

**BEFORE THE OFFICE OF MANAGEMENT AND BUDGET  
EXECUTIVE OFFICE OF THE PRESIDENT**

**RESPONSE OF NETCOALITION AND THE COMPUTER & COMMUNICATIONS  
INDUSTRY ASSOCIATION TO THE INTELLECTUAL PROPERTY ENFORCEMENT  
COORDINATOR'S REQUEST FOR COMMENTS ON THE JOINT STRATEGIC PLAN**

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## **ATTACHMENTS**

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- ATTACHMENT 2: CONCERNS WITH THE LEAKED INTERNET CHAPTER OF ACTA**
- ATTACHMENT 3: FAIR USE AND THE DIGITAL ENVIRONMENT**

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NetCoalition and the Computer & Communications Industry Association (CCIA) welcome this opportunity to respond to the Intellectual Property Enforcement Coordinator's request for comments on the Joint Strategic Plan, published in the Federal Register at 75 Fed. Reg. 8,137 (Feb. 23, 2010).

NetCoalition serves as the public policy voice for some of the world's most innovative Internet companies on legislative and administrative proposals affecting the online realm.<sup>1</sup>

CCIA represents large, medium-sized, and small companies in the high technology products and services sectors, including computer hardware and software, electronic commerce, telecommunications and Internet products and services – companies that collectively generate more than \$250 billion in annual revenues.<sup>2</sup>

This submission begins with general observations relevant to the development of the Joint Strategic Plan. It then discusses aspects of the economic costs resulting from IP rights infringement, in reference to Part I of the February 23 Federal Register notice. The next section addresses the matter of specific recommendations for accomplishing the objectives of the joint strategic report. The final section responds to selected items from the list of supplemental topics in the notice.

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<sup>1</sup> NetCoalition's members include Amazon.com, Bloomberg LP, eBay, IAC, Google, Wikipedia, and Yahoo!

<sup>2</sup> A complete list of CCIA members is available at <<http://www.ccia.net.org/members>>.

## I. GENERAL OBSERVATIONS

Before addressing the specific issues raised in the February 23 request for comments, we wish to offer some general observations about the Joint Strategic Plan the IPEC must develop pursuant to the Prioritizing Resources and Organization for Intellectual Property (PRO-IP) Act.

Historically, the enforcement of IP rights has largely been left to the rightsholders. Rightsholders have private rights of action for copyright, patent, and trademark infringement.<sup>3</sup> Congress created a criminal copyright offense that could be prosecuted by the federal government only in 1897, more than 100 years after adoption of the first Copyright Act. Until 1982, this offense was only a misdemeanor. There is no criminal patent infringement offense. And in the trademark area, criminal behavior arises only with respect to counterfeiting. Outside of customs procedures, the federal government does not have the authority to bring a civil IP enforcement action that is unrelated to criminal behavior.

This relatively limited federal role is completely appropriate. IP rights in this country are seen as economic rights; and typically these economic rights are possessed by well-financed entities that have the ability and the incentive to enforce them. The federal government has played a more active role in cases involving counterfeiting because such cases can have a direct impact on public health and safety. When the federal government acts to prevent the distribution of counterfeit pharmaceuticals, airplane parts, or software, its motivation is not primarily the protection of the economic interests of the companies whose intellectual property is infringed; rather, it is the health and safety of consumers who may use these counterfeit products.

In recent years, certain industries have sought to change this basic paradigm. In particular, entertainment companies and manufacturers of luxury goods are seeking to increase the federal government's involvement in the protection of their IP rights. These companies

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<sup>3</sup> See, e.g., 17 U.S.C. § 501(b).

believe that the advent of the Internet poses an unprecedented threat to the existence of their industries that warrants an unprecedented federal intervention. While we largely disagree with this view, we believe that these industries are entitled to have a robust public debate policy about the degree of the threat and the appropriateness of various forms of government assistance.

What is objectionable is the effort by some to blur the distinction between different forms of infringement. The harm to public health and safety caused by counterfeit products is completely different from the harm to business models that may be caused by peer-to-peer (P2P) file sharing or e-commerce sites. And clear acts of infringement such as counterfeiting or P2P file sharing are completely different from cases that involve complex issues such as the idea/expression dichotomy, fair use, patent validity, and claim interpretation. To be sure, all these cases concern “IP infringement;” but they involve very different policy considerations, and must be discussed separately if rational policy-making is to occur. It is not surprising that luxury goods manufacturers or professional sports leagues seeking to improve their bottom lines will try to associate themselves with efforts to protect public health and safety.<sup>4</sup> Administration policy, however, must not fall for this ruse, and the Joint Strategic Plan must maintain firewalls between the different categories of infringement when recommending federal intervention.

The Joint Strategic Plan must also recognize that our IP laws are based on the balancing of the interests of authors and inventors on the one hand with the interests of the public on the other. Quoting Thomas Jefferson, the Supreme Court in *Bonito Boats v. Thunder Craft Boats* recognized that “federal patent law has been about the difficult business ‘of drawing a line between things which are worth to the public the embarrassment of an exclusive patent, and

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<sup>4</sup> See, e.g., Letter from Dan Glickman, Chairman and C.E.O., MPAA, to Senator Patrick M. Leahy (November 19, 2009) available at <http://www.publicknowledge.org/pdf/mpaa-acta-letter-20091119.pdf> (urging inclusion of measures to combat “Internet piracy” in a treaty nominally addressed to “counterfeiting”).

those which are not.”<sup>5</sup> The Court observed that “[t]he Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’”<sup>6</sup>

The Supreme Court stated in *Sony v. Universal City Studios* that

Congress has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or inventors in order to give the public appropriate access to their work product .... [T]his task involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society’s competing interest in the free flow of ideas, information, and commerce on the other ....<sup>7</sup>

Likewise, the Fifth Circuit wrote that in the Copyright Act “Congress balanced the competing concerns of providing incentive to authors to create and of fostering competition in such creativity.”<sup>8</sup>

More recently, the Supreme Court has addressed balancing the interests of the entertainment and technology industries. In its 2005 decision in *Metro-Goldwyn-Mayer Studios v. Grokster*, the Supreme Court recognized that the copyright law maintained a “balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement.”<sup>9</sup> The Court noted that “[t]he more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the trade-off.”<sup>10</sup>

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<sup>5</sup> *Bonito Boats, Inc., v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 148 (1989)(quoting 13 Writings of Thomas Jefferson 335 (Memorial ed. 1904)).

<sup>6</sup> *Id.* at 146.

<sup>7</sup> *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

<sup>8</sup> *Kern River Gas Transmission Co. v. Coastal Corp.*, 899 F.2d 1458, 1463 (5<sup>th</sup> Cir. 1990).

<sup>9</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2775 (2005).

<sup>10</sup> *Id.*

Understanding the importance of maintaining balance between the various interests served by the intellectual property laws, Judge Alex Kozinski has recognized that

Overprotecting intellectual property is as harmful as underprotecting it. Creativity is impossible without a rich public domain. Nothing today, likely nothing since we tamed fire, is genuinely new: Culture, like science and technology, grows by accretion, each creator building on the works of those who came before. Overprotection stifles the very creative force it's supposed to nurture.<sup>11</sup>

Judge Kozinski concluded that “[t]his is why intellectual property law is full of careful balances between what’s set aside for the owner and what’s left in the public domain for the rest of us.”<sup>12</sup>

The Supreme Court’s intellectual property cases typically concern substantive rights rather than enforcement procedures. But in *Fogerty v. Fantasy*, the Court addressed the issue of attorneys’ fees. The Court explained the importance of maintaining a level litigation playing field so that defendants would be encouraged to assert meritorious defenses:

Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible. To that end, defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement .... [A] successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.<sup>13</sup>

The importance of balanced intellectual property protection often gets lost in policy discussions in Washington. Fortunately, the U.S. government recently affirmed its support for balanced copyright laws at a recent meeting of the Standing Committee on Copyright and Related Rights of the World Intellectual Property Organization. Justin Hughes, the head of the U.S. delegation, stated:

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<sup>11</sup> *White v. Samsung Electronics of America, Inc.*, 989 F.2d 1512, 1513-16 (9<sup>th</sup> Cir.)(Kozinski, J., dissenting), cert. denied, 113 S. Ct. 2443 (1993).

<sup>12</sup> *Id.*

<sup>13</sup> *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994).

We recognize that some 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.<sup>14</sup>

The Joint Strategic Plan should do nothing to upset the balance that is a fundamental feature of our intellectual property law. The plan should reflect Judge Kozinski's admonition that overprotection of IP is as harmful as underprotection. And it should respect the Supreme Court's perspective that a successful defense of an IP infringement action may further the policies of the IP laws every bit as much as a successful prosecution of an infringement claim by a rightsholder.

## **II. COMMENTS ON THE COSTS TO THE U.S. ECONOMY RESULTING FROM THE INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS (FEDERAL REGISTER NOTICE PART I).**

Any assessment of the costs to the U.S. economy resulting from the infringement of intellectual property rights must reflect analytical rigor that has been lacking in the studies produced to date by rightsholders.<sup>15</sup> The burden of persuasion is on those who seek to increase the level of federal intervention in IP enforcement. We do not doubt that infringement imposes costs on some companies and perhaps on the U.S. economy. However, the quantification of

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<sup>14</sup> 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, 19<sup>th</sup> Session (Dec. 15, 2009) at 5. According to Rep. Howard Berman, Chairman of the House Committee on Foreign Relations, "[t]he U.S. is a world leader in part because of its robust and balanced protection of intellectual property." He added that "IP protections must be balanced against the legitimate interests of consumers and other users to best promote economic and social productivity." Roll Call, *Communications & Intellectual Property Policy Briefing*, Oct. 22, 2007, at 17.

<sup>15</sup> See, e.g., Nate Anderson, *Oops: MPAA Admits College Piracy Numbers Grossly Inflated*, ARS TECHNICA, Jan. 22, 2008, <http://arstechnica.com/tech-policy/news/2008/01/oops-mpaa-admits-college-piracy-numbers-grossly-inflated.ars>; Julian Sanchez, *750,000 Lost Jobs? The Dodgy Digits Behind The War On Piracy*, ARS TECHNICA, October 8, 2008, <http://arstechnica.com/tech-policy/news/2008/10/dodgy-digits-behind-the-war-on-piracy.ars>.

these costs is extremely difficult. Most discussions of the costs of infringement grossly overstate these costs because they reflect some of the fallacies listed below.

Our questioning of the measures of the costs of infringement should not be interpreted as a condoning of infringement, or as a suggestion that rightsholders should not enforce their rights to the fullest extent permitted under existing law. Rather, our position is that additional federal resources should not be devoted to improving enforcement with respect to a particular kind of infringement in the absence of unambiguous data concerning the cost of that kind of infringement to the American public. Federal resources should not be expended on IP enforcement for the purpose of assisting a specific industry. Instead, the purpose must always be to benefit the public as a whole. Accordingly, the federal government should increase its intervention in IP enforcement only in areas where: 1) the infringement is unambiguous; 2) the harm to the public is clear; 3) industry is incapable of addressing the infringement; and 4) federal intervention is likely to have a positive impact.

The submissions of rightsholders concerning the costs of IP infringement must be carefully examined to insure that they do not reflect any of the following fallacies that have permeated their previous advocacy:

**The Objectivity Fallacy.**

Studies urging more government enforcement that are put forth by constituencies that stand to benefit from that enforcement warrant more skepticism than studies put forth by disinterested observers, notwithstanding that these studies are conducted by economists.

Previously, media investigations into the source of rightsholder industry statistics have found little or no basis for these numbers, dismissing them as “fiction.”<sup>16</sup> Objective analyses indicate

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<sup>16</sup> See David Kravets, *Fiction or Fiction: 750,000 American Jobs Lost to IP Piracy*, Wired Mag., Oct. 3, 2008, available at <<http://www.wired.com/threatlevel/2008/10/fiction-or-fict/>>; see also Julian Sanchez, *750,000 lost*

that rightsholder-funded research has drastically overestimated counterfeiting and copyright infringement costs, such as a 2007 study by the Organization for Economic Co-operation and Development (OECD), which demonstrated that industry estimates overstated reality by a factor of three.<sup>17</sup> This is not a new trend; at least as early as the mid-1990s Administration officials reportedly acknowledged rightsholder-industries' "varying degree of commitment to accuracy."<sup>18</sup> Notwithstanding the dodgy pedigree of such data, however, it may still be proffered to regulatory agencies as a basis for action.<sup>19</sup> For example, federal officials have been repeatedly presented with the results of an undisclosed study whose inflated findings were revised downward under criticism,<sup>20</sup> or with other studies that depended upon this discredited research.<sup>21</sup>

### **The Lost Sale Fallacy.**

Rightsholders frequently produce studies contending that a certain number of infringements have occurred, and that each infringement constitutes a lost sale at full retail

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*jobs? The dodgy digits behind the war on piracy*, Ars Technica, Oct. 7, 2008, available at <http://arstechnica.com/tech-policy/news/2008/10/dodgy-digits-behind-the-war-on-piracy.ars> The most recent industry-commissioned "piracy" study, TERA Consultants, *Building a Digital Economy: The Importance of Saving Jobs in the EU's Creative Industries* (2010), has already been shown to rely on dubious assumptions and incomplete data. See Posting of Mike Masnick to Techdirt, <http://www.techdirt.com/> (Mar. 18, 2010, 07:00 EST).

<sup>17</sup> See Hugh Williamson, *Forgery Trade losses 'under \$200bn'*, Fin. Times, May 7, 2007, available at <<http://www.ft.com/cms/s/0/acbd064c-fcb9-11db-9971-000b5df10621.html>>.

<sup>18</sup> Peter Drahos & John Braithwaite, *Information Feudalism* 98 (2002).

<sup>19</sup> See William Patry, *Moral Panics and the Copyright Wars* 30-36 (Oxford 2009).

<sup>20</sup> See MPAA revises study on movie piracy, Jan. 23, 2008, L.A. Times, available at <<http://articles.latimes.com/2008/jan/23/business/fi-download23>>; see also Carrie Russell, *MPAA Admits Piracy Study Flawed*, Copyright Advisory Network available at <<http://librarycopyright.net/wordpress/?p=75>>. The contents of the offending study apparently have been withheld from the public notwithstanding a Congressional request for the methodology and data. Compare *The Analog Hole: Can Congress Protect Copyright and Promote Innovation? Before the Senate Comm. on the Judiciary*, 109th Cong. 15-16 (2006) with Gigi Sohn, *Congress Should Demand MPAA Data on the Cost of Piracy*, Jan. 23, 2008 available at <<http://www.publicknowledge.org/node/1363>>.

<sup>21</sup> See LECG, LLC, ECONOMIC ANALYSIS OF THE PROPOSED CACP ANTI-COUNTERFEITING AND PIRACY INITIATIVE 10 (2007) available at [http://www.lexisnexis.com/documents/pdf/20080610072737\\_large.pdf](http://www.lexisnexis.com/documents/pdf/20080610072737_large.pdf); STEPHEN SIWEK, THE TRUE COST OF MOTION PICTURE PIRACY TO THE U.S. ECONOMY 2, 8, en.14, 18 (2006) available at [http://www.ipi.org/IPI/IPIPublications.nsf/PublicationLookupFullTextPDF/293C69E7D5055FA4862571F800168459/\\$File/CostOfPiracy.pdf?OpenElement](http://www.ipi.org/IPI/IPIPublications.nsf/PublicationLookupFullTextPDF/293C69E7D5055FA4862571F800168459/$File/CostOfPiracy.pdf?OpenElement) (citing MPAA study prepared by LEK).

price.<sup>22</sup> Even if the methodology for arriving at the number of infringements were sound, the assumption that each infringement displaces a full price sale of an authorized copy is flawed. Many infringers, particularly those engaged in P2P file sharing, have limited resources, and could not afford to purchase even a small fraction of the content they download. We are not contending that none of these downloads displace sales at full retail price, just that the number of sales displaced could be far fewer than the rightsholders contend.<sup>23</sup>

### **The Causation Fallacy.**

Perhaps recognizing the existence of the Lost Sale Fallacy, rightsholders often indicate that their sales have decreased from a certain point in time and attribute that decrease in sales to infringement. Similarly, job losses in a given industry are attributed to infringement. While there may be a correlation between decreased sales and jobs on the one hand, and the rise of file sharing on the other, correlation is not causation.

For example, there are many factors that may have contributed to the drop in the sales of compact discs (CD) over the past decade.

- Sales of CDs were artificially high in the late 1990s as consumers were converting their record collections from other formats, principally cassettes, to CDs. Once they completed this conversion, their rate of purchasing CDs dropped.<sup>24</sup>

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<sup>22</sup> See, e.g., BUSINESS SOFTWARE ALLIANCE, SIXTH ANNUAL GLOBAL SOFTWARE PIRACY STUDY 18 (2008) available at <http://global.bsa.org/globalpiracy2008/studies/globalpiracy2008.pdf> (“Once we know the number of total units of software installed, the number of legitimate and pirated units of software installed, and the average system price for legitimate software, we calculate losses as follows: \$ Losses = # Pirated Software Units x Average System Price”).

<sup>23</sup> There is a growing body of economic literature that suggests that file sharing does not lead to a net loss of sales. See, e.g., Felix Oberholzer-Gee and Koleman Strumpf, *The Effect of File Sharing on Record Sales: An Empirical Analysis*, 115 J. Pol. Econ 1 (2007) (concluding the effect of downloads on album sales is “statistically indistinguishable from zero”); see also Annelies Huygen et al., *Ups and Downs: Economic and Cultural Effects of File Sharing on Music, Film and Games* (2009). We are not in a position to assess the validity of these studies. However, the IPEC must consider them in the course of developing the Joint Strategic Plan.

<sup>24</sup> See Seung-Hyun Hong, *The Effect of Napster on Recorded Music Sales: Evidence from the Consumer Expenditure Survey* 23-28 (Stanford Institute for Economic Policy Research Discussion Paper No. 03-18, 2004)

- The increased popularity of the iPod and other MP3 players has caused consumers to migrate away from the purchase of ten or more songs bundled together on a CD to the purchase of individual songs at the Apple iTunes store.<sup>25</sup>
- CDs now compete with a range of attractive new entertainment products, including DVDs and video games. These other products have seen significant growth in recent years, just as consumer spending on CDs declined.<sup>26</sup>
- A decade ago a set of very popular new performers emerged on the music scene, including Britney Spears, Christina Aguilera, 'N Sync, and the Backstreet Boys. There has not been the same convergence of popular new acts since then.<sup>27</sup>

This last point underscores a basic contradiction in the economic arguments made by the entertainment industries. Their works receive copyright protection because they are creative; indeed, the purpose of the copyright law is to promote creativity. But creative works are highly susceptible to popular whims; demand for a particular album or film or video game can rise or

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available at <http://www.stanford.edu/group/siepr/cgi-bin/siepr/?q=system/files/shared/pubs/papers/pdf/03-18.pdf>; Oberholzer-Gee & Strumpf, *supra* note 15.

<sup>25</sup> *Album Sales Plunge, Digital Downloads Up*, ASSOCIATED PRESS, Jan. 1, 2009, available at <http://www.msnbc.msn.com/id/28463074/> (noting Nielsen Soundscan report for 2008 record sales “continues a troubling trend for the recording industry, which has a harder time maintaining profits when consumers buy single songs instead of albums.”).

<sup>26</sup> See, e.g., Charles Arthur, *Are Downloads Really Killing The Music Industry? Or Is It Something Else?*, THE GUARDIAN, June 9, 2009, <http://www.guardian.co.uk/news/datablog/2009/jun/09/games-dvd-music-downloads-piracy> (showing decline in music sales offset by DVD and video game sales for an overall increase in entertainment spending). In addition to digital singles and DVDs, new music streaming services such as Pandora and Last.fm may be cannibalizing demand for albums. See Ben Sisario, *Albums by Swift and Boyle Top 2009 Charts, as Sales Continue Plunge*, N.Y. Times, Jan. 6, 2010, available at <http://www.nytimes.com/2010/01/07/arts/music/07sales.html> (quoting NPD Group analyst saying, “One of the things we’re seeing as people start using Pandora, MySpace Music and other access models is that there is a clear cannibalistic effect on how many tracks they purchase on iTunes. They go to iTunes, find the Pandora app, and then buy a third less songs.”).

