much of the Consolidated Text remains in brackets. This means that from the face of the Consolidated Text, it is unclear what language the U.S. government supports. However, the leaked drafts did indicate what language the U.S. government supported. These comments assume that the U.S. government currently supports the same language it supported in the leaked drafts.

We note that much of the bracketed language proposed by the European Union and other countries differs significantly from U.S. law. We will not comment here on these provisions on the assumption that the U.S. government will not agree to provisions so clearly inconsistent with U.S. law. We take the Office of the U.S. Trade Representative at its word that it does not seek to change U.S. law through ACTA. Nonetheless, we request clarification from the U.S. government on its intent to oppose each inconsistent provision.

These comments will focus on the language in the Consolidated Text that we believe the U.S. government has endorsed. While the United States probably could comply with these provisions of the Consolidated Text without amending the U.S. Copyright Act, these provisions are inconsistent with U.S. law in several significant, troubling respects. The common thread of these inconsistencies is that the Consolidated Text does not reflect the balance in U.S. copyright law. This lack of balance is at odds with the Obama Administration's policy concerning balanced international copyright law:

> [S]ome in the international copyright community believe that any international consensus on substantive limitations and exceptions to copyright law would weaken international copyright law. The United States does not share that point of view. The United States is committed to both better exceptions *in* copyright law and better enforcement *of* copyright law. Indeed, as we work with countries to establish consensus on proper, basic exceptions within copyright law, we will ask countries to

> work with us to improve the enforcement of copyright. This is part and parcel of a balanced international system of intellectual property.[1]

If adopted, the Consolidated Text could limit the ability of U.S. courts and Congress to adapt the copyright law to changing circumstances. It could also subject U.S. entities to increased liability overseas. Foreign courts have already imposed infringement liability on U.S. Internet companies for activities permitted under U.S. law. The Consolidated Text would accelerate this trend. The following is a more detailed discussion of the most problematic provisions.

I. STATUTORY DAMAGES

The U.S. government supports language in the Consolidated Text that mandates ACTA parties to provide for the award of statutory damages for copyright infringement as an alternative to actual damages. We object to this provision for three reasons: 1) it could limit the ability of Congress to amend the statutory damages framework in the Copyright Act; 2) it could increase the exposure of U.S. companies operating overseas to significant damages liability; and 3) it does not accurately reflect the statutory damages provisions in the U.S. Copyright Act.

Article 2.2(2) concerning damages provides:

> At least with respect to works, phonograms, and performances protected by copyright or related rights, and in civil cases of trademark counterfeiting, in civil judicial proceedings, each Party shall establish or maintain a system that provides: a) pre-established damages; or b) presumptions for determining the amount of damages sufficient to constitute a deterrent to future infringements and to compensate fully the right holder for the harm caused by the infringement.

Subsection b) contains a footnote stating that

> [s]uch measures may include the presumption that the amount of damages is (i) the quantity of the goods infringing the right holder's intellectual property right and actually assigned to third parties, multiplied by the amount of profit per unit of goods which would have been sold by the right holder if thee had not been the act of infringement or (ii) a reasonable royalty.

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[1] United States of America, Statement on Copyright Exceptions and Limitation for Persons with Print Disabilities, World Intellectual Property Organization, Standing Committee on Copyright and Related Rights, 19th Session (Dec. 15, 2009) at 5.

A. Preventing Future Amendments

While section 504(c) of the U.S. Copyright Act does allow copyright owners to seek statutory damages instead of actual damages and profits, the high upper limit on such damages ($30,000 per work infringed, increasing to $150,000 in cases of willful infringement) has enabled copyright owners to seek, and courts to grant, draconian awards grossly in excess of any actual harm. This, in turn, has encouraged frivolous litigation and unfair settlements. Additionally, the threat of statutory damages in cases involving intermediaries such as Internet service providers and device manufacturers has chilled innovation. Many provisions of the Copyright Act, such as the fair use doctrine, depend on judicial interpretation to define parties' rights and restrictions with regard to new technology. Cases involving these provisions are reaching final judgment less often, however, because the threat of statutory damages makes a search for clarity through the courts too high of a risk for most intermediaries. This stifles the law's ability to evolve in the face of technological change.

Because of these problems, Congress has begun to reconsider section 504(c). H.R. 1201 in the 110th Congress would have amended 17 U.S.C. § 504(c) to permit statutory damages only in instances of direct infringement. The PRO-IP Act, as introduced, would have repealed a sentence in section 504(c) that allows only one award of statutory damages for the infringement the works contained in a compilation or derivative work. Repeal of this sentence would have enabled even more exorbitant damage demands by copyright "trolls." After vigorous lobbying by a wide range of entities, the House IP subcommittee dropped the provision, while recognizing the need to revisit the entire statutory damages framework.