<sup>27</sup> Billboard declared Spears the second-best selling artist of the 2000s, and yet the vast majority of her sales were in the first half of the decade. Britney Spears Biography and Awards, <http://www.billboard.com/artist/britney-spears/bio/290150#/artist/britney-spears/bio/290150>. At the same time, data suggest that sales to customers over 36 lagged in 2002 because they simply did not like what was being offered. Press Release, Declining Music Sales: It's Not All Digital Downloading, Says The NPD Group (June 5, 2003) available at [http://www.npd.com/press/releases/press\\_030605.htm](http://www.npd.com/press/releases/press_030605.htm). Subsequent CD sales for artists targeted at this older demographic have been record-setting. Ben Sisario, *Susan Boyle, Top Seller, Shakes Up CD Trends*, N.Y. TIMES, December 2, 2009, available at <http://www.nytimes.com/2009/12/03/arts/music/03sales.html>.

fall literally overnight. Moreover, the revenues of companies in the entertainment industries typically are driven by a small number of hits. The ticket sales of *Avatar*, for example, have generated \$2.6 billion in revenue worldwide,<sup>28</sup> compared to total revenues of \$8.7 billion for the previous quarter for all of 20<sup>th</sup> Century Fox parent company News Corp.<sup>29</sup> Notwithstanding the inherent volatility of the demand for their products, the entertainment industries believe that the market should treat their products as fungible commodities, with demand rising steadily as population increases. If demand drops, they attribute the drop to infringement rather than the desirability of their products.

The causal link between infringement and job loss is even more elusive. The number of Americans employed in certain IP industries may have decreased, but many factors other than infringement may have contributed to this. Some industries have replaced workers with technology. Other industries, notably publishing and motion pictures, have moved jobs overseas.<sup>30</sup> We have also just experienced the worst recession since the Great Depression, which has resulted in layoffs in many industries. There is no evidence that the IP industries have been harder hit than other industries by virtue of infringement.

### **The Innovation Fallacy.**

In addition to asserting that infringement depresses sales and jobs, rightsholders contend that infringement harms the economy by discouraging innovation. This argument is qualitative

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<sup>28</sup> *Avatar* (2009) – Box Office Mojo, <http://www.boxofficemojo.com/movies/?id=avatar.htm>

<sup>29</sup> Ben Fritz & Dawn C. Chmielewski, *News Corp. Revenue Up 10%, Fox Operating Income Nearly Triples*, L.A. TIMES, Feb. 2, 2010, <http://latimesblogs.latimes.com/entertainmentnewsbuzz/2010/02/news-corp-revenue-up-10-fox-operating-income-nearly-triples.html>. *Avatar*'s earnings buoyed more than just NewsCorp; they were sufficient to give IMAX a box-office-to-date of \$187 million so far in 2010, compared to \$14 million at the same point in 2009. Matt Egan, *'Avatar' Carries IMAX to 98% Revenue Jump*, FOX BUSINESS, Mar. 11, 2010, <http://www.foxbusiness.com/story/markets/industries/entertainment/avatar-carries-imax--revenue-jump/>.

<sup>30</sup> For an account of how the sound recording industry has changed in recent years in ways that likely cause the industry to shrink, including shifting manufacturing jobs overseas and requiring fewer staff for production and A&R, see Adam Frucci, *Record Labels: Change or Die*, GIZMODO, Mar. 11, 2010, <http://gizmodo.com/5481545/record-labels-change-or-die>.

rather than quantitative, because it is incapable of proof quantitatively. Intuitively, it makes sense that that without any IP protection, certain forms of inventive activity would not occur. If films could be copied with impunity, and studios could never recover the cost of production, studios would produce few, if any films.

But the fact that certain works or inventions need some protection to ensure their creation does not inform policy makers about the necessary length of the term of protection. If a film studio on average recovers the cost of production in the first three years after the release of a film, why should it receive protection for 95 years? Similarly, if a computer hardware manufacturer recovers the cost of developing a component in the first year it is on the market, why should the patent last 20 years? If the copyright in the film is infringed after the studio has recovered all the costs of production, the infringement does not discourage innovation. Likewise, if the patent in the component is infringed after the computer manufacturer has recovered its development costs, the infringement does not act as a “tax” on innovation.

Moreover, the need for at least a minimal level of protection does not inform policy-makers of the appropriate form of protection. The software industry flourished for decades with just copyright protection for computer programs; courts permitted the issuance of software patents only after the industry was well established. There is no evidence that providing software with patent protection in addition to copyright protection has promoted innovation that otherwise would not have occurred.<sup>31</sup>

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<sup>31</sup> Indeed, Microsoft founder Bill Gates wrote in an internal memo in 1991, “If people had understood how patents would be granted when most of today’s ideas were invented, and had taken out patents, the industry would be at a complete standstill today.” See Timothy B. Lee, *A Patent Lie*, N.Y. TIMES, June 9, 2007, available at <http://www.nytimes.com/2007/06/09/opinion/09lee.html>.

Additionally, there are many industries where competition, rather than intellectual property, provides the incentive for innovation. These include the furniture, clothing,<sup>32</sup> and financial services industries. To be sure, companies in these industries rely heavily on their trademarks to differentiate themselves from their competitors and to establish reputations for quality and reliability. But innovation in their products has occurred notwithstanding the absence of copyright or patent protection.<sup>33</sup>

The rightholders' argument that infringement discourages innovation also overlooks the ways in which excessive IP protection can inhibit innovation. As noted above, "[n]othing today, likely nothing since we tamed fire, is genuinely new: Culture, like science and technology, grows by accretion, each creator building on the works of those who came before. Overprotection stifles the very creative force it's supposed to nurture."<sup>34</sup> Every year that an invention is covered by a patent is a year that competing scientists and engineers can't build on that invention. If a company recovers all its development costs in a patent's first five years, society as a whole is deprived of 15 years of follow-on innovation while that company accumulates profits. In this sense, IP beyond the absolute minimum necessary to incentivize innovation is a dead weight loss to the economy.

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<sup>32</sup> See Christopher Jon Sprigman & Kal Raustiala, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 VA. L. REV. 1687 (2006) available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=878401&rec=1&srcabs=986891](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=878401&rec=1&srcabs=986891) (arguing that fashion "operates within a low-IP equilibrium in which copying does not deter innovation and may actually promote it").

<sup>33</sup> Indeed, open source software demonstrates that even with copyrightable subject matter, copyright protection may not be necessary provide an individual entity with an incentive to innovate. To the contrary, with open source software, copyright acts as the mechanism to *prevent* a single entity from appropriating the value of the innovation. Innovation nonetheless occurs through collaborative development enabled by the Internet. And developers of open source software derive significant revenue from selling their services, rather than their software.

<sup>34</sup> *White v. Samsung Electronics of America, Inc.*, 989 F.2d 1512, 1513-16 (9<sup>th</sup> Cir.) (Kozinski, J., dissenting), cert. denied, 113 S. Ct. 2443 (1993). See also WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 326-27 (2003) ("There is also evidence that the patenting of computer software actually retards innovation because most software innovation both builds on and complements existing software. Without the retardation introduced by patenting and the resulting need to negotiate licenses, software manufacturers would innovate more rapidly and each would benefit from the others' innovations, which, because of the sequential and complementary nature of the innovations in this industry, would enhance the value of the existing products.")

An additional dead-weight loss is imposed by defects in the IP litigation system. For the past five years, as part of its patent reform effort, Congress has been considering amendments relating specifically to patent litigation.<sup>35</sup> Issues discussed include the apportionment of damages, the standards for willful infringement, forum shopping, and interlocutory appeals from *Markman* hearings. The debate has revealed that the patent system affects different industries in different ways. The pharmaceutical and biotechnology industries, which historically have relied heavily on patent protection, are generally satisfied with the *status quo*. In contrast, the information technology and financial services sectors, which have been less reliant on patent protection, believe that the patent system is being abused by some non-practicing entities (also known as patent trolls). Additionally, a typical computer hardware or software product may implicate thousands of patents, which magnifies the potential for patent troll abuse.<sup>36</sup> Accordingly, the information technology and financial services sectors believe that the rules currently governing patent litigation act as an impediment to innovation.

Innovation is also chilled by the statutory damages permitted in copyright infringement cases. Under 17 U.S.C. § 504, a plaintiff can obtain up to \$30,000 in damages for each work infringed, regardless of the actual injury it suffered. In cases involving willful infringement, the statutory damages can rise to \$150,000 per work infringed. Because cases involving digital

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<sup>35</sup> See Patent Reform Act, S. 515, S. 610, H.R. 1260, 111<sup>th</sup> Cong. (2009).

<sup>36</sup> Justice Kennedy recognized these trends in his concurring opinion in *eBay, Inc. v. MercExchange L.L.C.*, 547 U.S. 388, 396-97 (2006)(Kennedy, J., concurring)(citations omitted):

An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.

technologies often implicate hundreds, if not thousands, of works, providers of information technology products and services face truly astronomic damages liability.<sup>37</sup> The threat of enormous damages encourages rightsholders to assert aggressive theories in the hope of coercing quick settlements. The threat of enormous damages also causes technology companies to withhold new products and services from the market.<sup>38</sup>

It should be noted that when the PRO-IP Act – the Act that established the IPEC position and authorized the preparation of the Joint Strategic Report – was introduced in the House, it included a provision that actually would have increased statutory damages for compilations. In other words, it would have made a bad situation even worse – the possible statutory damages for infringing a CD with ten tracks would have increased from \$150,000 to \$1.5 million.

Fortunately, this provision was stripped out of the House bill.<sup>39</sup> But the underlying problem remains. The potential liability for huge statutory damages confronts not only the person who actually engages in the infringing conduct, but also the provider of the technology and services that enables the infringement.

The dead-weight loss resulting from overprotection of IP permeates the economy. In some areas, such as software or business method patents, this loss may be greater than others. But the basic point is that any effort to quantify the amount of innovation caused by IP must also account for the amount of innovation prevented by IP.

Finally, it must be stressed that incentive for innovation is a basis for copyright and patent protection, but not trademark protection. Trademark laws derive from the Commerce

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<sup>37</sup> See Pamela Samuelson, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439 (2009).

<sup>38</sup> The potential for large statutory damages can discourage authors from exploiting their own works. A 1965 book contract between an author and a publisher, for instance, may not address whether the author or the publisher has the rights for digital distribution. The possibility of large statutory damages prevents either the author or the publisher from taking the risk of distributing the book digitally.

<sup>39</sup> Attachment A is a white paper submitted to the Copyright Office that explains in greater detail the problems with this provision.

Clause, not the IP Clause, and their purpose is to protect consumers from mistaking the origin of the goods and services they purchase. In *Bonito Boats v. Thunder Craft Boats*, the Supreme Court said that trademark law’s “general concern is with protecting consumers from confusion as to source. While this may result in the creation of quasi property rights in communicative symbols, the focus is on the protection of consumers, not the protection of producers as an incentive to product innovation.”<sup>40</sup>

### **The Industry Size Fallacy.**

Rightsholders attempt to demonstrate the threat infringement poses to the economy by showing the size of their industries and their contribution to the economy in terms of revenue and jobs.<sup>41</sup> But the size of their industries in no way proves the seriousness of the infringement problem. If anything, it suggests the opposite. Large, healthy industries are better able to withstand challenges and adjust to new circumstances than small, weak ones.

Moreover, their methodology is flawed. Their figures for the “copyright industries” include Internet search engines and service providers that are not calling for increased federal assistance.

Finally, any accounting of the contribution of the IP industries to the U.S. economy must also consider the economic contribution of industries relying on fair use and copyright’s other exceptions and limitations. In 2007, the Computer & Communications Industry Association published a study of the economic contribution of industries dependent on fair use and related limitations and exceptions.<sup>42</sup> The study used the methodology developed by the World Intellectual Property Organization to measure the economic contribution of copyright-based

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<sup>40</sup> 489 U.S. 141, 157 (1989).

<sup>41</sup> See, e.g., STEPHEN SIWEK, COPYRIGHT INDUSTRIES IN THE U.S. ECONOMY (2009) available at <http://www.ei.com/IIPASiwekReport2003-07.pdf> (prepared for the International Intellectual Property Alliance).

<sup>42</sup> COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION, FAIR USE IN THE U.S. ECONOMY (2007) available at <http://www.cciagnet.org/CCIA/files/ccLibraryFiles/Filename/000000000085/FairUseStudy-Sep12.pdf>.

industries – the same methodology used by the rightsholders. For purposes of the CCIA study, industries that depend or benefit from fair use include manufacturers of consumer devices that allow individual copying of copyrighted programming; educational institutions; software developers; and Internet search and web hosting providers. The study found that in 2006, the “fair use” industries generated revenue of \$4.5 trillion, a 31 percent increase over 2002 revenues of \$3.5 trillion. In 2006, the fair use-related value added was \$2.2 trillion, 16.6 percent of the total U.S. current dollar GNP. Employment in industries benefiting from fair use increased from 16.9 million in 2002 to 17.3 million in 2006. Payrolls in these industries increased from \$908 billion in 2002 to \$1.2 trillion in 2006. Exports related to these industries grew by nearly 50 percent from \$131 billion in 2002 to \$194 billion in 2006.

### **The Equivalence Fallacy.**

In their advocacy, rightsholders imply that all forms of IP infringement are equivalent from a legal, economic, and moral point of view. Congress, however, has made clear differentiations among different kinds of infringements.

#### **A. Willful patent infringement vs. regular patent infringement.**

Under 35 U.S.C. § 284, a court can award a plaintiff “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer...” However, in cases involving willful infringement, the court can “increase the damages up to three times the amount found...” The Federal Circuit in *In re Seagate Technology, LLC*, stated that to prove willfulness, the patentee must show that “the infringer acted despite an objectively high likelihood that its actions constituted infringement,”

and that this risk “was either known or so obvious it should have been known to the accused infringer.”<sup>43</sup>

### **B. Counterfeiting vs. trademark infringement.**

In an ordinary trademark infringement action, the trademark owner can recover only the defendant’s profits and the damages it sustained.<sup>44</sup> However, the court must treble the damages if it finds that the infringer intentionally used a mark knowing that the mark was a counterfeit mark.<sup>45</sup> In cases involving counterfeit marks, the trademark owner can elect to receive statutory damages instead of actual damages. The statutory damages range from \$500 to \$100,000 per counterfeit mark per type of goods or services sold.<sup>46</sup> If the court finds that the use of the counterfeit mark was willful, the court can increase the statutory damages to \$1,000,000 per counterfeit mark.<sup>47</sup> Under 15 U.S.C. § 1117(d), statutory damages from \$1,000 to \$100,000 are also available in cybersquatting cases.

The U.S. Code does not contain criminal penalties for trademark infringement. However, a person who knowingly uses a counterfeit mark in connection to goods or services in which he intentionally traffics can be fined up to \$2 million and imprisoned for ten years.<sup>48</sup> If he is a repeat offender, the fine increases to \$5 million and the period of imprisonment to 20 years.<sup>49</sup> The period of imprisonment similarly increases to 20 years if the offender, through his counterfeiting, knowingly or recklessly causes or serious bodily injury.<sup>50</sup> A penalty of life

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<sup>43</sup> *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

<sup>44</sup> 15 U.S.C. § 1117(a).

<sup>45</sup> 15 U.S.C. § 1117(b). The Lanham Act draws a clear distinction between trademark infringement and counterfeiting. *Compare* 15 U.S.C. § 1114(1) *with* 15 U.S.C. § 1116(d)(1)(B).

<sup>46</sup> 15 U.S.C. § 1117(c)(1).

<sup>47</sup> 15 U.S.C. § 1117(c)(2).

<sup>48</sup> 18 U.S.C. § 2320(a)(1).

<sup>49</sup> *Id.*

<sup>50</sup> 18 U.S.C. § 2320(a)(2)(A).

imprisonment can be imposed if the offender knowingly or recklessly causes death.<sup>51</sup> Additional penalties for the trafficking in counterfeit labels are set forth in 18 U.S.C. § 2318.

**C. Willful Copyright Infringement v. Regular Copyright Infringement vs. Innocent Infringement.**

Under 17 U.S.C. § 504(c)(1), a court can award statutory damages for each work infringed “in a sum not less than \$750 or more than \$30,000 as the court considers just.” When the court finds willful infringement, the court has the discretion to increase the award to \$150,000 per work infringed. On the other hand, when the court finds that the “infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright,” the court has the discretion to reduce the award of statutory damages to \$200. Moreover, the court can remit statutory damages altogether in specified situations if the infringer was a library, archives, educational institution or public broadcaster that “believed and had reasonable grounds for believing” that its use was a fair use.

The Copyright Act also allows criminal prosecution of willful infringement committed:

- a) for purposes of commercial advantage or private financial gain; b) by the reproduction or distribution of copies with a total retail value of more the \$1,000; or c) by distribution of a work being prepared for commercial distribution, by making it available to the public on a computer network, where the distributor knew or should have known that the work was intended for commercial distribution.<sup>52</sup>

Under 18 U.S.C. § 2319, the criminal penalties vary depending on the value of the copies made and whether the offense is a repeat offense. The maximum period of imprisonment is ten years.

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<sup>51</sup> 18 U.S.C. § 2320(a)(2)(B).

<sup>52</sup> 17 U.S.C. § 506.

Criminal penalties are also available for the unauthorized fixation of and trafficking in sound recordings of live musical performances<sup>53</sup> and the unauthorized recording of motion pictures in movie theatres.<sup>54</sup>

#### **D. Willful vs. Ordinary vs. Innocent DMCA Violations.**

The Digital Millennium Copyright Act (DMCA) recognizes degrees of culpability for violations of its prohibitions on the circumvention of technological protection measures (§ 1201) and the removal of copyright management information (§ 1202). For each violation of § 1201, the plaintiff can recover statutory damages in a sum between \$200 and \$2500 per act of circumvention, device, product, component, offer or performance of service. For each violation of § 1202, the plaintiff can recover statutory damages in a sum between \$2,500 and \$25,000. For repeat violations of §§ 1201 and 1202, “the court may increase the award of damages up to triple the amount that otherwise would be awarded....” On the other hand, the court can reduce or remit the award of actual or statutory damages if the court finds “that the violator was not aware and had no reason to believe that its acts constituted a violation.”

The DMCA provides for criminal prosecution of a person who violates §§ 1201 and 1202 “willfully and for purposes of commercial advantage or private financial gain.” The penalty for a first offense is a fine of up to \$500,000 and imprisonment of not more than five years. For a second offense, the fine can increase to \$1,000,000 and the period of imprisonment can increase to not more ten years.

This quick review of the remedies contained in the U.S. Code for different kinds of infringement demonstrates that Congress has made explicit determinations concerning the

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<sup>53</sup> 18 U.S.C. § 2319A.

<sup>54</sup> 18 U.S.C. § 2319B.

seriousness of various infringements.<sup>55</sup> The most basic distinction is between willful and non-willful infringement. The rightsholder can receive enhanced damages for willful patent and copyright infringement, DMCA violations, and counterfeiting. Willful copyright infringement, DMCA violations, and counterfeiting can also lead to criminal sanctions.

Although willful infringement across the board receives greater penalties than non-willful infringement, the remedies for counterfeiting are in a class by themselves. While statutory damages for willful copyright infringement can reach \$150,000 per work infringed, the statutory damages for willful counterfeiting are \$1 million per mark. A repeat copyright infringer can be imprisoned for ten years, but a repeat counterfeiter can be imprisoned for twice as long. Moreover, a counterfeiter can be sentenced to twenty years imprisonment if he causes serious bodily harm, or life imprisonment if he causes death.

At the other end of the spectrum, innocent copyright infringers and DMCA violators can have their statutory damages liability reduced significantly or remitted altogether.

In sum, Congress has created a very clear hierarchy of infringement cases, in decreasing order of seriousness:

- 1) Counterfeiting cases causing serious bodily harm or death;
- 2) Willful counterfeiting;
- 3) Willful copyright infringement and DMCA violations for purposes of commercial advantage or private financial gain;
- 4) Willful patent and copyright infringement and DMCA violations;

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<sup>55</sup> The U.S. Code also prohibits economic espionage. If a person knowingly steals trade secrets, the person can be sentenced to imprisonment for 10 years. 18 U.S.C. § 1832. If the person steals the trade secrets for the benefit of a foreign government, the person can be fined \$500,000 and imprisoned for 15 years. 18 U.S.C. § 1831. The Economic Espionage Act does not provide for a private right of action.