Moreover, in several recent copyright cases, judges have adjusted downwards the statutory damages awarded by juries, and have called on Congress to amend section 504(c).

In light of the controversy surrounding copyright statutory damages, the U.S. should not seek to incorporate them in ACTA. By inserting statutory damages in ACTA, the Executive Branch will make it more difficult for Congress to amend section 504(c) in the future to reduce its adverse impact on innovation.

B. Increasing the Exposure of U.S. Companies

Although the existing statutory damages framework has a chilling effect on innovation and follow-on creativity, its negative impact in the U.S. is somewhat mitigated by the existence of strong exceptions such as the fair use doctrine. Other countries, however, do not have these exceptions. And the U.S. in ACTA has not demanded the adoption of these exceptions. In other words, the U.S. seeks the export of our strong enforcement mechanisms but not our strong exceptions.

This asymmetric export of our laws could be particularly harmful to U.S. Internet companies as they attempt to expand their operations overseas. For example, U.S. courts have treated the copying of copyrighted material by search engines as permitted by fair use. In contrast, courts in Europe have found Google and other search engines liable for copyright infringement for engaging in similar activities. If ACTA is adopted, and European countries enact statutory damages, the potential exposure of U.S. search engines will increase exponentially for conduct considered lawful in the U.S. They will be liable not just for the actual damages they cause, but the level of damages set by statute. Under current U.S. law, if a company is held liable under a direct or secondary liability theory for infringements by thousands of consumers, the resulting damages (up to $150,000 multiplied by thousands of works deemed infringing) could easily bankrupt the company. Raising the possibility of similar, ruinous damages for conduct considered lawful in the U.S. would simply hinder U.S. businesses' ability to operate abroad.

C. Inconsistency with Section 504(c)

The proposed statutory damages language in Article 2.2.2 differs from section 504(c) in several critical respects. First, section 504(c)(2) directs the court to reduce statutory damages in cases of innocent infringement. If the court finds that the infringer was not aware and had no reason to believe that its acts constituted infringement, the court can reduce the award to $200. And the court can remit statutory damages altogether if a library, archives, or educational institution believed that its copying was a fair use. In contrast, Article 2.2.2 make no provision whatsoever for innocent infringement. By mandating statutory damages without relief for innocent infringement, ACTA could subject U.S. entities to significantly greater damages overseas than in the U.S., thereby discouraging international expansion.

Second, section 504(c) does not contain standards analogous to the language concerning the presumptions for determining damages contained in subsection b) and the accompanying footnote. Instead, section 504(c) permits a court to award statutory damages within a broad range ($750 to $30,000) "as the court considers just." The court has the "discretion" to increase the award to $150,000 in cases of willful infringement, and decrease the award to $200 in cases of innocent infringement. ACTA's language concerning presumptions thus deprives courts of the discretion granted them under section 504(c). Furthermore, it deprives Congress of the ability to provide courts with additional direction in the future concerning the award of statutory damages.

For these reasons, the U.S. should take Article 2.2.2 off the ACTA table.

II. THIRD PARTY LIABILITY

Article 2.18.3 requires every ACTA country to confirm that it provides civil remedies "in cases of third party liability for copyright or related rights infringement." Footnote 47 then defines third party liability as "liability for any person who authorizes for a direct financial benefit, induces through or by conduct directed to promoting infringement, or knowingly and materially aids, any act of copyright or related rights infringement by another."

No multilateral IP agreement has such a requirement concerning third party liability, and many countries do not even have third party liability principles in their laws. Thus, including third party liability in ACTA represents a major change in the framework of international IP law, and goes far beyond the enforcement focus of ACTA.

Additionally, the definition of third party liability in footnote 47 does not accurately reflect U.S. law.

- The first clause of the definition refers to liability for any person who "authorizes" infringement "for a direct financial benefit." Presumably this language is intended to parallel the historic court-created standard for vicarious infringement that imposes liability on a person who "has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities." *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001). However, it is far from clear that "authorizes" in footnote 1has the same meaning as "the right and ability to supervise… " in the historic standard. Moreover, the Supreme Court in *MGM v. Grokster*, 125 S. Ct. 2764 (2005), reformulated the historic standard: a person "infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." In other words, the first clause of the definition in footnote 47 attempts to paraphrase an evolving judicially created standard for vicarious liability.

- The second clause of the definition in footnote 47 refers to liability for a person who "induces" infringement "by or through conduct directed at promoting infringement," while the third clause addresses a person who "knowingly and materially aids" an act of infringement. The second clause appears to paraphrase the inducement standard articulated by the Supreme Court in *Grokster*, while the third clause seems directed towards the historic test for contributory infringement. There are numerous problems with these two clauses of footnote 47. First, they suggest that inducement is a different test from contributory infringement; that is, they imply that there are three theories for third party infringement under copyright – vicarious liability, inducement, and contributory infringement. However, *Grokster* makes clear that inducement is not separate and distinct from contributory infringement.