- 5) Ordinary patent, trademark, and copyright infringement and DMCA violations;  
and
- 6) Innocent copyright infringement and DMCA violations.

### **E. The Complexity of Infringement Litigation.**

Congress's decision to impose lighter penalties on ordinary infringement than on willful infringement reflects the understanding that ordinary infringement cases involve extremely complex legal issues with unpredictable judicial resolutions.

#### **1. Trademark Litigation.**

Many trademark cases center on the question of whether the defendant's use was likely to cause consumer confusion as to the origin of the product or service to which the mark was affixed. In court, plaintiffs and defendants produce surveys of consumers indicating the degree of their confusion. Expert witnesses attack the technical validity of the other side's surveys.

Another heavily disputed issue is whether the use of a mark in keyword advertising is a "use in commerce" under the Lanham Act. Trademark owners assert that advertisers that buy advertisements triggered by keywords, and Internet companies that sell them, infringe their trademarks. But several courts have found that the buying a selling of keyword ads is not a use and commerce, and that trademark liability turns on the content of the ads themselves.<sup>56</sup>

Trademark fair use also is hotly contested. Congress amended the standards for fair use in dilution cases in 2006, but fair use in other trademark cases relies on judge-made standards. The Supreme Court considered trademark fair use as recently as six years ago in *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 125 S. Ct. 542 (2004). There the Court overturned

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<sup>56</sup> See, e.g., *1-800 CONTACTS, Inc. v. WhenU.com, Inc.*, 414 F. 3d 400 (2d Cir. 2005); *Merck & Co. v. Mediplan Health Consulting Inc.*, 425 F. Supp. 2d 402 (S.D.N.Y. 2006).

a line of cases that held that assertion of the fair use defense required a showing that there was no likelihood of confusion.

## **2. Patent Litigation.**

Patent infringement cases typically involve narrow legal and engineering issues. A threshold question is whether the patent reads on patentable subject matter. For the past thirty years, the courts have wrestled with the patentability of software and business methods. *In re Bilski*, currently pending before the Supreme Court, implicates this precise issue.

A court then needs to determine precisely what the patent covers. The Patent and Trademark Office issues a patent after an examination process that can last several years. During the course of the examination, some claims are dropped and others are amended. Thus, after what is called a *Markman* hearing, a court must interpret the scope of the patent that ultimately issues from the PTO.

Next, courts consider the validity of the issued patent. Typically this turns on whether the “the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said patent pertains.”<sup>57</sup> This metaphysical question – the obviousness of the invention to a person of ordinary skill in the art – is delegated in the first instance to an examiner in the PTO. Courts in infringement cases review the examiner’s decision, considering *inter alia* whether the examiner properly evaluated the relevant prior art as defined by the statute.<sup>58</sup> Courts also consider whether the patent applicant disclosed all the relevant prior art of which it was aware. If the applicant engaged in inequitable conduct,

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<sup>57</sup> 35 U.S.C. § 103(a).

<sup>58</sup> The patent prosecution process is extremely complex, and there are many grounds for invalidating the issuance of a patent.

the court can invalidate the patent. The Supreme Court recently addressed the proper application of the test for non-obviousness in cases involving the combination of obvious elements.<sup>59</sup>

A court's final step is determining whether the defendant infringed the patent. Complicating this determination is the judge-made doctrine of equivalents. Under this doctrine, a device or process that does not fall within the terms of the patent as construed by the court in the *Markman* hearing may nonetheless infringe if it is "equivalent" to the claimed invention. The doctrine of equivalents injects significant uncertainty into product development because a court can find a company to have infringed even if the company designed around the patent.

It must also be stressed that independent creation is not a defense for patent infringement. In other words, even if the defendant developed its product independently, without any awareness of the plaintiff's patents or products, a court can find the defendant liable for infringement. Because of the length and the secrecy of the patent application process, a patent can issue on an invention after several different companies independently have developed and marketed products or services incorporating the invention. A recent study reveals that in the vast majority of patent cases, the plaintiffs allege willfulness but in many, if not most cases, they do not allege that the defendants copied their invention.<sup>60</sup> This is nowhere near "willfulness" the way it is ordinarily understood.

### **3. Copyright Litigation.**

While independent creation is not a defense to patent infringement, it is a complete defense to copyright infringement. In a copyright infringement action, a plaintiff must show that

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<sup>59</sup> *KSR International Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007).

<sup>60</sup> Christopher A. Cotropia & Mark A. Lemley, *Copying in Patent Law*, 87 N.C.L. Rev. 1421, 1441-43, 1458-59 (2009) (finding that while 81.3% of complaints allege willfulness, only 31% allege defendant was ever aware of patents, and only 10.9% of cases allege copying; concluding that "[p]ublic policy debates around patent reform often involve claims that any weakening of the patent right will destroy the patent system by encouraging widespread "theft" of patent rights. But our data suggest there is very little "theft" of patent rights going on right now--at least as it is represented in patent cases."). See also Mark Lemley, *Ten Things to Do About Patent Holdup of Standards (And One Not To)*, 48 B.C. L. Rev. 149, at 164 (2007).

the defendant had access to and made use of her work. But even if the plaintiff can make this showing, she is still a long way from prevailing. The plaintiff must then show that the defendant's use infringed one of the exclusive rights granted under the Copyright Act – reproduction, distribution, preparation of derivative works, public performance, or public display. Courts have struggled with the application of these concepts to digital technology. Courts have found that software temporarily stored in the random access memory of a computer was sufficiently fixed to constitute a copy under the Copyright Act.<sup>61</sup> But more recently, the Second Circuit held that a buffer copy that lasted 1.2 seconds was not sufficiently fixed to meet the Copyright Act's definition of copy.<sup>62</sup> Similarly, the Fourth Circuit found that content stored temporarily on a server while it was in transit from the sender to the recipient was not fixed. Courts have also had to wrestle with whether a link to a site constitutes a display of that site,<sup>63</sup> and whether a cell phone ringing in public constituted a public performance of the ring tone on the cell phone.<sup>64</sup>

Assuming that the plaintiff can show that the defendant reproduced, distributed, or performed elements of the plaintiff's work, the plaintiff must show that those elements contained “expression” covered by the Copyright Act. The distinction between protected expression and unprotected ideas and processes – the idea/expression dichotomy – is as metaphysical as the nonobviousness standard in patent law. Many copyright cases involve the copying of non-literal elements, and the court must determine on which side of the idea/expression line these non-literal elements fall. In the 1980s and 1990s, for example, courts struggled with the

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<sup>61</sup> See, e.g., *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9<sup>th</sup> Cir. 1993).

<sup>62</sup> *Cartoon Network LP LLP v. CSC Holdings, Inc.*, 536 F.3d 121 (2<sup>nd</sup> Cir. 2008).

<sup>63</sup> *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9<sup>th</sup> Cir. 2007).

<sup>64</sup> Brief of Defendant, *United States v. American Society of Composers, Authors and Publishers*, No. 41-1395 (2<sup>nd</sup> Cir. 2009) *available at* <http://www.eff.org/files/%28Redacted%29%20ASCAP%27s%20Opposition%20to%20AT&T%27s%20MSJ%20Ringtones.pdf>

protectability of the structure of computer programs and interfaces specifications – the rules by which computer program interconnected. Companies developed new programs that performed the same function as existing software, and that ran on existing operating systems, but did so with independently written lines of code. The dominant companies sued the new entrants for copyright infringement, and the courts had to wade into the intricacies of software engineering to understand what the new entrants did and did not copy. The courts ultimately fashioned a rule that copyright did not protect interfaces specifications or other program elements dictated by considerations of interoperability or efficiency. By limiting the scope of copyright protection, the courts encouraged the development of interoperable computer products. This in turn led to the competition and innovation in the global information technology industry, and the rapid expansion of the Internet.<sup>65</sup>

Courts similarly have had to examine the protectability of compilations of facts. In 1991, in a case involving the white pages of a telephone directory, the Supreme Court ruled that under copyright law, “only the compiler’s selection and arrangement may be protected; the raw facts may be copied at will.”<sup>66</sup> The Court stressed that it had “long recognized that the fact/expression dichotomy limits severely the scope of protection in fact-based works.”<sup>67</sup> The Court observed that

It may seem unfair that much of the fruit of the compiler’s labor may be used by others without compensation. As Justice Brennan has correctly observed, however, this is not ‘some unforeseen byproduct of a statutory scheme.’ It is rather, ‘the essence of copyright’ and a constitutional requirement. The primary objective of copyright is not to reward the labor of authors, but to ‘promote the Progress of Science and useful Arts.’ To this end, copyright assures authors the right to their original expression, but encourages others to build freely upon the

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<sup>65</sup> See JONATHAN BAND AND MASANOBU KATOH, INTERFACES ON TRIAL 2.0, <http://www.policybandwidth.com/interfaces.html>; JONATHAN BAND AND MASANOBU KATOH, INTERFACES ON TRIAL, INTELLECTUAL PROPERTY AND INTEROPERABILITY IN THE GLOBAL SOFTWARE INDUSTRY (Westview Press 1995).

<sup>66</sup> Feist Publications, Inc. v. Rural Telephone Serv. Co., Inc., 499 U.S. 340, 349-50 (1991).

<sup>67</sup> *Id.* at 350.

ideas and information conveyed by a work.... This result is neither unfair nor unfortunate. It is the means by which copyright advances the progress of science and art.<sup>68</sup>

But even this unambiguous, unanimous ruling has not resolved all questions concerning the reuse of facts. Courts have recognized a distinction between “discovered facts,” which do not receive copyright protection, and “created facts,” which can.<sup>69</sup>

Assuming a court finds that a defendant used protectable expression, the defendant incurs liability only if the court finds that none of the Copyright Act’s many defenses apply. The broadest and most flexible privilege is the fair use doctrine, codified at 17 U.S.C. § 107. Like the idea/expression dichotomy, fair use is one of copyright law’s “built-in First Amendment accommodations.”<sup>70</sup> The Supreme Court has described fair use as “an equitable rule of reason which permits courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.”<sup>71</sup>

Many fair use cases involve the use of less than the rightsholder’s entire work. One case concerned a magazine quoting fewer than 400 words from President Ford’s 655 page memoirs.<sup>72</sup> Other cases involve the uses of characters or settings from a novel,<sup>73</sup> part of a photograph,<sup>74</sup> or a few chords and lyrics from a song.<sup>75</sup> In some of these cases, the court has found fair use; in others, the court has found infringement.<sup>76</sup>

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<sup>68</sup> *Id.* (citations omitted).

<sup>69</sup> *New York Mercantile Exchange, Inc. v. Intercontinental Exchange, Inc.*, 497 F.3d 109 (2<sup>d</sup> Cir. 2007); Justin Hughes, *Created Facts and the Flawed Ontology of Copyright Law*, 83 NOTRE DAME L. REV. 43 (2007).

<sup>70</sup> *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003).

<sup>71</sup> *Stewart v. Abend*, 495 U.S. 207 (1990).

<sup>72</sup> *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539 (1985).

<sup>73</sup> *Salinger v. Colting*, 641 F.Supp.2d 250 (S.D.N.Y. 2009); *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11<sup>th</sup> Cir. 2001).

<sup>74</sup> *Blanch v. Koons*, 467 F.3d 244 (2<sup>d</sup> Cir. 2006).

<sup>75</sup> *Campbell v. Acuff-Rose*, 510 U.S. 569 (1994).

<sup>76</sup> The court found fair use in *Acuff-Rose*, *Koons*, and *Suntrust*; the court found infringement in *Harper & Row* and *The Nation*.

Over the past twenty-five years, courts have found fair use in many cases involving the use of entire works:

- The Supreme Court permitted users to copy entire television programs for the purpose of time-shifting;<sup>77</sup>
- The Ninth and Federal Circuits allowed the copying and translation of entire computer programs in the course of reverse engineering for the purpose of identifying unprotected elements;<sup>78</sup>
- The Ninth Circuit permitted the storage and display of compressed images by search engines;<sup>79</sup>
- The Second Circuit allowed the reproduction and distribution of Grateful Dead posters in a coffee-table book;<sup>80</sup>
- The Fourth Circuit excused the copying of student papers in a database designed to detect infringement.<sup>81</sup>

Copyright infringement litigation has also centered on the applicability of other defenses.

The New York Times and other large publishers argued that a provision addressing the ownership of contributions to collective works, 17 U.S.C. § 201(c), permitted them to create and distribute digital versions of articles written for their publications by freelance writers.<sup>82</sup> The Supreme Court rejected this contention, resulting in the award of over \$16 million in damages to

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<sup>77</sup> Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417 (1984).

<sup>78</sup> Atari Games Corp. v. Nintendo of America, Inc., 975 F.2d 832 (Fed. Cir. 1992); Sega Enter. Ltd. v. Accolade, Inc., 977 F.2d 1510 (9<sup>th</sup> Cir. 1992); Sony Computer Entm't, Inc. v. Connectix Corp., 203 F.3d 596 (9<sup>th</sup> Cir. 2000).

<sup>79</sup> Kelly v. Arriba Soft Corp., 280 F.3d 934 (9<sup>th</sup> Cir. 2002); Perfect 10 v. Amazon, 508 F.3d 1146 (9<sup>th</sup> Cir. 2007).

<sup>80</sup> Bill Graham Archives v. Dorling Kindersley Ltd., 448 F.3d 605 (2<sup>d</sup> Cir. 2006).

<sup>81</sup> A.V. v. iParadigms, LLC, 562 F.3d 630 (4<sup>th</sup> Cir. 2009).

<sup>82</sup> Section 201(c) permits the owner of a copyright in a collective work to reproduce and distribute contributions to the collective work in “any revision of that collective work.” The New York Times and other publishers made available CDs and other electronic databases of previously published articles. The publishers claimed that they did not need to pay additional license fees to the freelance writers because the databases were “revisions” of the earlier collective works. The Supreme Court held that the databases were not revisions of the earlier collective works, but new collective works.

the freelance writers.<sup>83</sup> This case underscores that many disagreements relating to copyright are between the artists who create works and the large media companies that distribute the works. The media companies are strong proponents of copyright protection except when they seek to avoid paying the creators.

Currently before the Supreme Court is a case regarding the proper interpretation of the first sale doctrine, 17 U.S.C. § 109(a). The first sale doctrine provides an exception to the distribution right to the owner of a copy “lawfully made under this title....” In essence, the first sale doctrine allows the owner of a legal copy to sell or lend that copy. The case before the Supreme Court involves the parallel importation of Omega watches. Omega manufactures the watches in Switzerland, and imports them to the U.S. through an authorized distributor. Costco, the discount retailer, discovered that it could purchase Omega watches in Switzerland for less than the authorized distributor was selling them in the U.S. Costco began selling in the U.S. the watches it purchased in Switzerland. Omega sued for infringement, alleging that Costco’s importation and sale infringed Omega’s distribution right in the copyrighted logo on the watches. Costco argued that the first sale doctrine provided it with an exception to Omega’s distribution right. The Ninth Circuit, however, held that the phrase “lawfully made under this title” means lawfully made in the United States.<sup>84</sup> Because Omega manufactured the watches with the logos in Switzerland, the first sale doctrine did not apply.

If the Supreme Court agrees to hear the case and affirms the Ninth Circuit, the Court in effect will encourage companies to move their manufacturing overseas to avoid the application of the first sale doctrine. This will result in the loss of manufacturing jobs in the U.S. as well as higher prices to U.S. consumers.

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<sup>83</sup> New York Times Co. v. Tasini, 533 U.S. 483 (2001).

<sup>84</sup> Omega S.A. v. Costco Wholesale Corporation, 541 F.3d 982 (9<sup>th</sup> Cir. 2008).

This case is the quintessential example of the policy complexities inherent in IP infringement cases, and demonstrates why the IPEC must avoid drafting a Joint Strategic Plan that increases federal intervention in the IP system in an undifferentiated manner. In this case, a finding of infringement will:

- turn on a hyper-technical legal issue – the meaning of the phrase “lawfully made under this title;”
- prevent the sale of lawfully made goods
- harm U.S. consumers
- harm U.S. workers
- benefit a foreign rightsholder.<sup>85</sup>

### **The Theft Fallacy.**

Rightsholders allege that infringement constitutes theft of their property. The Supreme Court, however, has recognized that infringement is qualitatively different from crimes relating to tangible property such as theft or shoplifting. In *Dowling v. United States*, the Supreme Court explained:

The copyright owner ... holds no ordinary chattel. A copyright, like other intellectual property, comprises a series of carefully defined and carefully delimited interests to which the law affords correspondingly exact protections. “Section 106 of the Copyright Act confers a bundle of exclusive rights to the owner of the copyright,” which include the rights “to publish, copy, and distribute the author’s work. However, “[t]his protection has never accorded the copyright owner complete control over all possible uses of his work.” For example, § 107 of the Copyright Act “codifies the traditional privilege of other

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<sup>85</sup> To the extent that the Joint Strategic Plan is directed towards improving the U.S. economy, it must be recalled that many of the largest rightsholders are foreign companies: all four major record labels – Sony Music Entertainment (Japan), EMI (UK), Universal Music Group (Vivendi, France), Warner Music Group (Canada); two of the largest video games companies -- Nintendo (Japan), Sony (Japan); two of the six major film studios, Columbia Pictures (owned by Sony, Japan), NBC Universal (20% owned by Vivendi, France); two of the largest database publishers – Reed Elsevier (owner of Lexis-Nexis, UK-Netherlands), Thomson-Reuters (owner of West, Canada); many of the largest luxury goods manufacturers – Louis Vuitton (France), Hermes (France), Chanel (France), Gucci (Italy); and six of the twelve largest pharmaceutical companies – Roche (Switzerland), GlaxoSmithKline (UK), Navartis (Switzerland), Sanofi-Aventis (France), AstraZeneca (UK), Bayer (Germany).

authors to make ‘fair use’ of an earlier writer's work.” Likewise, § 115 grants compulsory licenses in nondramatic musical works. Thus, the property rights of a copyright holder have a character distinct from the possessory interest of the owner of simple “goods, wares, [or] merchandise,” for the copyright holder's dominion is subjected to precisely defined limits.

It follows that interference with copyright does not easily equate with theft, conversion, or fraud .... The infringer invades a statutorily defined province guaranteed to the copyright holder alone. But he does not assume physical control over the copyright; nor does he wholly deprive its owner of its use. While one may colloquially liken infringement with some general notion of wrongful appropriation, infringement plainly implicates a more complex set of property interests than does run-of-the-mill theft, conversion, or fraud.<sup>86</sup>

In addition to making clear that infringement is qualitatively different from a trespass on the possessory interest of the owner of tangible property, this passage stresses that IP is a “statutorily defined province,” “a series of carefully defined and carefully delimited interests.” In other words, intellectual property is whatever Congress and the courts say it is, consistent with the Constitution.<sup>87</sup> Congress and the courts can expand or contract the “province guaranteed” to the rightsholder. Thus, the financial loss a rightsholder may experience by virtue of infringement is a function of the breadth of the IP monopoly granted by the federal government in the first place. If Congress lengthens the copyright term by 20 years, the rightsholder whose term would have expired is suddenly “harmed” by infringement during this new term of protection. At the same time, but for the term extension, the rightsholder would not have suffered any harm.

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<sup>86</sup> Dowling v. United States, 473 U.S. 207, 217-18 (1985)(citations omitted).

<sup>87</sup> A unanimous Supreme Court in *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003), ruled that Section 43(a) of the Lanham Act did not create a cause of action for plagiarism – the use of an otherwise unprotected work or invention without attribution. The Court stated that “[t]o hold otherwise would be akin to finding that § 43(a) creates a species of perpetual patent and copyright, which Congress many not do.” *Id.* at 37. Writing for the Court, Justice Scalia stated that expanding the Lanham Act to cover plagiarism “would create a species of mutant copyright law that limits the public’s federal right to ‘copy and use’ expired copyrights.” *Id.* at 34. Similarly, Congress cannot enact legislation to overturn the Supreme Court’s ruling in *Feist v. Rural Telephone* that the Constitution prevents the copyrighting of facts: “any transparent ruse by Congress ... would also fall in the forbidden zone” of the Intellectual Property Clause. Justin Hughes, *How Extra-Copyright Protection of Databases Can be Constitutional*, 28 Dayton L. Rev. 159, 186 (2003).

Stated differently, in drafting IP statutes, Congress makes political judgments concerning the scope of intellectual property. Courts interpret these statutes when determining whether infringement occurred in a particular case. The extent of harm caused by the infringement flows directly from the courts' interpretations of Congress's political judgments.

### **The Silo Fallacy.**

Rightsholder assessments of the harm caused by IP infringement tend to look at these harms in isolation. The record industry may highlight declines in CD sales, but fails to mention the successes of other parts of the music industry, such as the revenue from live performances<sup>88</sup> or television programs such as *American Idol*. When these revenues are included, the music industry as a whole remains highly profitable. To be sure, the four major record labels may not be benefiting from these other revenues, but that is a function of the structure of the industry rather than copyright law. Moreover, although CD sales have declined since 2000, the number of albums created has increased significantly. In 2000, 35,516 albums were released; by 2007, this number had risen to 79,695.<sup>89</sup>

Similarly, when film studios discuss the volume of illegal downloads and flat DVD sales, they omit reference to rising ticket sales to theatrical performances. They do not mention that the number of feature films released annually worldwide has increased from 3,807 in 2003 to 4,989 in 2007. (In the same period, the number of feature film releases in the U.S. rose from 459 to 590.)<sup>90</sup> The film studios also ignore ancillary income, such as the sale of \$16 billion of

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<sup>88</sup> Felix Oberholzer-Gee and Koelman Strumpf, *File-Sharing and Copyright 20* (Harvard Business School, Working Paper No. 09-132, 2009) available at <http://www.hbs.edu/research/pdf/09-132.pdf>.

<sup>89</sup> *Id.* at 23.

<sup>90</sup> *Id.* at 24.

entertainment merchandise.<sup>91</sup> In this manner, they present policy makers with a skewed view of the health of their industry.<sup>92</sup>

The software industry also remains robust,<sup>93</sup> and variations in the sale of proprietary software will not necessarily represent an industry increasingly employing open source licensing and service-driven business models. Likewise, the sales of luxury goods have risen as the economy emerges from the recession. Tiffany & Co., for example, quadrupled its fourth-quarter 2009 profit, compared to the last quarter of 2008.<sup>94</sup>

Additionally, the figures provided by the IP industries do not reflect the explosion of user generated content on the Internet. More people are creating and distributing essays (blogs), songs, and films than ever before in history. Moreover, thousands of individual programmers develop “apps” for the iPhone and other mobile devices, as well as participate in open-source software projects. This unprecedented democratization of the production and distribution of content demonstrates that the constitutional objectives of the IP system—promoting the progress of science and the useful arts—are still being met in the digital age. Indeed, they are better met now than ever before.<sup>95</sup>

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<sup>91</sup> *Id.* at 20.

<sup>92</sup> Most recently, the MPAA trumpeted record box office receipts of \$29.9 billion in 2009, marking three straight years of solid growth and a 30% increase over 2005. Rob Pegoraro, *The MPAA Says the Movie Business Is Great. Unless It's Lousy*, WASHINGTON POST, March 11, 2010, [http://voices.washingtonpost.com/fasterforward/2010/03/mpaa\\_box\\_office\\_bragging.html](http://voices.washingtonpost.com/fasterforward/2010/03/mpaa_box_office_bragging.html).

<sup>93</sup> See BUSINESS SOFTWARE ALLIANCE, RESILIENCE AMID TURMOIL: BENCHMARKING IT INDUSTRY COMPETITIVENESS 2009 6 (2009) (finding that while it has suffered from the recession, “the IT industry has been faring better than other sectors.”)

<sup>94</sup> See *Tiffany Profit Soars on Glimpse of Spending*, WASHINGTON POST, March 23, 2010.

<sup>95</sup> Drawing accurate macroeconomic conclusions from microeconomic activity is extremely difficult. Even if infringement does lead to some economic harm in some industry sectors, consumers will spend the money they saved from infringement on something else; and that consumption will generate economic activity in other sectors. In other words, infringement's macroeconomic impact on the U.S. economy probably is primarily redistributive. See Annelies Huygen *et al.*, *Ups and Downs: Economic and Cultural Effects of File Sharing on Music, Film and Games* (2009). See also John Karaganis, *Piracy and Jobs in Europe: Why the BASCAP/TERA Approach is Wrong* (2010), <http://blogs.ssrc.org/datadrip/wp-content/uploads/2010/03/Piracy-and-Jobs-in-Europe-An-SSRC-Note-on-Methods.pdf> (“Within any given country, piracy is a reallocation of income, not a loss. Money saved on CDs or DVDs will be spent on other things—housing, food, other entertainment, etc.”).

Considering the harms of infringement in isolation also risks overlooking the dangers of eliminating the balance in our IP system. As discussed above, excessive application of the patent laws restricts competition and retards follow-on innovation. Overly broad trademark laws could threaten business models that depend on keyword advertising or distribution through e-commerce websites.

Moreover, many sectors of the U.S. economy rely heavily on fair use and other limitations to copyright law. Examples of new technologies that could not exist but for these limitations on copyright protection include:

- **search engines** (Search engines copy the World Wide Web onto their servers, and perform their searches for responsive websites on their cached copy of the Web. Fair use permits this copying.<sup>96</sup>)
- **hosting sites** (Hosting sites allow third parties to publish content to a global audience. The safe harbors of the DMCA' discussed below, limit the sites' liability for infringing material, thereby enabling the sites to provide hosting services at an affordable rate.<sup>97</sup>)
- **browsers, computers and consumer electronics** (All digital technologies operate by repeatedly making temporary copies of software and other copyrighted content. The *Betamax* doctrine and fair use limit the liability of manufacturers for the copies made by their users.<sup>98</sup>)
- **interoperable software** (Computer programmers can develop software products that compete with programs produced by dominant firms only if copyright does not protect interface specifications or prevent reverse engineering.)

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<sup>96</sup> See Jonathan Band, *Google and Fair Use*, 3 J. Bus & Tech. L 1 (2008).

<sup>97</sup> 17 U.S.C. § 512 (c).

<sup>98</sup> Under the *Betamax* doctrine articulated by the Supreme Court in *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), a manufacturer is not contributorily liable for infringements made using its technology so long as the technology is capable of a substantial noninfringing use.

These technologies have led to the creation of highly successful U.S. companies, which have generated significant employment and revenue. Additionally, these technologies have dramatically improved the efficiency of the U.S. economy.

Balanced IP also advances important non-economic values.

- **Education.** Students and educators at all levels rely heavily on fair use and other copyright exceptions for: the photocopying of a newspaper article for classroom use; the quotation of a passage from a novel in a term paper or article; the performance of a film in a classroom; the display of a chart in an online course; the posting of a chapter on a course website; and the creation of a multimedia project.
- **Free speech.** Effective critiques of governments, politicians, and the news media require the use of clips from news programs, political advertisements, and other broadcasts. Free speech is chilled unless the entire distribution chain is sheltered from copyright liability, including the person who created the content; the website that hosts the content; and the search engine that links to the website.<sup>99</sup> Similarly, criticism of companies and their products, including comparative advertising, would be impossible without trademark fair use and related limitations.<sup>100</sup>
- **Privacy.** The DMCA's limitation on the liability of providers of online services eliminates their incentive to monitor the activities of their users to ensure that the users are not engaged in infringing conduct. Additionally, the DMCA specifically provides

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<sup>99</sup> Fair use also protects free speech in more traditional formats. For example, *The Daily Show*, broadcast on Viacom's Comedy Central cable channel, makes heavy use of clips from Fox News and other networks.

<sup>100</sup> See, e.g., Jonathan Band and Matthew Schruers, *Toward a Bright-Line Approach to [Trademark]sucks.com*, *The Computer & Internet Lawyer* (July 2003), available at <http://www.policybandwidth.com/doc/JBand-TrademarkSucks.pdf>.

that the availability of the safe harbors is not conditioned on “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity....”<sup>101</sup>

The National Broadband Plan recently released by the Federal Communications Commission properly recognizes both sides of the IP equation. It notes that “[t]he Internet must be a safe, trusted platform for the lawful distribution of content. At the same time, copyright protection efforts must not stifle innovation; overburden lawful uses of copyrighted works; or compromise consumers’ privacy rights.”<sup>102</sup>

### **The Relevance Fallacy.**

Even if we assume that data submitted by rightsholders is sound, estimates are never universally applicable to all discussions. Data must be assessed in relation to the proposition for which it is cited. For example, aggregated estimates including physical, offline infringement are not helpful to decision-making with respect to Internet downloading. Similarly, aggregated estimates of counterfeiting and infringement “losses” are no more probative to a discussion limited to copyright (or to trademark) than total U.S. fruit exports are relevant to decisions on apple subsidies.<sup>103</sup> Conversely, global data cannot reasonably support claims about domestic policy issues. For example, figures that purport to quantify the *worldwide* costs of piracy,<sup>104</sup> absent U.S.-specific data, are not useful in a decision about whether state law enforcement officials should enforce Federal Copyright, whether to increase U.S. statutory damages, or how to allocate federal domestic law enforcement dollars. Such numbers would be useful, however, in assessing how to allocate funds between domestic and foreign priorities, but only if the

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<sup>101</sup> 17 U.S.C. § 512(m)(1).

<sup>102</sup> FEDERAL COMMUNICATIONS COMMISSION, CONNECTING AMERICA: THE NATIONAL BROADBAND PLAN (2010) available at <http://www.broadband.gov>.

<sup>103</sup> See IPI Study, *supra*, at 6 (noting use of physical piracy numbers in creation of study); see also LECG Study *supra*, Appx. E.1 (making use of revenue loss estimates that include both piracy and counterfeiting)

<sup>104</sup> See LECG Study, *supra*, Appx. tpls. B.2, B.3, and E.1; IPI Study, *supra*, at 5-10.

worldwide figures could be reasonably compared to U.S. cost estimates arrived at through the same methodology.

### **III. COMMENTS ON THE REQUEST FOR SPECIFIC RECOMMENDATIONS FOR ACCOMPLISHING THE OBJECTIVES OF THE JOINT STRATEGIC PLAN (FEDERAL REGISTER NOTICE PART II).**

The request for comments lists the objectives of the Joint Strategic Plan (JSP). These objectives are based on the objectives for the JSP contained in the PRO-IP Act. There are, however, two significant differences between these two lists of objectives. First, the PRO-IP Act's objectives repeatedly refer to "counterfeiting and infringement." In contrast, the objectives in the request for comments make no mention whatsoever of "counterfeiting"; they refer only to "infringement." Second, the PRO-IP Act's objectives mention crimes and criminal prosecutions numerous times, while the request's objectives mention IP crimes only once.

Section 303 of the PRO-IP Act addresses the JSP. Subsection (a) states:

The objectives of the Joint Strategic Plan against *counterfeiting and infringement* ... are the following:

- (1) Reducing *counterfeit and infringing goods* in the domestic and international supply chain.
- (2) Identifying and addressing structural weaknesses, systemic flaws, or other unjustified impediments to effective enforcement action against the financing, production, trafficking, or sale of *counterfeit or infringing goods*, including identifying duplicative efforts to enforce, investigate, and *prosecute intellectual property crimes*.... Such recommendations may include recommendations on how to reduce duplication in personnel ... responsible for the enforcement, investigation, or *prosecution of intellectual property crimes*.
- (3) Ensuring that information is identified and shared among the relevant departments and agencies ... to aid in the objective of *arresting and prosecuting individuals* and entities that are knowingly involved in the financing, production, trafficking, or sale of *counterfeit or infringing goods*.
- (4) Disrupting and eliminating domestic and international *counterfeiting and infringement* networks.
- (5) [R]educing the number of countries that fail to enforce laws preventing the financing, production, trafficking, and sale of *counterfeit and infringing goods*.
- (7) Protecting intellectual property rights overseas by--
  - (A) working with other countries and exchanging information with appropriate law enforcement agencies in other countries relating to individuals and entities involved in the financing, production, trafficking, or sale of *counterfeit and infringing goods*....

Section 303(e) of the PRO-IP Act also refers to counterfeiting in its description of the contents of the JSP:

(2) A description of the means to be employed to achieve the priorities, including the means for improving the efficiency and effectiveness of the Federal Government's enforcement efforts against *counterfeiting and infringement*....

(5) An analysis of the threat posed by violations of intellectual property rights, including the costs to the economy of the United States resulting from violations of intellectual property laws, and the threats to public health and safety created by *counterfeiting and infringement*.

(8) Such other information as is necessary to convey the costs imposed on the United States economy by, and the threats to public health and safety created by, *counterfeiting and infringement*....

Section 303(f), which addresses the enhancement of efforts of foreign governments, mentions counterfeiting, too:

The joint strategic plan shall include programs to provide training and technical assistance to foreign governments for the purpose of enhancing the efforts of such governments to enforce laws against *counterfeiting and infringement*. With respect to such programs, the joint strategic plan shall-

(2) identify and give priority to those countries where programs of training and technical assistance can be carried out most effectively and with the greatest benefit to reducing *counterfeit and infringing products* in the United States market...;

(4) develop metrics to measure the effectiveness of the Federal Government's efforts to improve the laws and enforcement practices of foreign governments against *counterfeiting and infringement*.

Section 304(b), directing the IPEC to issue an annual report, mentions counterfeiting and IP crimes:

The report required by this section shall include the following:

(3) The progress made in working with foreign countries to investigate, arrest, and prosecute entities and individuals involved in the financing, production, trafficking, and sale of *counterfeit and infringing goods*.

(6) Recommendations ... for any changes in enforcement statutes, regulations, or funding levels that the advisory committee considers would significantly improve the effectiveness or efficiency of the effort of the Federal Government to combat *counterfeiting and infringement*....

(10) The progress made in minimizing duplicative efforts, materials, facilities, and procedures of the Federal agencies and Departments responsible for the enforcement, investigation, or *prosecution of intellectual property crimes*.

(11) Recommendations ... on how to enhance the efficiency and consistency with which Federal funds and resources are expended to enforce, investigate, or *prosecute intellectual property crimes*, including the extent to which the agencies and Departments responsible for the enforcement, investigation, or *prosecution of intellectual property crimes* have utilized existing personnel, materials, technologies, and facilities.

Significantly, Title III of the PRO-IP Act, which creates the position of the IPEC, is entitled “Coordination and Strategic Planning of Federal Effort Against *Counterfeiting and Infringement*.” Section 302 defines intellectual property enforcement as “matters relating to the enforcement of laws protecting copyrights, patents, trademarks, other forms of intellectual property, and trade secrets, both in the United States and abroad, including in particular matters relating to combating *counterfeit and infringing goods*.”

The repeated reference to counterfeiting throughout Title III -- in the objectives of the JSP, the definition of intellectual property enforcement, the contents of JSP and the annual report, and the name of title -- indicates that Congress intended for the IPEC to pay special attention in the JSP to counterfeiting. Likewise, Congress intended for the IPEC to pay special attention to criminal prosecutions. But the entire request for comments makes only two passing references to counterfeiting (in questions 17 and 20) and one to IP crimes.

We strongly believe that the JSP should concentrate on counterfeiting and criminal IP matters. This would reflect Congress’s intent in the establishment of the IPEC. Additionally, this would be consistent with the historic emphasis Congress has placed on counterfeiting and other forms of criminal infringement, as discussed above.

While the JSP could also address non-criminal forms of infringement, these should be restricted to willful infringement for the following reasons discussed above in greater detail:

- The actual economic harm caused by ordinary infringement cases is difficult to measure.

- Ordinary infringement cases turn on complex legal distinctions reflecting political compromises.
- Federal efforts to improve enforcement in ordinary infringement cases could lead to overprotection, which in turn could have an adverse impact on competition, innovation, free speech, and privacy. In other words, federal assistance to rightsholders in ordinary infringement cases could upset the balance so critical to successful IP laws.
- Federal efforts to improve enforcement in ordinary infringement cases will enmesh the government in disputes between different industry sectors.

This last point requires further elaboration. In the patent field, there are disputes between brand and generic pharmaceutical companies. There are also disputes between non-practicing entities, including universities, and companies engaged in commerce. In the trademark field, there are disputes between luxury good manufacturers and e-commerce sites that provide a platform for third party resellers. There also are disputes between keyword advertisers and brand owners. In the copyright area, there are disputes between universities and publishers; between restaurants and collecting societies; and between technology companies and entertainment companies. The JSP should stay out of these good faith disputes between legitimate entities; it should not attempt to make it easier for rightsholders to enforce what they believe to be their rights in these cases. Entering into inter-sector disagreements concerning the application of IP protection will ensure the marginalization of the JSP. The JSP process will become politicized, and the serious problem of counterfeit products that threaten public health and safety will not be addressed.

The JSP should also stay far away from the interpretation of IP law, or recommendations concerning legislative amendments to IP statutes. As House Judiciary Committee report on the

PRO-IP Act stated, “the IPER’s critical coordination and planning role should concentrate on the enforcement of the IP laws and not the development of underlying substantive laws.”<sup>105</sup>

#### **IV. SUPPLEMENTAL COMMENT TOPICS**

**4. Provide examples of existing successful agreements, in the U.S. or abroad, that have had a significant impact on intellectual property enforcement, including voluntary agreements among stakeholders or agreements between stakeholders and the relevant governments.**

There are many examples of voluntary agreements among stakeholders that have had an impact on IP enforcement, including the Digital Versatile Disc Content Control Association (DVD-CCA), content identification systems on web-hosting sites, and rightsholder management programs on e-commerce sites.<sup>106</sup> These voluntary arrangements have been successful precisely because they were voluntary. Companies cooperatively had the ability to arrive at cost-effective solutions that were appropriate to their particular technology and business models. If the government participates in the development of these private sector arrangements in any way, they cease to be truly voluntary. What the government sees as helpful encouragement, private parties may perceive as coercive pressure. Accordingly, we recommend that the JSP not address the issue of voluntary private sector agreements.

**7. Describe existing technology that could or should be used by the U.S. Government or a particular agency or department to more easily identify infringing goods and other products.**

Search engines enable government entities to identify infringing products and other unlawful goods available for distribution via the Internet. Indeed, law enforcement agencies

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<sup>105</sup> H.R. Rep. No. 110-617 at 29. When before the House Judiciary Committee, the PRO-IP Act called the IPEC the Intellectual Property Enforcement Representative (IPER). Beyond the issue of statutory scope of authority to make legislative recommendations, we question the need for additional legislation strengthening our IP laws. As the office of the U.S. Trade Representative informed the House Judiciary Committee’s Subcommittee on Courts, the Internet, and Intellectual Property, the United States’ model for protecting intellectual property rights is the “gold standard” of the world, suggesting that further amendment is unnecessary. International Piracy: The Challenges of Protecting Intellectual Property in the 21st Century Before the House Comm. on the Judiciary Subcomm. on Courts, the Internet, and Intellectual Property, 110th Cong. (Thurs. Oct. 18, 2007) (statement of Asst. USTR Victoria Espinel).

<sup>106</sup> These content identification and rightsholder management systems are implemented in a manner consistent the protection of users rights embodied in the notice and putback provisions of the DMCA, 17 U.S.C. § 512(g)(2).

currently use commercial search engines for exactly this purpose. Of course, the search engines generate many “false positives.” For this reason, it is important for a person familiar with the applicable law to visit a responsive website to ensure that the website actually enables infringing activity before any action is taken with respect to the website.<sup>107</sup> Enforcement actions should not be taken based only on technological identification.

**11. Suggest methods to improve the adequacy, effectiveness and/or coordination of U.S. Government personnel stationed in other countries who are charged with enforcement of intellectual property....**

**12. Suggest ways to improve the adequacy, effectiveness and/or coordination of the enforcement training and technical assistance provided by the U.S. Government....**

Currently, the U.S. government personnel stationed in other countries responsible for IP matters often are trade or public affairs officers with little training in U.S. IP law. They are not aware of the balanced nature of our IP system, nor the importance of that balance to innovation and creativity. Instead, they typically recite talking points on the evils of infringement, and the need for greater enforcement. This strategy is largely ineffective. Foreign audiences view the U.S. government officials as shilling for large U.S. entertainment and software companies, demanding that consumers pay unrealistically high prices while receiving no added benefit. Additionally, many foreign IP officials have studied at U.S. law schools, and books by IP professors such as Lawrence Lessig and Jamie Boyle have large foreign readerships. Judicial decisions concerning fair use are globally available for free online. Thus, many decision and opinion makers overseas understand that the positions advocated by the U.S. government officials do not accurately reflect U.S. law. These foreign leaders deeply resent the double standard inadvertently applied by the U.S. government officials.