  Furthermore, *Grokster* provides a definition for contributory infringement different from the second and third clauses of the footnote 47 definition, as well as the traditional definition of contributory infringement. Traditionally, a contributory infringer is "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another…." *Napster*, 239 F.3d at 1019. But *Grokster* states that "one infringes contributorily by intentionally inducing or encouraging direct infringement." *Grokster* thus could be interpreted as replacing the traditional knowledge standard with an intent standard. Lower courts have had great difficulty applying *Grokster* because they are uncertain whether it is just restates the traditional test or announces a new standard.

- In short, the footnote 47 definition of third party liability places ACTA in the midst of a doctrinal quagmire. The contours of third party liability in U.S. copyright law are highly contentious, complex, and volatile. Indeed, prior to the *Grokster* decision, Congress tried unsuccessfully to codify an inducement standard. *See So What Does Inducement Mean*?, http://www.policybandwidth.com/doc/inducement.pdf. A paraphrase of this entire area in one sentence will be inaccurate and will be used to influence courts' imposition of third party liability in future cases.

Finally, article 2.18.3 lacks the balance present in U.S. third party liability law. Article 2.18.3 makes third party liability mandatory. In contrast, exceptions to such third party liability are only permissive: "the application of third party liability *may* include consideration of exceptions or limitations…." Fn. 47 (emphasis added). Article 2.18.3 also lacks balance by implicitly referring to *Grokster's* holding on inducement without also referencing *Grokster*'s affirmation of the "capable of substantial noninfringing use" standard in *Sony v. Universal*, 464 U.S. 417 (1984). To be sure, the two concurring opinions in *Grokster* offered different interpretations of *Sony*. But the unanimous *Grokster* Court agreed that under *Sony*, the act of designing and distributing a technology capable of a substantial noninfringing use, by itself, could not trigger contributory infringement liability.

Exporting a broad third party liability regime overseas, without also exporting specific limiting principles such as the *Sony* test and mandatory exceptions, will increase the liability exposure of U.S. Internet companies, and nonprofit service providers such as libraries and universities, for activity that is lawful in the U.S.[2]

III. SAFE HARBORS FOR INTERNET SERVICE PROVIDERS

Article 2.18 contains language intended to track the safe harbors for Internet service providers established in section 512 of the Digital Millennium Copyright Act.[3] But it is far from clear that the proposed language requires countries to provide anything that merits the term "safe harbor." Whereas the section 512 protections state clearly that qualifying entities are "not liable for monetary relief," the proposed ACTA language merely calls for unspecified "limitations on the scope of civil remedies." Virtually any

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[2] Other ACTA countries seek to require third party liability in cases of trademark infringement. We strongly oppose inclusion in ACTA of such a requirement. Although third party liability in the U.S. trademark context has to date been less dynamic than in the copyright context, it too is a creation of the courts, not Congress. Executive branch "codification" of judicial holdings in international agreements trespasses on the prerogatives of both Congress and the courts. Moreover, requiring countries to adopt third party liability for trademark infringement, without also requiring adoption of a U.S.-style exhaustion principle, could subject U.S. companies to increased liability for trade in legitimate grey market goods.

[3] Confusingly, this provision is also numbered as article 2.18.3.

limitation – for example, an exemption from attorneys' fees or a 5% reduction in damages -- would satisfy the language. In short, nothing in article 2.18 requires countries to provide actual "safety" to service providers.

Additionally, article 2.18.3 lacks the penalties contained in section 512(f) of the DMCA for making misrepresentations in a takedown notice. Some abuse of the DMCA takedown process occurs in the U.S. notwithstanding the existence of these penalties. If the takedown process is widely established abroad without any penalties for misrepresentation, similar abuses will increase exponentially, to the detriment of free expression.

Article 2.18.3 also differs from the DMCA with respect to the conditions for eligibility for the limitation on liability. Subsection (b)(i) requires the service provider to implement "a policy to address the unauthorized storage or transmission of materials protected by copyright…." By contrast, section 512(i)(A) of the DMCA imposes a narrower requirement that the service provider to implement "a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network who are repeat infringers…." Subsection (b)(i) thus invites other countries to impose on service providers more onerous requirements for eligibility than the DMCA, thereby harming U.S. Internet companies operating overseas.