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<sup>107</sup> In *Rossi v. Motion Picture Ass’n of America Inc.*, 391 F.3d 1000 (9<sup>th</sup> Cir. 2004), the MPAA sent a DMCA takedown notice concerning a website that falsely claimed that films could be downloaded from the site. In *Lenz v. Universal Music Corp.*, 572 F.Supp.2d 1150 (N.D. Cal. 2008), the district court held that a rightsholder must perform a fair use analysis prior to issuing a takedown notice.

U.S. government personnel stationed abroad need to receive comprehensive training in U.S. IP law, including in particular its balanced nature. This will allow them to discuss IP policy in a more nuanced, credible manner. Furthermore, foreign audiences will be far more receptive to an IP regime that contains exceptions for educational institutions, libraries, the visually disabled, broadcasters, new artists, and technology companies than one that benefits only rightsholders. Question 12(c) asks for “suggestions to enhance industry participation in relevant training programs.” The “industry participation” should include not only not only lawyers representing rightsholders, but also lawyers for libraries, universities, and technology companies.

**14. Suggest specific methods to limit or prevent use of the Internet to sell and/or otherwise distribute or disseminate infringing products (physical goods or digital content).**

**A. Copyright.**

When Congress enacted the DMCA in 1998, it established the framework for copyright enforcement in the Internet environment. The framework has two basic elements. First, in Title I, Congress implemented the provisions of the World Intellectual Property Organization Internet Treaties regarding technical protection measures. 17 U.S.C. § 1201(a)(1) prohibits the circumvention of technological measures that control access to copyrighted works. Section 1201(a)(2) prohibits the trafficking in devices that enable such circumvention. Section 1201(b) prohibits the trafficking in devices that circumvent technological measures that prevent copyright infringement. Section 1202(a) prohibits the distribution of false copyright management information. Section 1202(b) forbids the removal or alteration of copyright management information.

Second, in Title II, Congress fashioned limitations on copyright liability for Internet service providers that created incentives for the services providers to work cooperatively with copyright owners. To qualify for the safe harbors, a service provider had to adopt and

reasonably implement “a policy that provides for the termination in appropriate circumstances of the subscribers and account holders of the service provider’s system or network who are repeat infringers....”<sup>108</sup> Additionally, providers of hosting and search services had to comply with the statute’s notice and takedown regime. Upon receiving a compliant notice of claimed infringement from the copyright owner, the service provider had to “respond[] expeditiously to remove, or disable access to, the material that is claimed to be infringing....”<sup>109</sup>

The notice and takedown regime carefully balances the interests of copyright owners and service providers. In essence, it provides copyright owners with automatic injunctive relief stopping alleged infringement without stepping into court. At the same time, it shelters service providers from liability for infringing activity initiated by millions of third parties. Although both copyright owners and service providers share responsibility under the DMCA for enforcing copyrights, the “DMCA notification procedures place the burden of policing copyright infringement – identifying the potentially infringing material and adequately documenting infringement – squarely on the owners of copyright.”<sup>110</sup>

The DMCA is not perfect. It reflects a legislative compromise with omissions and ambiguities that have led to inconsistent judicial interpretations. Companies have attempted to misuse Title I to prevent legitimate competition unrelated to copyright infringement.<sup>111</sup> Title I has also placed undue restrictions on educators and innovative technologies.<sup>112</sup> Likewise,

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<sup>108</sup> 17 U.S.C. 512(i)(1)(A).

<sup>109</sup> 17 U.S.C. 512(c)(1)(C), (d)(3).

<sup>110</sup> Perfect 10, Inc. v. CCBill LLC, 488 F.3d 1102, 1113 (9<sup>th</sup> Cir. 2007).

<sup>111</sup> See, e.g., Chamberlain Group, Inc. v. Skylink Technologies, Inc., 381 F.3d 1178 (Fed Cir. 2004) (manufacturer of garage door openers alleged DMCA violation by maker of universal garage remote control).

<sup>112</sup> See Electronic Frontier Foundation, Unintended Consequences: Twelve Years Under the DMCA, <http://www EFF.org/wp/unintended-consequences-under-dmca>.

companies have misused Title II to force the removal of material that did not infringe copyright.<sup>113</sup>

Nonetheless, the DMCA remains the appropriate framework for copyright enforcement in the Internet environment. We believe that amendment of the DMCA at this time is unnecessary and unwise. Some have suggested that Congress convert the Section 512(i)(1)(A) requirement of a policy for terminating the accounts of repeat infringers into an explicit “three strikes” rule. Under such a rule, a service provider would have to terminate a subscriber’s access to the Internet upon receiving three claims of infringing conduct. Internet access is simply too important a feature of economic and personal activity to require termination in all cases after three unproven allegations of infringement by a rightsholder. While this concept has received some traction in Europe, it violates due process rights enshrined in the U.S. Constitution. It also overturns the user safeguards inserted by Congress in the “counter-notice” provisions of the DMCA’s notice and putback procedures, 17 U.S.C. § 512(g).<sup>114</sup>

Moreover, opening up the DMCA could trigger a serious examination of whether the existing counter-notification process adequately safeguards fair use and freedom of expression generally, or whether stronger measures should be employed to protect these values. Such measures could include increased penalties on rightsholders for abusing the notice and takedown process. Revisiting the DMCA could also lead to a host of other amendments opposed by rightsholders, including: clarification of the “red flag test” in 17 U.S.C. §§ 512(c)(1)(A)(ii) and (d)(1)(B); codification of the First Circuit’s requirement of a nexus between circumvention and

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<sup>113</sup> See, e.g., *Lenz*, 572 F.Supp.2d at 1154 (record company sent DMCA notice without considering whether video was fair use), *Online Policy Group v. Diebold, Inc.*, 337 F.Supp.2d 1195 (N.D. Cal. 2004) (maker of voting machines alleged DMCA violation to silence critics).

<sup>114</sup> Under this procedure, a user whose content has been taken down can request the service provider to restore access to the content if the rightsholder has not initiated a copyright infringement action against the user.

infringement for section 1201 liability to attach;<sup>115</sup> codification of the exemptions to section 1201(a)(1) granted by the Librarian of Congress under the rulemaking authority in section 1201(a)(1)(C);<sup>116</sup> and codification of judicial interpretations limiting the applicability of section 1202 only to electronic copyright management information.<sup>117</sup>

We also oppose all forms of technology mandates for filtering content. Such filters inevitably are over-inclusive, and would prohibit the transmission of non-infringing content. Filters cannot determine whether a particular transmission is permitted by the fair use doctrine or one of the Copyright Act's other exceptions. Filters at the network level would also delay the flow of information. Finally, technology mandates would impede innovation; regulation and legislation move far more slowly than technology.<sup>118</sup>

## **B. Trademark.**

In 1999, Congress enhanced enforcement of the trademarks in the digital environment by adopting the Anticybersquatting Consumer Protection Act. ACPA prohibits a person from registering or using a domain name that is identical or confusing similar to a mark owned by another person.<sup>119</sup>

The DMCA also is effective in preventing the use of the Internet to sell or distribute counterfeit goods. Elements of the packaging of goods – e.g., the logo and labels -- are covered

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<sup>115</sup> See *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, 381 F.3d 1178 (Fed. Cir. 2004); *Storage Technology Corp. v. Custom Hardware Engineering and Consulting, Inc.*, 421 F.3d 1307 (Fed. Cir. 2005).

<sup>116</sup> Statement of the Librarian of Congress Relating to Section 1201 Rulemaking, [http://www.copyright.gov/1201/docs/2006\\_statement.html](http://www.copyright.gov/1201/docs/2006_statement.html).

<sup>117</sup> See, e.g., *IQ Group, Ltd. v. Wiesner Pub., LLC*, 409 F. Supp. 2d 587 (D.N.J. 2006) (interpreting § 1202 to apply only to "automated copyright management systems functioning within a computer network environment").

<sup>118</sup> S. 2048 in the 107<sup>th</sup> Congress would have authorized the Federal Communications Commission to establish a "security system standard" with which all "digital media devices" would have had to comply. S. 2686 in the 109<sup>th</sup> Congress would have authorized the FCC to establish a rule requiring digital television receivers to respond to a broadcast flag to prevent the uploading of broadcast signals onto the Internet. Early filtering technologies focused solely on blocking content. In contrast, current systems enable rightsholders to choose between blocking and monetization opportunities. Legal filtering mandates would prevent this experimentation and innovation. Legal mandates would also impede the development of appropriate user protections.

<sup>119</sup> 15 U.S.C. 1125(d).

by copyright. This means that the distribution of goods with counterfeit packaging infringes copyright's distribution right (as well as trademark). Accordingly, if the manufacturer identifies counterfeit products for sale on a website, it can issue a DMCA takedown notice to the website because of the copyright infringing activity occurring there – the distribution of the counterfeit packaging.<sup>120</sup>

Given the utility of the DMCA in combating the distribution of counterfeit products on the Internet, there is no reason for Congress to enact a “Digital Millennium Trademark Act.” Additionally, because of the differences between copyright and trademark, a DMTA would be difficult for a service provide to administer. Trademark allows for multiple owners of the same mark in different lines of commerce. Thus, “Delta” serves as a trademark for an airline, a plumbing fixtures manufacturer, and a provider of dental insurance. It also forms part of the name of numerous fraternities and sororities, *e.g.*, Sigma Delta Tau. A sevice provider should not be forced to determine who can use Delta in which circumstances.

Furthermore, a DMTA inevitably would invite abuse. Trademark owners could issue takedown notices with respect to resellers of legitimate goods – either used goods or new goods at prices below those at retail outlets. Trademark owners also demand the removal of “gripe sites” containing consumer complaints, or critical product reviews.

### **C. International Agreements.**

The Internet is a global medium, and thus can be used to engage in infringing activity overseas. Rightsholders understandably seek to improve enforcement abroad with respect to Internet based infringement. This is one of the stated objectives of the Anti-Counterfeiting Trade Agreement (ACTA) now under negotiation between the U.S. and its major trading partners.

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<sup>120</sup> See *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, No. 07-03952 (N.D. Cal. Mar. 19, 2010).

As far as can be deduced from available information, much of ACTA seems both commendable and non-controversial. It seeks to increase cooperation among law enforcement agencies in different countries to target criminal rings that engage in commercial scale counterfeiting of pharmaceuticals and replacement parts. ACTA also attempts to harmonize border measures to make it easier for customs officials to prevent the importation of these sorts of counterfeit products which threaten public health and safety.

Unfortunately, ACTA has a much broader scope than law enforcement cooperation and border measures. It also would establish minimum IP standards among the negotiating countries. The Office of the U.S. Trade Representative, which represents the U.S. in the ACTA discussions, has taken the position that ACTA is “coloring within the lines of U.S. law” and that the provisions proposed by U.S. officials would not require an amendment to U.S. copyright, patent, or trademark law.

This statement is true to a point. So far, the U.S. has not advocated legal obligations that clearly exceed those in U.S. law.<sup>121</sup> However, USTR is very selective in the provisions it tries to export through ACTA. It promotes U.S. style enforcement provisions without U.S. style exceptions to those provisions. Thus, USTR is pushing a one-sided, unbalanced framework. Moreover, this one-sided framework could limit the ability of Congress and the courts to change U.S. IP law in the future.

Without question, the U.S. IP laws are tougher in certain respects than those in most other countries. We have well developed secondary liability principles, under which one person can be held responsible for infringements committed by another, unrelated person, under certain

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<sup>121</sup> These comments on the U.S. proposals in ACTA negotiations are based on drafts that have been leaked to the press. A more detailed discussion of our concerns with the Internet chapter proposed by the U.S. is attached.

relatively well defined circumstances.<sup>122</sup> We also allow copyright holders to recover statutory damages, which can be as high as \$150,000 per work infringed, regardless of the actual damage suffered by the rightsholder.<sup>123</sup>

But balancing these provisions are a well-developed system of exceptions. For example, as discussed above, both our copyright and trademark laws permit “fair use,” thereby insuring that the IP laws do not limit the free speech rights of users.

The ACTA provisions advocated by the U.S. would require countries to impose liability on third parties and to adopt statutory damages. But they would not be required to adopt fair use or any of the many other exceptions and limitations in U.S. law.

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. They will be liable not just for the actual damages they caused, but the level of damages set by statute.

The current U.S. positions in ACTA and the free trade agreements (FTAs) on which they are based fail to reflect significant changes that have occurred in our international trade over the past decade. In particular, these positions do not support the interests of Internet companies, the fastest growing sector of the economy.

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<sup>122</sup> This subject will be discussed in more detail in response to question 15 below.

<sup>123</sup> Most other countries allow only the plaintiff’s actual damages and any additional profits of the infringer.

The following are key principles that should guide the U.S. in future discussions on ACTA, the FTAs, and other trade agreements:

**1. *The U.S. Should Defend the Healthy Domestic Legal Landscape for U.S. Internet and Technology Firms against a Protectionist Application of Inconsistent Laws by Foreign Courts.*** It is no accident that Internet and e-commerce sites have grown so rapidly in the United States. Congress has carefully crafted laws that encourage the rapid innovation and entrepreneurial spirit that is critical to Internet companies, such as Section 230 of the Communications Decency Act and Section 512 of the DMCA. As the industry expands into overseas markets, however, American companies often find their progress stymied by foreign laws. Foreign states increasingly apply their laws in a protectionist manner, obstructing U.S. Internet businesses' access to markets.

The *LVMH v. eBay* case in 2008 underscores this problem. In this case, a French court imposed damages liability on eBay for sales of legitimate Louis Vuitton goods by various small businesses and individuals through eBay's site. These sales were legal under U.S. law and were marketed on eBay's U.S.-facing site. The French court held eBay liable because French citizens had the ability to access the U.S. site, French law prohibited sales by unauthorized distributors, and eBay enabled the sales by these third parties. In addition to awarding monetary damages, the court imposed injunctive relief that went so far as to restrict comparative advertising.

From a trade perspective, the USTR should be concerned when French authorities penalize U.S. companies for the conduct of French citizens who find it economically attractive to import goods from U.S. businesses. Moreover, the result in *LVMH* diverges from the U.S. court opinion handed down two weeks later in the *Tiffany* case.<sup>124</sup> In *Tiffany*, the court ruled that eBay had no obligation to proactively police its site to prevent the sale of counterfeit Tiffany products

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<sup>124</sup> *Tiffany, Inc. v. eBay, Inc.*, 576 F.Supp.2d 463 (S.D.N.Y. 2008).

by third parties. The court concluded that so long as eBay responded promptly to Tiffany's identification of auctions of counterfeit goods, eBay did not infringe Tiffany's trademarks.

**2. The U.S. Should Promote a Balanced Copyright Framework that Better Reflects U.S. Law by Promoting Fair Use.** The existing FTA template has long included safe harbor provisions for Internet service providers based on Section 512 of the DMCA. However, these provisions are no longer sufficient by themselves to protect the new services introduced by Internet and technology companies. Search engines, for example, function by copying millions of World Wide Web pages every few weeks into the memory of computer services, where the search firm can rapidly locate information responsive to search queries. In the absence of our robust principle of fair use, search engines would not be able to provide real time high quality search services.

Overseas adoption of a fair use provision—or a functional equivalent to our fair use framework—is critical to the ability of U.S. Internet companies to expand internationally. Most foreign copyright laws lack fair use provisions, and thus expose U.S. firms to liability overseas for activities U.S. courts permit. For example, in two cases—the Belgian case *Copiepresse* and the German case *Horn*—courts imposed copyright liability on Google for the operation of its search engine in a manner consistent with U.S. law, as established by cases such as *Kelly v. Arriba Soft Corp.*<sup>125</sup> and *Field v. Google Inc.*<sup>126</sup>

In connection with consideration of the Peru FTA, Senate Judiciary Committee Chairman Leahy endorsed the concept of including fair use in our free trade agreements, saying “[u]nder our laws, many such new technologies and consumer devices rely, at least in part, on fair use and other limitations and exceptions to the copyright laws. Our trade agreements should promote

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<sup>125</sup> 336 F.3d 811 (9th Cir. 2003)

<sup>126</sup> 412 F. Supp. 2d 1106, 1123 (D. Nev. 2006).

similar fair use concepts, in order not to stifle the ability of industries relying on emerging technologies to flourish.”<sup>127</sup>

While we acknowledge that exporting a fair use concept overseas is not easy, we strongly disagree with any proposal to avoid this task on the basis that ACTA will only address remedies and enforcement. An asymmetrical agreement that facilitates strong enforcement without encouraging fair use will have the practical effect of promoting a copyright framework that is inconsistent with U.S. law and harmful to U.S. businesses.

**3. The U.S. Must Be Careful Not Only to Proceed Consistently with Current Law but to Preserve the Ability of Our Laws to Evolve to Keep Pace with Technologies and Business Models.** As Senators Leahy and Specter discussed in their October 2, 2008 letter to Ambassador Schwab, the previous U.S. Trade Representative, ACTA must be drafted with sufficient flexibility so as to not limit Congress’ ability to make changes to our law in order to adapt to changing business models and technologies. In addition, U.S. courts typically decide several precedent-setting copyright and trademark cases each year, which can significantly change the legal landscape. ACTA and other agreements should allow for the continued development of the IP “common law” in these areas and not promote interpretations of copyright and trademark laws that are at odds with U.S. statutory law or case law.

For example, USTR currently promotes in the FTAs language that suggests that all temporary copies qualify as copies for purposes of infringement. This policy is drawn from a controversial 1993 case, *MAI v. Peak*.<sup>128</sup> However, in 2008 the U.S. Court of Appeals for the Second Circuit ruled in *Cartoon Network v. Cablevision* that temporary “buffer” copies of

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<sup>127</sup> Congressional Record S 14720, December 4, 2007 (Statement of Sen. Leahy).

<sup>128</sup> 991 F.2d 511 (9<sup>th</sup> Cir. 1993).

copyrighted works that lasted 1.2 seconds were not sufficiently fixed to constitute copies for purposes of the Copyright Act.<sup>129</sup>

An amicus brief by the advocacy group Copyright Alliance urged the Supreme Court review the *Cablevision* decision precisely because it was inconsistent with the temporary copy language of the FTAs and thus placed the U.S. in “potential conflict with our trading partners.” The amicus brief, therefore, cited the FTAs as grounds for rejecting improvements in our intellectual property laws.<sup>130</sup> This underscores our position that the U.S. should not draft an agreement that precludes the ability of our courts to further develop copyright and trademark laws.

**4. *The U.S. Should Oppose Any Requirement in ACTA or Other Agreements that Signatories Enact Statutory or Pre-Established Damages.*** U.S. law does not permit statutory damages for trademark infringement, so we assume that mandating such damages through ACTA is not contemplated. While 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 draconian damage awards from defendants without providing any evidence of actual harm. Additionally, the threat of statutory damages in secondary liability cases has chilled innovation and created litigation opportunities for rights holders against all manner of intermediaries, including Internet companies and financial services institutions.

Indeed, as discussed above, copyright statutory damages remain controversial in the United States. Legislation was introduced in the 110<sup>th</sup> Congress to amend 17 U.S.C. § 504(c) to permit statutory damages only in instances of direct infringement. The initial version of the

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<sup>129</sup> 536 F.3d 121 (2d Cir. 2008).

<sup>130</sup> The Supreme Court decided not to review the Second Circuit’s decision.

PRO-IP Act included a repeal of the so-called “one work” rule in § 504(c) that allows only one award of statutory damages for the infringement of works contained in a compilation or derivative work. As noted in the attached white paper provided to Congressional staff and the Copyright Office by numerous trade associations and public interest groups, repeal of this provision would have enabled exorbitant damage demands by copyright “trolls.” After vigorous debate and all day stakeholder discussion, Congress decided to drop the provision, while recognizing the need to revisit the entire statutory damages framework. Consequently, the U.S. should not promote statutory damages while we continue to explore the validity of the current U.S. framework in Congress.