IV. ANTICIRCUMVENTION

Articles 2.18.4 and 2.18.5 are intended to export Section 1201 of the DMCA. Here, too, the proposal lacks the balance found in U.S. law. Section 1201 contains seven exceptions for: nonprofit libraries, archives, and educational institutions (§ 1201(d)); law enforcement, intelligence, and other government activities (§ 1201(e)); interoperability (§ 1201(f)); encryption research (§ 1201(g)); protection of minors (§ 1201(h)); protection of privacy (§ 1201(i)); and security testing (§ 1201(j)). Additionally, Section 1201(a)(1)(C) established a rule-making procedure under which the Librarian of Congress can grant exemptions to Section 1201(a)(1)'s prohibitions.

In contrast, article 2.18.5 simply provides that each country "*may* adopt exceptions and limitations to measures implementing paragraph (4) so long as they do not significantly impair the adequacy of legal protection of those measures or the effectiveness of legal remedies for violations of those measures." (Emphasis added.) Once again, the chapter makes prohibitions mandatory, but exceptions only permissive. Thus, activities permitted in the U.S. may be illegal abroad, thereby inhibiting the ability of U.S. technology companies to operate overseas.

Additionally, rightsholders in the U.S. could assert that the existing Section 1201 exceptions "significantly impair the adequacy of legal protection" or "the effectiveness of legal remedies" against the circumvention of effective technological measures. The exceptions for interoperability, encryption research, and security testing are particularly important for innovation and the functioning of the information economy. The law enforcement and intelligence exception is critical to our national security. ACTA must not jeopardize these essential activities.

Finally, section 1203(c)(5) grants a court the discretion to “reduce or remit the total award of damages” in any circumvention case where the violator “was not aware and had no reason to believe that its acts constituted a violation.” ACTA’s Paragraph (4), in contrast, makes no provision for innocent violations.

V. MISLEADING LABELS

Article 2.18 is entitled “Enforcement Procedures in the Digital Environment.” But nothing in the provision concerns either “enforcement” or “procedure.” Rather, article 2.18 defines substantive legal obligations. Under this article, ACTA parties must impose liability on third parties. Likewise, they must prohibit the circumvention of effective technological measures. At the same time, they must limit the liability of online service providers. Referring to these substantive measures as “enforcement procedures” obscures their true nature, as does the name of the entire agreement. ACTA has little to do with trade, and is not limited to anti-counterfeiting.

Similarly, ACTA’s references to “copyright piracy” and “pirated copyright goods” are misleading. The use of the term “piracy” as a synonym for copyright infringement creates a false equivalence between the violation of an economic right and a dangerous crime involving physical violence. Consequently, the term “piracy” should be replaced with the more appropriate term of art “copyright infringement.”

Although ACTA uses the term “piracy” to apply to copyright infringement, the U.S. Copyright Act does not once use the term “piracy” to describe infringing activity. On the contrary, existing references to "piracy" in the U.S. Code principally concern the seizure of ships and aircraft. For example, the Title 49 of the U.S. Code defines aircraft piracy as "seizing or exercising control of an aircraft in the special aircraft jurisdiction of the United States by force, violence, threat of force or violence, or any form of intimidation, and with wrongful intent." 49 U.S.C. § 46502(a)(1)(A).

The U.S. Code, as far as we can tell, never uses "piracy" in the context of copyright infringement. Indeed, Article I, section 8, clause 10 of the Constitution authorizes Congress "to define and punish Piracies and Felonies committed on the high Seas...."

Some copyright owners advocate the use of the term "piracy" instead of “copyright infringement” in an effort to create a false equivalence between the violation of an economic right and a universally condemned crime that involves "force, violence" "and "intimidation," in the words of the U.S. Code.

The use of the term “piracy” is not only technically incorrect but also highly prejudicial. Such a provocative term prevents reasoned discourse on an often complex topic. Copyright infringement cases typically involve narrow legal questions, such as whether a retailer infringes copyright by importing a lawfully acquired shampoo bottle that has a copyrighted label, or a user publicly performs a ringtone she paid for when her cellphone rings in a public place.

It is true that previous administrations agreed to use the term "piracy" in executive agreements such as TRIPS and the free trade agreements. There is no reason for this administration to repeat the mistakes of previous administrations.

VI. CONCLUSION

In sum, provisions of the Consolidated Text could harm the domestic and overseas operations of U.S. Internet and other information technology companies. These companies are the fastest growing sector of the economy, employing millions of Americans, generating hundreds of billions of dollars of revenue, and finding solutions to the problems of climate change, rising healthcare costs, education reform, and the recession. Additionally, U.S. libraries and educational institutions provide Internet services, which inevitably have a foreign nexus. And U.S. consumers access content hosted on servers overseas. ACTA must not be allowed to undermine these activities.

American Association of Law Libraries
Computer & Communications Industry Association
Consumer Electronics Association
Electronic Frontier Foundation
Home Recording Rights Coalition
Library Copyright Alliance
NetCoalition
Public Knowledge
Special Libraries Association

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