**5. The U.S. Should Oppose Any Requirement in ACTA or Other Agreements the Signatories Enact Secondary Liability Principles.** No multilateral IP agreement contains a requirement concerning secondary liability, and many countries do not even have secondary liability principles in their laws. Thus, including secondary liability in ACTA represents a major change in the framework of international IP law, and goes far beyond the enforcement focus of ACTA. Moreover, as discussed in the response to the next question, the contours of secondary copyright 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.<sup>131</sup>

**15. Provide information on the various types of entities that are involved, directly or indirectly, in the distribution or dissemination of infringing products and a brief description of their various roles and responsibilities.**

This question’s reference to entities that are “involved ... indirectly[] in the distribution or dissemination of infringing products and ... their ... responsibilities” raises the controversial issue of secondary liability. The Patent Act sets forth the standards for secondary liability in 35

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<sup>131</sup> See Jonathan Band, *So What Does Inducement Mean?*, <http://www.policybandwidth.com/doc/inducement.pdf>.

U.S.C. §§ 271(b) and (c). In contrast, secondary liability under the Lanham and Copyright Acts is judge made. As a result, standards for secondary trademark and copyright liability are unstable and constantly evolving.

Secondary copyright liability is particularly volatile. Historically, there have been two forms of secondary copyright liability: contributory infringement and vicarious liability. In the past, courts have imposed vicarious 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.”<sup>132</sup> The Supreme Court in *MGM v. Grokster* reformulated the historic standard: a person “infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.”<sup>133</sup> It is unclear whether this reformulation substantively changed the historic standard. Moreover, the lower courts have only begun to apply the *Grokster* standard to fact patterns involving imperfect filtering technologies and websites which receive advertising revenue based on traffic to the website.

There has been even more confusion with respect to 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....”<sup>134</sup> But *Grokster* states that “one infringes contributorily by intentionally inducing or encouraging direct infringement.” 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. And if it does announce a new standard, they are unsure what that standard is. Is inducement a third form of secondary copyright liability? Or does *Grokster* instead replace the knowledge test in contributory infringement with an intent test?

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<sup>132</sup> *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9<sup>th</sup> Cir. 2001).

<sup>133</sup> 125 S. Ct. 2764 (2005).

<sup>134</sup> *Napster*, 239 F.3d at 1019.

Indeed, two different post-*Grokster* panels in the Ninth Circuit articulated inconsistent tests for contributory infringement in different cases involving the same plaintiff.<sup>135</sup> These different panels arguably reached inconsistent results. In *Amazon.com*, the court found that Google's linking to a website containing infringing content materially contributed to infringement.<sup>136</sup> By contrast, in *Visa*, the court found that Visa did not materially contribute to infringement when it provided credit card services to companies that operated websites with allegedly infringing content. This provoked a sharp dissent from Judge Kozinski, who could find little difference between the materiality of Google's and Visa's contribution to infringement.<sup>137</sup>

In the digital era, there is a further level of complication with respect to secondary liability: whether one is a direct or secondary infringer. Although the precise tests for secondary copyright liability are uncertain, they without question are harder for a plaintiff to satisfy than the strict liability standards for direct infringement. As discussed above, digital technology operates by the making of copies of varying duration in computer memory. Some of those copies may be so transient as to not meet the statutory requirement of fixation. But if the copy lasts long enough to meet the fixation requirement, who is making the copy? The user who uploads the content, or the service provider whose equipment hosts the content? The copyright owner prefers for the court to treat the service provider as the direct infringer, because then strict liability attaches. In contrast, the service provider prefers for the court to treat it as a secondary infringer, thereby requiring the copyright owner to prove the elements of contributory

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<sup>135</sup> Compare *Perfect 10 v. Amazon.com*, 487 F.3d 701 (9<sup>th</sup> Cir. 2007) with *Perfect 10 v. Visa International Service Association*, 494 F.3d 788 (9<sup>th</sup> Cir. 2007).

<sup>136</sup> The Ninth Circuit remanded the case to the district court to determine whether to impute to Google the intent to encourage infringement.

<sup>137</sup> *Grokster* contains other ambiguities. For example, the two concurring opinions in *Grokster* offered different interpretations of *Sony v. Universal*, 464 U.S. 417 (1984). However, 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.

infringement or vicarious liability. Courts have found that direct infringement requires a volitional act with respect to the specific work at issue; and that providing equipment that automatically processes content provided by a user does not satisfy this volitional act requirement.<sup>138</sup>

In the Internet environment, a vast number of entities could be sued for secondary infringement, including: Internet access providers (e.g., libraries, universities, Starbucks, Verizon, and Comcast); providers of Internet services (search engines, webs hosts, email providers, e-commerce sites); financial services companies (credit card companies and other payment systems); computer hardware and software developers; and shippers who deliver infringing physical goods (UPS and FedEx). The DMCA may apply to some of these entities, but only if they meet its requirements.<sup>139</sup> And even if they do fall within the DMCA's safe harbors, they still can be liable for injunctive relief; the DMCA just frees them from liability for money damages.

Given the uncertainty concerning the scope of secondary liability, and the enormous universe of potential secondary infringers, the JSP should avoid these contentious and unsettled issues. Moreover, as discussed above, ACTA should not require signatories to adopt secondary infringement principles in their domestic law.

**17. Suggest specific strategies for reducing threats to public health and safety, caused by use or consumption of infringing goods (for example, counterfeit drugs, medical devices, biologics, and ingested consumer products).**

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<sup>138</sup> CoStar Group, Inc. v. LoopNet, Inc., 373 F. 3d 544 (4<sup>th</sup> Cir. 2004), Cartoon Network LP LLP v. CSC Holdings, Inc., 536 F.3d 121 (2<sup>d</sup> Cir. 2008).

<sup>139</sup> The DMCA would not apply to credit card companies, computer hardware and software developers, and shippers.

As discussed above, we believe that this should be the focus of the JSP and enhanced federal efforts concerning IP enforcement. The IPEC should resist attempts by other stakeholders to divert federal attention and resources from this priority.

Internet companies have helped combat the distribution of the counterfeit drugs by supporting the enactment of legislation to regulate online pharmacies. Additionally, Internet companies have voluntary programs restricting the sale of keywords for controlled substances.

**19. Suggest specific strategies to significantly reduce the demand for infringing goods or other products both in the U.S. and in other countries.**

Numerous industries have developed business strategies that have had the effect of reducing the demand for infringing products. Software companies, for example, have licensed computer manufacturers to preload software on their computers prior to consumer purchase. Video game companies offer multi-player game platforms accessible only to authorized users. Some entertainment companies license their content for online distribution at low or no cost. These strategies succeed when they are designed and implemented by industry participants with a deep understanding of the relevant products, technology delivery platforms, and consumers. The federal government should not involve itself in the development of business strategies to help companies learn how to compete with infringing products. It has no expertise in this area, and this well beyond the proper role of government in a time of budgetary constraints.

At the same time, the federal government should seek to remove legal impediments to the development of robust legal distribution mechanisms. For instance, antitrust exemptions may be appropriate in certain markets to allow competitors to form collective licensing organizations or to cooperate in the development of distribution platforms.

Additionally, the government can reduce infringement by increasing access to government-funded research. The Office of Science and Technology Policy recently requested

comments on expanding the public access policy of the National Institutes of Health to other federal agencies. We strongly support the Administration's objective of enhancing the public's access to scholarly publications resulting from research funded by federal agencies. We appreciate the Administration's dedication to maximizing the return on federal investments in research and development. We agree that increasing access to the results of government-funded research will stimulate scientific and technological innovation and competitiveness. For these reasons, we support enactment of S. 1373, the Federal Research Public Access Act of 2009 (FRPAA). FRPAA places valuable publicly funded research in an online location where search engines operated by our members can index and link to it. FRPAA thus simultaneously assists the broad dissemination of important scientific information and promotes the growth of the Internet. While we support FRPAA, we believe that agencies can adopt public access policies by regulation without additional legislation.

The federal government can reduce infringement of educational materials by encouraging the development of open educational resources through the award of grants for the creation of such resources.

Finally, the federal government can reduce infringement of software by supporting the broader adoption of open source software. It can do this through its procurement policy, licensing only open source software and purchasing information technology products that conform to truly open standards.

**20. Provide specific suggestions on the need for public education and awareness programs for consumers, including a description of how these program should be designed, estimates of their cost, whether they should focus on specific products that pose a threat to public health, such as counterfeit pharmaceuticals, or whether they should be more general awareness programs.**

Federally funded public education and awareness campaigns should focus on specific products that pose a threat to public health. If government becomes involved in education in

other areas relating to infringement, it faces a difficult task of being principled, balanced, and not appearing as mouthpiece for rights-holder interests. Such education efforts would need to address trademark and copyright fair use, the first sale doctrine, and the idea/expression dichotomy. Government education efforts that are perceived as mere propaganda will actually be counterproductive and further undermine the legitimacy of intellectual property in the target audience.

## **V. CONCLUSION**

The spread of the global Internet has facilitated the unauthorized and at times infringing distribution of certain forms of intellectual property, especially copyright-protected content. The ease and minimal cost of copying makes meaningful enforcement costly and difficult. This widely recognized problem has stirred passionate debate about how the problem should be handled by copyright owners, the government, and third parties. This problem is amplified and complicated by the importance of both the content and Internet industries in the U.S. export market, as well as and demands for the U.S. to assert leadership at the international level. This creates a danger of rigid, oversimplified policies toward infringement that (a) make little sense in other intellectual property domains, and (b) undermine the perceived legitimacy of the global intellectual property system.

The solutions to the real and perceived problems the disruptive technology of the Internet has caused for certain entertainment and luxury goods companies cannot be solved by greater government intervention or by shifting more costs to Internet companies. Rather, the solution lies in the evolution of business models to adapt to the new realities of the marketplace.

Respectfully submitted,



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# The Threat Posed By Inflated Statutory Damages

*Comments on the January 25, 2008 Meeting Hosted by the Copyright Office*

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## EXECUTIVE SUMMARY

The PRO IP Act (H.R. 4279) proposes to weaken the long-established “one work” rule, which today imposes a measure of certainty on how copyright statutory damages are calculated. Under current law, a copyright plaintiff may seek up to \$150,000 *per work infringed*. In the case of compilations, the one work rule recognizes that the compilation is being marketed as one work, although it may in fact consist of multiple components.

Section 104 of the PRO IP Act seeks to undo a central underpinning of statutory damages: ensuring that the damages award for infringement of a compilation does not result in catastrophic multiple awards through a separate award for each component of that compilation. For example, current law authorizes a statutory damages award of up to \$150,000 for a single infringement of a magazine containing 100 photos, or a software application containing 100 modules. The proposed changes in Section 104 would allow a plaintiff to claim up to \$15 million for the same act of infringement.

Courts may award such damages without *any evidence of actual harm* to the rightsholder. The one work rule preserves a balanced tradeoff – plaintiffs are relieved of the burden of demonstrating “any shred of proof whatever that there has been any actual damage,” yet there is a high ceiling of one award of \$150,000 for the infringement of a compilation. Significantly, the copyright owner always has the option of obtaining actual damages and the infringer’s profits attributable to the infringement.

Legislative history and litigation practice presented at the January 25, 2008 meeting demonstrate that the one work rule was a carefully designed compromise crafted by the Copyright Office to balance competing approaches to statutory damages. This compromise has withstood the test of time. By copyright law standards, the judicial interpretations of the one work rule have been consistently uniform.

In practice, there is no evidence to support weakening the one work rule. Proponents of weakening the one work rule are not able to produce any examples where that rule has created unfair outcomes for rightsholders. In fact, at the January 25 meeting Associate Register Carson asked the proponents of Section 104 if they could cite a single example where the one work rule produced an unjust result. The proponents were unable to do so.

As applied, existing law already tilts drastically toward copyright plaintiffs, notwithstanding the one work rule. Section 504 provides a court with broad discretion on the amount of statutory damages to award -- from \$200 to \$150,000 per work infringed. In *UMG v. MP3.com*, even after application of the one work rule, the plaintiff still could have received approximately \$118 million in statutory damages (4,700 CDs at \$25,000 per CD). And in *Arista*

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*Records v. Launch Media* (01-CV-4450 [RO] S.D.N.Y.), under the one work rule, plaintiff could have collected statutory damages of in excess of \$100 million had the court found infringement liability.

Not only is there a complete lack of evidence for the need to modify existing law, the proposed change would cause significant collateral damage across the economy, including, for instance, technology and Internet companies, software developers, telecommunications companies, graphics and printed materials industries, libraries, and consumers. Allowing plaintiffs to disaggregate components of existing works would—

- Incentivize “copyright trolls” by providing plaintiffs with the leverage to assert significantly larger damage claims and obtain unjustified “nuisance settlements” from innovators not able to tolerate the risk of a ruinous judgment.<sup>1</sup>
- Stifle innovation by discouraging technologists from using or deploying any new technology or service that could be used to engage in infringing activities by third parties.
- Create unprecedented risk for licensees of technologies powered by software. Because licensees may be unable or unwilling to obtain meaningful indemnifications from every upstream contributor to a particular product, the proposed change will decrease companies’ willingness to outsource software solutions or use open source software.
- Chill lawful uses, suppress the development of fair use case law, and exacerbate the orphan works problem.

Before considering the changes proposed by Section 104, it is important to observe how the existing one work rule affects firms offering innovative products and services. Current law threatens innocent and willful infringers alike, at a time when the maximum statutory damages have mushroomed by a factor of 15 from the Register of Copyright’s initial recommendation in 1961. This rule offers a measure of protection to companies that deploy technologies employed by end-users from the risk of grossly disproportionate liability. The threat of secondary liability faced by technology companies – and the potential for astronomical statutory damages – is not merely theoretical. Content companies have filed suit against almost every new generation of personal storage technology brought to market, including the VCR, the MP3 player, the home digital video recorder (DVR), and the network DVR. Content companies have a long track record of suing innovative products and services that carry enormous consumer benefits but threaten traditional business models and modes of distribution.

If Congress weakens the one work rule as proposed in Section 104 of the PRO IP Act, the currently gargantuan claimed damages in copyright litigation will reach even higher levels, further incentivizing copyright trolls, stifling innovation, and creating unprecedented risk for innovators and licensees, all to address hypothetical scenarios.

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<sup>1</sup> At the Jan. 25 meeting, one proponent of the change argued that he is not aware of any case where a judgment for infringement of a work exceeded \$40,000. *But see Greenberg v. Nat’l Geographic Soc’y* and *Superior Form v. Chase Taxidermy*, discussed *infra* n.15. In any event, the copyright litigation practitioners clearly stated at the meeting that the ability of plaintiffs to *claim* astronomical damages creates hardship on defendants who may have a well-reasoned good faith belief that they will prevail on the merits but cannot fully litigate because the cost of a bad judgment will produce ruinous results.

## PART A. THE ONE WORK RULE SHOULD BE PRESERVED

### 1. Legislative History of the One Work Rule

The legislative history of the last sentence of section 504(c)(1) demonstrates that it was carefully crafted by the Copyright Office to balance competing approaches to statutory damages. Against the dysfunctional statutory damages framework of the 1909 Copyright Act, which awarded damages on a per copy or per performance basis, the Copyright Office in 1961 proposed a single award of statutory damages for all infringements in an action. After opposition from some copyright owners, the Office amended its proposal in 1963 to allow one award of statutory damages per single infringed work, but defined single work as “including all of the material appearing in any one edition or volume or version of a work used by the infringer.” This limitation insured that the new single award for single work rule would not lead to the excessive awards that the 1909 Act produced. This language was further refined in 1964 to the wording that now appears in the Act after extensive consultation with interested parties.

The statutory damages provision of the 1976 Act was intended to simplify the award of statutory damages under the 1909 Act. Section 101(b) of the 1909 Act was one of the many failures of that Act. In addition to confusion over whether statutory damages were awardable under section 101(b) only when actual damages or defendant’s profits were unascertainable, section 101(b) presented a baffling smorgasbord of provisions that provided minima and maxima as well as set awards on a per copy basis. The amount of statutory damages available also turned to some degree on the amount of actual damages. Additionally, there were a number of special statutory damages provisions applicable to motion pictures and newspapers. Numbers set forth in the statute were not set in stone, though; they were subject to the court’s discretion, thus resulting in tremendous uncertainty in determining one’s possible recovery (or exposure in the case of defendants).

In his 1961 recommendations to Congress for a new Act, the Register of Copyrights concluded that the schedule of statutory damage awards in section 101(b) “has not proved to be a very useful guide, because the amounts are arbitrary and the number of copies or performances is only one of many factors to be considered in assessing damages. In most cases the courts have not applied the mathematical formula of the schedule, and in a few cases where this has been done the results are questionable.” The Register also expressed concern about the operation of section 101(b) on innocent infringers, over multiple infringements, and over awards against defendants who infringed after receiving notice from the copyright owner. The Register not surprisingly called for a thorough overhaul of statutory damages with these two recommendations:

- (1) Where an award of actual damages or profits would be less than \$250, the court shall award instead, as statutory damages *for all infringements* for which the defendant is liable, a sum of not less than \$250 nor more than \$10,000, as it deems just.<sup>2</sup> However, if the defendant

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<sup>2</sup> Since the 1976 Act, the upper limit has been increased to \$150,000. 17 U.S.C. § 504(c)(2). Section 504(c) dwarfs other federal statutory damage provisions. *See, e.g.*, 15 U.S.C. § 1681n(a)(1)(A) (penalty for violation of Fair Credit Reporting Act is actual damages or between \$100 and \$1,000).

proves that he did not know and had no reason to suspect that he was infringing, the court may, in its discretion, withhold statutory damages or award less than \$250.

- (2) Where an award of actual damages or profits would exceed \$250 but would be less than the court deems just, the court in its discretion may award instead, as statutory damages **for all infringements** for which the defendant is liable, any higher sum not exceeding \$10,000.<sup>3</sup>

Significantly, the Register recommended abandoning the 1909 Act's approach of basing statutory damages on the number of infringing copies, and proposed instead one award for all infringements for which the defendant was liable. The Register explained the basis for this change: ***"The motion picture and broadcasting industries have expressed some concern that statutory damages might be pyramided to an exorbitant total if a court could multiply the statutory minimum by the number of infringements."***<sup>4</sup> This limitation meant that if defendant made 1000 infringing copies, there was only one award; if defendant infringed 200 works, there was only one award; and if defendant infringed three works by different acts for each work (reproduction, distribution, and performance), there was still just one award.

This proposal was criticized by some elements of the copyright bar. As a result of comments on the report, the statutory damages provision in a draft omnibus bill circulated by the Register in 1963 took a different approach. Under new section 38, the copyright owner who had registered his work prior to infringement would receive the larger of actual damages or statutory damages of not less than \$250 or more than \$10,000 "for all infringements of a single work for which the infringer is liable." Thus, the copyright owner could receive a separate award for each work infringed. However, a single work was defined as ***"including all of the material appearing in any one edition or volume or version of a work used by the infringer."***<sup>5</sup>

The 1963 preliminary draft bill thus softened (but did not eliminate) the 1961 report's recommendation on how to deal with the specter of multiple awards against the same defendant. In the view of some, the 1961 report had gone too far in favoring the defendant. Under that report's recommendation, a defendant had every incentive to infringe as many works as possible since there would be only one award for "all infringements for which the defendant is liable." The 1963 preliminary draft bill, by contrast, permitted separate awards for each "single work" infringed, but defined a "single work" so that a defendant who infringed an anthology of 500 poems would be liable for only one award. Different copyright owners whose works were infringed in a "single work" would have to share the single award.

In discussions on the draft at the Copyright Office with members of the copyright bar and industries, the issue of the single-work limitation was raised. In a revealing explanation of how the limitation would work in practice, Copyright Office General Counsel Abe Goldman addressed the concern expressed by an in-house counsel at ABC that if a plaintiff alleged a motion picture infringed five different versions of a work, five awards would be required, even

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<sup>3</sup> Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 107 (House Comm. Print 1961) (emphases supplied).

<sup>4</sup> *Id.* at 104 (emphasis supplied).

<sup>5</sup> Copyright Law Revision Part 3: Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft 29 (emphasis supplied).

though all the material was copied from a single work. The position of the Copyright Office was as follows:

GOLDMAN. Won't you find all of this material in one version? Did the infringer pick some from this version and some from that version?

OLSSON. I write the poem, and then I revise it somewhat, and I do this five times. This is done with motion pictures occasionally, where you find the same stock footage, let's say, in five different pictures. Each one is copyrighted. What was infringed by the infringer is the stock footage. The plaintiff comes in and says, "Ah, you owe me \$1,250 [ $\$250 \times 5$ ] as a minimum under th[e] statute."

GOLDMAN. But under this definition you could point to one film and say that everything you copied is in this one film.

OLSSON. But wouldn't the plaintiff dispute that, Abe? He might say, "No, in my belief you copied them all. You took something from each copyright." A "single work" is work A, and another "single work" is Work B...

GOLDMAN. I think this definition says, Harry, that if the infringer can show that everything he copied was all in one film, that constitutes an infringement of a single work.

OLSSON. I see. The other works would not be infringed in your view, Abe?

GOLDMAN. That is my understanding of what this definition would mean in that case.<sup>6</sup>

Moments later, Barbara Ringer, who became Register of Copyrights in 1973, explained the basis for the one work rule:

I think we are all conscious that we not only have multiple new versions of, for example, textbooks and trade catalog, but we also have works, such as loose-leaf material, that contain a notice on every page. In that case someone might argue that the material consists of a thousand separate copyrighted works which are subject to separate registrations. I think that most of us are also aware that the courts have struggled mightily with this rather common problem, and have not really come up with a satisfactory result. I think that the concept that we are striving for – a single work – means something more than a single unit that can be registered separately....<sup>7</sup>

Thus, Barbara Ringer clearly had compilations, and not just derivative works, in mind when contemplating the one work rule. Moreover, she had very large compilations in mind, as indicated by the example of a loose-leaf binder containing 1,000 works.

In the same meeting, Copyright Office General Counsel Goldman responded to claims that the statutory damage limit of \$10,000 placed a ceiling on a plaintiff's recovery.

[I]t is not true that \$10,000 represents the maximum amount recoverable. Ten thousand dollars is the maximum amount that the court will award as statutory damages in given situations where there is no proof of actual damages in a higher amount and no proof of infringer's profits in a higher amount.

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<sup>6</sup> Copyright Law Revision Part 4: Further Discussions and Comments on the Preliminary Draft for Revised U.S. Copyright Law 139-40 (House Comm. Print 1964).

<sup>7</sup> *Id.* at 158.

Statutory damages are awarded by the court in lieu of, and in the absence of proof of, actual damages in a greater amount or profits in a greater amount. If actual damages were shown to amount to \$100,000 the court could, and under the law should, award \$100,000; if the infringer's profits attributable to the infringement are \$100,000, the court could and should award \$100,000. *Statutory damages are what a court can award in the absence of any shred of proof whatever that there has been any actual damage or that there have been any profits.*<sup>8</sup>

Mr. Goldman added that the Office proposed doubling the maximum of statutory damages from \$5,000 to \$10,000 to give courts more leeway in cases of multiple infringements: "We are now saying that this maximum will apply to multiple infringements *in toto*, and for this reason also the amount is raised to take care of multiple infringements." Mr. Goldman then stated, "I want to stress that again: that statutory damages are awarded in the absence of proof of damages of an equivalent amount and in the absence of proof of the infringer's profits of an equivalent amount."<sup>9</sup>

The first revision bills were introduced in Congress in 1964. While the 1964 version continued the 1963 limitation of a single award to "all the infringements of one work for which the infringer is liable," the 1963 version's definition of "single work" as "all of the material appearing in any one edition or volume or version of a work used by the infringer" was changed to read "all the parts of a compilation or derivative work constitute one work." This new wording eliminated the ambiguities in the earlier definition identified at the Copyright Office meeting, and made sure that multiple damages would not be available in the compilation hypothetical posed by Barbara Ringer.

In meetings with the Copyright Office on the bill, the issue of awards for multiple infringements was raised. Copyright Office General Counsel Abe Goldman stated:

The thought here was to avoid the award by a court of a tremendous amount of multiplying \$250 times some supposed number of infringements by one person. .... If you have more than one work involved, I think the answer is also spelled out here. It says, "infringements of any one work" and you will find at the end of that section a sentence which relates to the "one work" reference: "For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work." This means, for example, that if somebody infringes by taking ten different cuts out of an advertising catalog, he's committed one infringement and not ten. This question has come up, as I think you know, in a number of cases.<sup>10</sup>

With the expiration of the 88th Congress and no action on a revision bill, new bills were introduced in the first session of the 89th Congress. Accompanying those bills was the promised supplementary report by the Register of Copyrights explaining the 1965 bills. The 1965 bills retained the single award per infringed work formulation, as well as the one work rule: "For the

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<sup>8</sup> *Id.* at 157 (emphasis supplied).

<sup>9</sup> *Id.* at 158.

<sup>10</sup> Copyright Law Revision Part 5: 1964 Revision Bill with Discussions and Comments 203 (House Comm. Print 1965). Once again, the Copyright Office was focused on compilations as well as derivative works.

purposes of this subsection, all the parts of a compilation or derivative work constitute one work.”

In explaining the operation of the proposed statutory damages provision with respect to multiple infringements, the Register of Copyrights stated:

In an action under the bill involving more than one infringement—whether the infringements are separate, isolated, or occur in a related series—a single award of statutory damages in the \$250–\$10,000 range could be made under the following circumstances:

(1) Where the infringements are all of “any one work.” This marks a change from the 1961 Report’s recommendations, which would have provided a single recovery of statutory damages for all infringements for which the infringer is liable. Under the bill, where separate works are involved, separate awards of statutory damages could be made. However, the bill makes clear that, although they may constitute separate works for other purposes, “[f]or the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.” Note that the criterion here is the number of distinct “works” infringed, and not the number of copyrights, exclusive rights, owners, or registrations involved.<sup>11</sup>

The relevant language did not change after this. In a description of the future section 504(c) in a 1966 committee report on H.R. 4347, a predecessor bill to the 1976 Act, the House Judiciary Committee noted that

Where the suit involves infringement of more than one separate and independent work, minimum statutory damages for each work must be awarded. For example, if one defendant has infringed three copyrighted works, the copyright owner is entitled to statutory damages of at least \$750 and may be awarded up to \$30,000. Subsection (c)(1) makes clear, however, that, although they are regarded as independent works for other purposes, “all the parts of a compilation or derivative work constitute one work” for this purpose. Moreover, although the minimum and maximum amounts are to be multiplied where multiple “works” are involved in the suit, the same is not true with respect to multiple copyrights, multiple owners, multiple exclusive rights, or multiple registrations. This point is especially important since, under a scheme of divisible copyright, it is possible to have the rights of a number of owners of separate “copyrights” in a single “work” infringed by one act of a defendant.<sup>12</sup>

The committee report accompanying the 1976 Act, 10 years later, reproduces this paragraph exactly. Congress, the Copyright Office, the parties worked out a compromise, well aware of all the ramifications, and embodied that compromise in statutory and report language in 1966. If the compromise had been thought unfair, parties might have been expected to seek a revision in the 10 intervening years, but the 1976 report copies the 1966 report here verbatim.

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<sup>11</sup> Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill 136 (House Comm. Print 1965).

<sup>12</sup> Compare H.R. Rep. No. 2237, 89<sup>th</sup> Cong., 2d Sess., at 158 (1966) with H.R. Rep. No. 1476, 94<sup>th</sup> Cong., 2d Sess., at 162 (1976). In addition to illustrating the consensus, this indicates that early on, Congress appreciated the implications of compilations and the possibility for the divisibility of rights in the context of statutory damages.

In short, the limitation on statutory damages for elements of compilations and derivative works reflected dissatisfaction with the 1909 Act, and a compromise of competing views of how damages should work under the 1976 Act. Section 504(c)(1) as enacted balanced the Copyright Office's initial proposal of one award for all infringements with some owners' preference for one award for each work infringed. By allowing one award for each work, but then defining compilations and derivative works as a single work, the provision discouraged infringements of multiple works while ensuring that statutory damages would not be "pyramided to an exorbitant total." It was "intelligently designed" to provide courts with broad discretion of a range of damages from \$100 to \$50,000; defendants with a degree of certainty concerning the limit of their exposure; and copyright owners with the option of pursuing actual damages if statutory damages did not adequately compensate them for their injury.

## 2. Judicial Interpretation of the One Work Rule

By copyright law standards, the judicial interpretations of the one work rule have been relatively uniform. When the work infringed is clearly a compilation distributed by the plaintiff, courts have limited recovery to one award of statutory damages. Thus, courts routinely have granted record labels only one award for a CD where the label owns the copyright in the compilation as well as the individual tracks. *See, e.g., UMG Recordings, Inc. v. MP3.com, Inc.*, 109 F. Supp. 2d 223 (S.D.N.Y. 2000); *Country Roads Music, Inc. v. MP3.com*, 279 F. Supp. 2d 325 (S.D.N.Y. 2003); *Arista Records, Inc. v. Flea Records, Inc.*, 2006 U.S. Dist. LEXIS 14988 (D.N.J. March 31, 2006); *Arista Records, Inc. v. Launch Media, Inc.*, 01-cv-4450 (S.D.N.Y. April 25, 2007). Courts have also reached this conclusion in cases involving compilations of clip-art images, *Xoom, Inc. v. Imageline, Inc.*, 323 F. 3d 279 (4th Cir. 2003); photographs of commercial real estate hosted on a website, *CoStar Group, Inc. v. LoopNet, Inc.*, 164 F. Supp. 2d 688 (D. Md. 2001), *aff'd*, 373 F.3d 544 (4th Cir. 2004); a book of photographs of plant seedlings, *Stokes Seeds Ltd. v. Geo. W. Park Seed Co.*, 783 F. Supp. 104 (W.D.N.Y. 1991); and the music, libretto, and vocal score of a rock opera, *Robert Stigwood Group Ltd. v. O'Reilly*, 530 F.2d 1096 (2d Cir. 1976), *cert. denied*, 429 U.S. 848 (1976).

Conversely, where the defendant assembled a compilation of works separately distributed by the plaintiff, courts have not permitted the defendant to take advantage of the one work rule. In *Twin Peaks Productions, Inc. v. Publications Int'l, Ltd.*, 996 F.2d 1366 (2d Cir. 1993), the defendant compiled separately episodes of the television show 'Twin Peaks' onto a videotape. Because the compilation was assembled by the defendant, not the plaintiff, the court concluded that the one award rule did not apply. The court also rejected the defendant's argument that the separate episodes still constituted one work because plot lines carried over from one episode to the next. The Second Circuit likewise refused to apply the one work rule in *WB Music Corp. v. RTV Communication Group, Inc.*, 445 F.3d 538 (2d Cir. 2006), where the defendant created a CD based on tracks separately distributed by the plaintiff.<sup>13</sup>

To be sure, in some cases courts have had to wrestle with the determination of whether the plaintiff's product constituted a compilation. In *Gamma Audio & Video v. Ean-Chea*, 11

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<sup>13</sup> At the January 25 meeting, the applicability of the one work rule to a compilation assembled by the defendant seemed to be the proponents' most serious concern with the rule as currently drafted. These two circuit court decisions should completely dispel this concern.

F.3d 1106 (1st Cir. 1993), for example, the plaintiff distributed to video stores only complete sets of a 24 episode television series. The court nonetheless did not apply the one work rule because viewers could rent each episode separately from the video store. In other words, within the set of 24 episodes, each episode was separately packaged. Similarly, courts have considered whether to treat bundled training materials as compilations. *See, e.g., Kepner-Tregoe, Inc. v. Carabio*, 1979 WL 10721, 1979 U.S. Dist. LEXIS 12910 (E.D. Mich. 1979); *Cormack v. Sunshine Food Stores, Inc.*, 675 F. Supp. 374 (E.D. Mich. 1987).<sup>14</sup>

There have been a handful of cases outside of this mainstream. In *Playboy Enterprises, Inc. v. Sanfilippo*, 1998 WL 207856, 1998 U.S. Dist. LEXIS 5125 (S.D. Cal. 1998), Playboy conceded that each infringed photograph was copied from a compilation – a Playboy magazine. Nonetheless, the court awarded separate statutory damages for each photograph on the basis that each photograph could be separately licensed and “each image represents a singular and copyrightable effort concerning a particular model, photographer, and location.” In contrast, the court in *Greenberg v. National Geographic Society* ruled that a photographer could collect only four awards of statutory damages for 64 photographs that appeared in four different issues. The court found that each issue of the magazine was a compilation, and that only one award of statutory damages could be granted per issue, even though each issue contained several different photographs created by the photographer.<sup>15</sup>

The court in *TeeVee Toons, Inc. v. MP3.com, Inc.*, 134 F. Supp. 2d 546 (S.D.N.Y. 2001), suggested that while a copyright owner could receive only one award for all of his works in a compilation, if the compilation included works from several copyright owners, each copyright owner could recover his own award of statutory damages. Under this analysis, if ten different poets contributed ten different poems to an anthology, each of the ten poets could recover statutory damages.

While the *Nimmer* treatise supports this interpretation, it acknowledges that it “is in literal conflict with the statutory text.” *See Nimmer on Copyright* 14.04[E][1], 14-91.1-14.91.2. This interpretation also directly conflicts with the legislative history. In the discussion of the 1963 draft bill, where the first variation of the one work rule appeared, one of the interested parties argued against it on the basis that the one award might have been shared by different authors:

Let us take an anthology which consists of twelve short stories as an example. Suppose the infringer copies all twelve, or nine, or eight of the stories. The anthology obviously is a “single work” as defined by the language appearing in the

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<sup>14</sup> It appears that some courts, in determining whether a work is a compilation, have placed undue weight on how the copyright owner registered the work, rather than consider whether the work meets the statutory definition of “compilation” under section 101. 17 U.S.C. § 101. This error could be eliminated by the Copyright Office, in its report to Congress on Section 104, stressing that courts should look beyond the description of the work in the registration in determining whether the work is a compilation.

<sup>15</sup> Unpublished order, No. 97-3924, (S.D. Fla. Feb. 18, 2003). *Greenberg* is also significant because it contradicts content industry representations made at the January 25 meeting. Content industry representatives claimed that references to the maximum statutory amount (\$150,000) were misleading since a plaintiff has never been awarded such sums. Yet in *Greenberg*, the jury awarded the maximum amount (then, \$100,000) on each issue infringed. *Greenberg v. Nat'l Geographic Soc'y*, 488 F.3d 1331, 1334 & n.3 (11th Cir. 2007) (noting award). *See also Superior Form Builders v. Dan Chase Taxidermy Supply Co.*, 74 F.3d 488 (4th Cir. 1996) (affirming multiple awards by jury of maximum amount).

footnote. All of the infringements in that edition would consist of the copying of the nine, or the twelve, or whatever number of individual works, *most likely by different creators*, that have been incorporated in the one anthology. Therefore the \$10,000 amount hardly appears impressive.<sup>16</sup>

Thus, at the time the one work rule was drafted, it was understood to apply to different works by different authors. Nonetheless, what appears to be the only court to have considered the issue came to a different conclusion.

### 3. The One Work Rule in Practice

(a) *Proponents of weakening the one work rule rely on hypothetical scenarios.* At the January 25 meeting, in response to questions from Associate Register Carson, the proponents of Section 104 were unable to produce one example where the one work rule produced an unjust result, or where a “crafty defendant” made the decision to infringe based upon the highly limited protections of Section 504(c)(1). Further, again in response to a question from Mr. Carson, the proponents were unable to provide one instance of where the one work rule caused a copyright owner to withhold a compilation from the market. Indeed, representatives of the film industry and recording artists stressed that the number of compilations distributed to the public have increased in recent years in response to consumer demand. For example, many television series are made available on DVDs, and DVDs of motion pictures are bundled with many other works, *e.g.*, trailers, interviews with the director, short films on the making of the movie, and so forth. The fact that the number and variety of compilations has increased dramatically in the 30 years since the one work rule took effect is convincing evidence that it does not deter the creation of compilations, and thus does not require amendment.<sup>17</sup>

(b) *There is no evidence to support weakening the one work rule.* The one work rule also has not had a detrimental impact on the broader copyright industry. A representative of Corbis stated that the one work rule never came into play in over 2000 infringement matters Corbis pursued last year, including one case that involved over 600 different images. The Magazine Publishers of America have not felt disadvantaged by the one work rule. And many copyright industry groups, including the Business Software Alliance, the Software and Information Industry Association, and the Association of American Publishers, chose not to participate in the meeting. The broader copyright industry appears largely supportive of the status quo.

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<sup>16</sup> Copyright Law Revision Part 4, *supra* note 6, at 138 (emphasis supplied).

<sup>17</sup> At the January 25 meeting, a recording industry representative repeatedly complained of the alleged asymmetry that statutory damages may (hypothetically) vary depending on whether a track is released as a single or on a CD. The answer to this objection, however, is that the law treats the award as the plaintiff has treated the work. Courts presently have ample discretion in the current range to account for infringement of compilations. Judges and juries can and do consider whether there is one work or three at issue even when the award is limited to a single award due to publication in a compilation. For example, Judge Rakoff awarded the equivalent of around \$2500 per track (assuming an average of 10 tracks per CD), whereas Jammie Thomas, the Minnesota file-sharing defendant, was ordered to pay \$9,250 per track, totaling nearly a quarter million dollars, when such songs sell for 99 cents on iTunes. Both MP3.com and Jammie Thomas could have been assessed greater penalties. Judge Rakoff, for example, could have awarded the equivalent of \$15,000 per track (6 times more than he did), but chose not to. Similarly, in *Greenberg v. National Geographic*, discussed *infra*, the court’s award of the full \$100,000 per compilation naturally reflected the fact that each issue contained multiple photographs.

Even under the one work rule, copyright owners have recovered, or were eligible to recover, substantial awards. In *UMG v. MP3.com*, even after application of the one work rule, the plaintiff still could have received approximately \$118 million in statutory damages (4,700 CDs at \$25,000 per CD). Ultimately, the defendant settled the case for \$53.4 million in damages, even though the plaintiff never introduced any evidence of actual harm, and defendant offered evidence that the MP3.com service actually increased the plaintiff's revenues. See *UMG Recordings, Inc. v. MP3.com, Inc.*, 2000 U.S. Dist. LEXIS 13293 (S.D.N.Y. Sept. 6, 2000) and 2000 U.S. Dist. LEXIS 17907 (Nov. 14, 2000).

In *Arista Records v. Launch Media* (01-CV-4450 [RO] S.D.N.Y.), under the one work rule, the plaintiff could have collected statutory damages of in excess of \$100 million had the court found infringement liability. Had the court not employed the one work rule, Launch Media's possible statutory damages, based on the number of works allegedly infringed, would have exceeded \$1.5 billion. However, the introduced evidence showed actual damages in the range of \$105,474 on the high end to as little as \$7,303 on the low end.

(c) *Despite the one work rule, existing law tilts drastically toward copyright plaintiffs.* Even though the one work rule prevents the "pyramiding" of awards, the existing statutory damages framework tilts sharply in favor of the plaintiff. First, the plaintiff can make the election between actual and statutory damages "at any time before final judgment is rendered." This means that the plaintiff can submit to the judge or jury a request for a damages award under both theories, and then select whichever proves larger. This means that the plaintiff can never receive less than the actual damages he can prove. It also means that even in a case with minimal actual damages, he can continue to demand statutory damages of \$150,000 per worked infringed until the time the judge or jury returns with a verdict. This gives the plaintiff enormous leverage in settlement discussion, particularly in cases involving large numbers of works, as cases involving digital technology typically do.

Second, in many cases, the underlying question of copyright liability (or secondary liability) is extremely complex. For example, the case *Arista Records v. Launch Media*, *supra*, concerns whether the Launch service is non-interactive and therefore eligible for a statutory license under 17 U.S.C. § 114. In *Greenberg v. National Geographic Society*, *supra*, the court considered whether National Geographic's digitization of its magazines constitutes a privileged "revision of a collective work" under 17 U.S.C. § 201(c). The scope of the 201(c) privilege was the subject of a recent U.S. Supreme Court decision, *New York Times v. Tasini*, 533 U.S. 483 (2001), and lower courts still wrestle with how the Court's holding applies to various fact patterns, including National Geographic's. In *UMG v. MP3.com*, *supra*, the defendant raised a fair use defense, perhaps one of the most unpredictable legal doctrines. The complexity of the legal question means that the outcome is highly uncertain. This uncertainty increases the plaintiff's leverage in settlement negotiations.

Third, the uncertainty with respect to direct liability is magnified by the uncertainty with respect to secondary liability. The Copyright Act does not set forth standards for secondary liability; they are entirely judge-made. And although the Supreme Court considered contributory infringement recently in *MGM v. Grokster*, 545 U.S. 913 (2005), lower courts are having difficulty applying its teachings in a consistent manner. The Ninth Circuit interpreted *Grokster* one way in *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007) and in a different way in *Perfect 10, Inc. v. VISA*, 494 F.3d 788 (9th Cir. 2007). As a result, providers of services

in the digital environment have difficulty predicting their liability for the infringing conduct of potentially large numbers of users with respect to large numbers of works. This, too, leads to settlement on terms favorable to the plaintiff.

Fourth, even though district court decisions concerning direct and secondary copyright infringement are frequently reversed on appeal, a case with a large statutory damage award might never make it to the circuit court. The Federal Rules of Civil and Appellate Procedure require a losing defendant to post a bond before he can appeal the decision. *See* Fed. R. Civ. P. 62(d); Fed. R. App. P. 8(b). The larger award, the larger the bond, and thus the more difficult it is for the defendant to secure one. In *UMG v. MP3.com*, for example, the defendant could not secure a bond, and thus could not appeal the district court's rejection of its fair use defense to the Second Circuit.<sup>18</sup> This truncates the development of case law elucidating the statute, thereby perpetuating the risk to innovators.

#### **4. The One Work Rule and the Internet**

Section 504 provides courts with broad discretion on the amount of statutory damages to award – from \$200 to \$150,000 per work infringed. Against that background of broad discretion, the legislative history of the one award rule demonstrates that Congress sought to limit the discretion and prevent draconian remedies when multiple works are bundled together by treating the bundle as a single work and capping damages at \$150,000. Stated differently, existing law already gives courts the ability to award more statutory damages when one work includes other works.

It has been suggested that in the Internet world there might be compilations so large that even \$150,000 is insufficient to compensate for infringement of all the individual works, *e.g.*, a website containing many copyrighted works. Notwithstanding the availability of actual damages, Congress addressed this concern with the Digital Millennium Copyright Act (DMCA). Congress expected copyright owners to employ technological measures to protect economically valuable content on the Internet, and prohibited the circumvention of those measures. Significantly, under 17 U.S.C. § 1203(c)(3)(A), each act the circumvention is subject to up to \$2,500 in statutory damages. With existing inexpensive digital rights management technologies, a copyright owner can protect each work individually. Thus, infringement of 1000 photographs on a website may result in 1000 discrete acts of circumvention, each subject to \$2,500 of statutory damages.

Moreover, if the copyright owner places a watermark on each photograph, the removal of the watermark may subject the infringer to another \$25,000 per photograph. Section 1203(c)(3)(B) of the DMCA allows the copyright owner to recover statutory damages of \$25,000 for each act of removal or alteration of “copyright management information”, which would include a section 1202(c)-conforming watermark.

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<sup>18</sup> The effect of huge district court judgments also can cripple a company's stock price and access to commercial paper and venture capital, such that business necessity may dictate immediate settlements of frivolous claims, notwithstanding meritorious defenses. The district court order in *MP3.com* caused that company's stock to plummet by a third overnight. Michelle Delio & Brad King, *MP3.com Must Pay the Piper*, *Wired News*, Sept. 6, 2000, at <<http://www.wired.com/techbiz/media/news/2000/09/38613>>.

Thus, the DMCA provides up to \$27,500 in statutory damages for each individual work, without the limitation of the one work rule. Of course, this \$27,500 is in addition to the actual or statutory damages that the copyright owner could recover under section 504.

It has also been suggested that online content delivery systems such as iTunes would be subject to the one award rule. iTunes and similar systems are not “compilations” within the meaning of 17 U.S.C. § 101 and thus would not be subject to the one work rule.

Under section 101, a compilation “is a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship.” While a list of tracks available on iTunes likely is a compilation, the tracks themselves stored on Apple’s servers are not “assembled” into a “work.” They are individual files stored on servers around the world. These tracks are no more a compilation than all books in a bookstore or the CDs in a record store.

This analysis applies to many other websites. Simply because many works are downloadable through a particular website does not mean that all those individual works are assembled into a work.

## **5. Adverse Impact of Section 104**

At the January 25, 2008 meeting, supporters of the amendment provided no evidence that weakening the one work rule would deter infringement by end users or commercial “pirates.” At the same time, opponents specifically described the harm Section 104 would cause:

*(a) Incentivizing Copyright Trolls.* The existing statutory damages framework in the Copyright Act already provides extraordinary remedies for rightsholders by permitting them to claim damages without requiring any evidence of financial harm. This framework has created a litigious environment where plaintiffs already seek damages that can exceed \$1 billion. Weakening one of the few protections for defendants in this plaintiffs’ paradise will result in claimed damages that are orders of magnitude greater than current figures. The ability to assert significantly larger damage claims will incentivize frivolous lawsuits by “copyright trolls” hoping that the threat of a potentially ruinous judgment—no matter how unlikely—will result in easy settlements.<sup>19</sup>

*(b) Stifling Innovation.* In an increasingly decentralized and mobile digital media environment, the already uncertain nature of copyright law requires careful consideration by technology companies of the potential for lawsuits when introducing any new product that can be used by some for unlawful copying and distribution. The proposed change, if enacted, would result in entities that already face the possibility of litigation from copyright trolls having to re-think the use or deployment of any new technology or service that could be used to engage in infringing activities by third parties.

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<sup>19</sup> One photographer argues that the existing statutory damages framework provides lucrative business opportunities for photographers. See Dan Heller, *Making Money From Your Stolen Images*, <http://danheller.blogspot.com/2007/06/making-money-from-your-stolen-images.html> (characterizing the possibility of statutory damages as a “statutory windfall”, and a “Vegas-style slot machine” and stating that “a little copyright infringement can actually do your business good”).

*(c) Creating Unprecedented Risk for Licensees of Technologies Powered by Software.*

Computer programs routinely contain hundreds of modules. Under the proposed amendment, an aggressive litigant could argue that each module merits a separate statutory damage award. This concern is compounded in an increasingly open source software environment, where there may be many different collaborators over time to a program. Because licensees may be unable or unwilling to obtain meaningful indemnifications from every upstream contributor to a particular product, the proposed change will decrease companies' willingness to outsource software solutions or use open source software.

*(d) Chilling Lawful Uses.* When an artist, scholar, or documentary film producer performs a fair use analysis to determine whether a proposed use is permitted under section 107 of the Copyright Act, the user must at the same time assess the potential damages if his analysis is incorrect. Since the precise boundaries of fair use are uncertain, and statutory damages can reach large sums if a new work includes pieces of many preexisting works, the existing statutory damages framework already dampens fair uses. Authors often decide that the risk of statutory damages is simply too great, and either pay exorbitant license fees or forego the use altogether.

The proposed amendment will make this bad situation even worse. A director creating a documentary about California's Sixties "surf music" scene might already be anxious about including three short excerpts from a Beach Boys album to illustrate characteristics of the genre. The changes proposed in Section 104 would increase her potential exposure from \$150,000 to \$450,000. Likewise, a reviewer of a book of poetry might want to include a few lines from five different poems to demonstrate his assessment. The proposed amendment would increase his exposure from \$150,000 to \$750,000. Even though a court is unlikely to award damages of this scale, the possibility of such large damages will deter some authors from making fair uses. And it will lead other authors who make such uses settle on terms more favorable to the plaintiff in the event litigation ensues.

*(e) Exacerbating the Orphan Works Situation.* In the 109<sup>th</sup> Congress, the House IP subcommittee recognized that the availability of statutory damages inhibited a wide range of socially beneficial uses of orphan works – works whose copyright owners could not be identified or located. Accordingly, the subcommittee favorably reported the Orphan Works Act of 2006, H.R. 5439, which would eliminate the remedy of statutory damages if the user performed a reasonably diligent search for the owner prior to the use. Unfortunately, Congress did not enact H.R. 5439. Section 104 would worsen the orphan works situation with respect to compilations and derivative works. By greatly increasing the amount of statutory damages plaintiffs could recover for infringements of compilations and derivative works, Section 104 will make libraries and their patrons even more reluctant to use orphan works of this sort. For example, under Section 104, a library that places on its website a 1945 compilation of 100 letters from a World War II G.I. to his loved ones could face statutory damages of \$15,000,000.

At the January 25 meeting, proponents of Section 104 argued that judges should have the discretion to determine whether each work in a compilation has independent economic value, and therefore should receive its own award of statutory damages. This contention overlooks that courts already have discretion to award between \$200 and \$150,000 per compilation. Thus, courts presently have the ability to adjust the award if the components have economic value. Additionally, the plaintiff can always seek actual damages. If the plaintiff cannot show actual damages that exceed \$150,000, there is no justification for him to recover more than a \$150,000

for the infringement of a single compilation.

The “discretion” contention also ignores the real world context in which infringement litigation takes place. As discussed above, the existing framework already tilts sharply in favor of the plaintiff, and encourages defendants to settle on unfavorable terms rather than vindicate their rights. Section 104 will significantly exacerbate this situation.

To be sure, the one work rule in certain hypothetical cases can lead to apparently arbitrary results. But the Copyright Office forty years ago made a carefully considered judgment that the danger of stacking statutory awards was greater than the danger of under-compensation, particularly given that the plaintiff could always elect to recover actual damages. This judgment has stood the test of time; the proponents of Section 104 failed to provide a single instance where the one work rule denied an adequate recovery, discouraged the lawful distribution of a compilation, or induced infringement. At the same time, opponents of Section 104 have demonstrated numerous, *non-hypothetical* cases where *current* law leads to arbitrary and unjust results. These cases caution strongly against further inflating statutory damages.

In sum, Congress should not amend the one work rule. A narrow, “clarifying” amendment will disrupt a stable body of case law as courts struggle to interpret the meaning of the new language. A more sweeping amendment will not only tilt the already slanted copyright litigation field further in favor plaintiffs; it will lead to a trial nightmare as plaintiffs attempt to prove that each component of a compilation and each change to an existing work has “independent economic value.”

## **PART B. THE ONE WORK RULE CANNOT BE CONSIDERED IN ISOLATION**

### **1. Willful and Innocent Infringement**

The development of the one work rule did not occur in a vacuum. The Copyright Office simultaneously considered the treatment of willful and innocent infringers. The 1909 Act allowed for enhanced statutory damages for infringement that occurred after the infringer received notice from the copyright owner concerning the infringement. It did not, however, provide any relief for innocent infringers.

The Register’s 1961 Report proposed statutory damages ranging from \$250 to \$10,000, without an enhancement for willful infringement. Additionally, the Register recommending granting courts the discretion to reduce or eliminate statutory damages altogether in cases of innocent infringement. The 1976 Act ultimately moved significantly in favor of copyright owners. While the basic range of \$250 to \$10,000 remained the same, the 1976 Act allowed up to \$50,000 in cases of willful infringement. Moreover, the court could reduce statutory damages for innocent infringers only to \$100. The court had the ability to withhold the award of statutory damages only with respect to innocent infringements by libraries, educational institutions, and public broadcasters in limited situations.

Congress has repeatedly increased the minimum and maximum levels of statutory damages. In the 1988 Berne Convention Implementation Act, Congress increased the minimum award from \$250 to \$500; the maximum from \$10,000 to \$20,000; the enhancement for willful infringement from \$50,000 to \$100,000; and the floor for innocent infringement from \$100 to

\$200. Then, in the 1999 Digital Theft Deterrence and Copyright Damages Improvement Act, Congress increased the minimum award from \$500 to \$750; the maximum from \$20,000 to \$30,000; and the enhancement for willful infringement from \$100,000 to \$150,000. The floor for innocent infringement remained at \$200.

In the 103<sup>rd</sup> Congress, the House passed H.R. 897, which would have lowered the floor for statutory damages in cases of innocent infringement from \$200 to zero. This legislation died in the Senate. As Congress reviews the one work rule, it should also consider reducing the minimum for innocent infringement to zero, as was proposed in H.R. 897. In his 1961 Report, the Register explained that “certain users of copyright materials – broadcasters, periodical publishers, motion picture exhibitors, etc.” had argued that a “minimum of \$250 can bear too heavily on innocent infringers.” He observed that “[t]he only purpose of awarding damages for an innocent infringement is to compensate the copyright owner. The other purpose of statutory damages – to deter infringement – is not present as to infringements committed innocently.” If the copyright owners cannot show actual damages, there is no logical reason for assessing statutory damages against an innocent infringer.<sup>20</sup>

## 2. Secondary Infringement

When constructing the statutory damages framework of the 1976 Act, the Copyright Office considered the one work rule, willful infringement, and innocent infringement extensively, as discussed above. In contrast, it does not appear that the Office considered statutory damages in the event of secondary infringement. This is not surprising given that the 1976 Act does not address secondary infringement. In contrast to the 1952 Patent Act, which codified judge-made principles of secondary patent infringement, the 1976 Copyright Act left the entire issue of secondary copyright liability to the courts.

Thus far, courts have rarely, if ever, ruled on the applicability of statutory damages to secondary infringement. But plaintiffs frequently raise the specter of statutory damages in secondary infringement cases in an often successful effort to force the alleged infringer in settle. For example, if a company sold 100,000 devices, each of which could hold 1,000 CDs, copyright owners could seek statutory damages of \$150,000,000,000,000 (100,000 devices × 1000 CDs × \$150,000 for willful infringement). The potential damages available in one recent case

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<sup>20</sup> Without question, the innocent infringer provision for libraries, educational institutions, and public broadcasters needs to be updated to reflect the digital era. The current provision allowing the remission of all statutory damages applies only under very limited situations when one of these entities had a reasonable belief that its use was permitted under section 107. This narrow safe harbor unduly constrains these entities from fully serving the public in the digital environment. The remission provision should apply whenever the entity had a reasonable belief that *any* type of use of *any* type of work was non-infringing. Currently, the provision applies to libraries and educational institutions just with respect to their infringement of the reproduction right. The provision applies even more narrowly to public broadcasters; they are shielded only with respect to performances of published nondramatic literary works or reproductions of a transmission program embodying a performance of such a work. However, use of digital technology implicates all of the exclusive rights under 17 U.S.C. § 106 with respect to all kinds of works. For these entities to perform their critical public service missions in the 21st Century, the safe harbor must be amended to apply to innocent infringement by these entities of all exclusive rights with respect to all kinds of works..

involving a hand-held device were estimated to exceed \$37 billion.<sup>21</sup> Indeed, because statutory damages can be so large and disproportionate, individual entrepreneurs and consumer electronics and information technology companies are declining to bring new technology to market out of fear that they could be bankrupted by an adverse finding of secondary liability – even in cases in which they believed on the basis of advice of counsel that their new innovative hardware or software products would be found legal if they survived costly litigation with its highly intrusive discovery.

The threat of litigation against technology companies – and the potential for massive statutory damages – is not merely theoretical. Content companies have filed suit against almost every new generation of personal storage technology brought to market, including the VCR, the MP3 player, the home DVR, and the network DVR.

Section 104 makes this bad situation worse. In the example above, it would allow the copyright owners to increase the statutory damages sought by a factor of 10 (assuming 10 tracks per CD) or even a factor of 30 (assuming that each track includes a copyright in the musical composition, a copyright in the lyrics, and a copyright in the sound recording).

Accordingly, any amendment to section 504(c) must include a limitation on damages in secondary infringement cases. Section 2(a) of H.R. 1201 includes such a limitation. Section (2)(a) would limit the availability of statutory damages against individuals and firms who may be found to have engaged in contributory infringement, inducement of infringement, vicarious liability, or other indirect infringement. Under the bill, statutory damages would remain available for conduct that no reasonable person could have believed to be lawful. With this condition in the law, entrepreneurs, consumer electronics and information technology companies would feel more confident in going to court, if necessary, for a fair hearing on the merits, and aggrieved parties could get relief from scofflaws. Of course, actual damages would continue to remain available to a person harmed by secondary infringement.

By limiting the award of statutory damages only to egregious cases of bad-faith conduct, this provision would restore balance and sanity to the damages award process. Content owners would continue to be able to collect actual damages, but could no longer threaten entrepreneurial, law-abiding persons with damages, and hence risk and intimidation, on a scale never intended or even imagined by Congress. Moreover, by establishing an objective test to determine whether statutory damages are appropriate, Congress would make it more difficult for content owners to use the litigation process to engage in judicially sanctioned fishing expeditions and to continue threatening innovation in the United States.

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<sup>21</sup> Fred von Lohmann, *Record Labels Sue XM Radio*, DeepLinks Blog, May 16, 2006, available at <<http://www.eff.org/deeplinks/2006/05/record-labels-sue-xm-radio>>.

## CONCERNS WITH THE LEAKED INTERNET CHAPTER OF ACTA

The U.S. proposal for an Internet chapter in the Anti-Counterfeiting Trade Agreement (ACTA) has been leaked to the press and widely disseminated on the Internet. While the U.S. probably could comply with the draft's provisions without amending the U.S. Copyright Act, the draft is inconsistent with U.S. law in several significant, troubling respects. The common thread of these inconsistencies is that the draft does not reflect the balance in U.S. copyright law. This lack of balance is at odds with the Obama Administration's recently announced 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.<sup>1</sup>

If adopted, the draft Internet chapter 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 proposed Internet chapter would accelerate this trend.

### **Third Party Liability**

Section 2 of the Internet chapter (labeled as "Article 2.17: Enforcement procedures in the digital environment") requires every ACTA signatory to confirm that it provides civil remedies "in cases of third party liability for copyright and related rights infringement." Footnote 1 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 1 does not accurately reflect U.S. law.

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<sup>1</sup> 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, 19<sup>th</sup> Session (Dec. 15, 2009) at 5.

- 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 (9<sup>th</sup> Cir. 2001). However, it is far from clear that “authorizes” in footnote 1 has 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 1 attempts to paraphrase an evolving judicially created standard for vicarious liability.
- The second clause of the definition in footnote 1 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 1. 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 1 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 1 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, Section 2 lacks the balance present in U.S. third party liability law. Section 2 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....” Sec. 2, n. 1 (emphasis supplied). Section 2 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.<sup>2</sup>

### **Section 512 Safe Harbors**

Section 3 is intended to track the safe harbors for Internet service providers established in Section 512 of the Digital Millennium Copyright Act. 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 liability.” Virtually any limitation – for example, an exemption from attorneys' fees or a 5% reduction in damages -- would satisfy the language. In short, nothing in Section 3 requires countries to provide actual “safety” to service providers.

Additionally, Section 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

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<sup>2</sup> Section 2 requires ACTA signatories to confirm that they provide civil remedies “in cases of third party liability for copyright and related rights infringement.” We would strongly oppose extension of this obligation to third party liability for trademark infringement. 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.

takedown process is widely established abroad without any penalties for misrepresentation, similar abuses will increase exponentially, to the detriment of free expression.

Section 3 also differs from the DMCA with respect to the conditions for eligibility for the limitation on liability. Section 3(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....” Section 3(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.

### **Anticircumvention**

Sections 4 and 5 of proposed Internet chapter 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, Section 5 of the proposed chapter simply provides that each country “*may* adopt exceptions and limitations to measures implementing subparagraph (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 supplied.) 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.

### **The Title of the Chapter**

The Internet chapter is entitled “Enforcement procedures in the digital environment.” But nothing in the chapter concerns either “enforcement” or “procedure.” Rather, the chapter defines substantive legal obligations. Under the chapter, 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.

### **Process**

In addition to the Internet chapter, joint Japan-U.S. proposals for provisions addressing civil enforcement and border measures have been leaked, as have several European Union memos about the negotiations. Given the volume of these leaks, there is no legitimate basis for the continued secrecy of the negotiations and the drafts circulated among the many participating countries. Openness and transparency will ensure the forging of an agreement that does not unfairly prejudice any stakeholders.

### **Conclusion**

In sum, the current draft of the Internet chapter 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.

Computer & Communications Industry Association  
Consumer Electronics Association  
Home Recording Rights Coalition  
Library Copyright Alliance  
NetCoalition  
Public Knowledge

March 24, 2010

## **FAIR USE AND THE DIGITAL ENVIRONMENT**

The fair use doctrine plays a central role in the U.S. copyright system. But for fair use, a range of activities critical to the digital environment would infringe copyright. The absence of fair use in foreign legal systems interferes with the global expansion of U.S. technology companies. Accordingly, the fair use doctrine should be included in the template of Free Trade Agreements.

### **I. Introduction**

Strong copyright protection has long been one of the United States' primary objectives in international trade negotiations. As copyrighted products such as software represented an increasing share of the United States' exports, U.S. trade policy sought to preserve those exports by ensuring effective copyright protection in foreign markets. GATT-TRIPS, for example, requires copyright protection for computer programs as well as adequate judicial procedures for enforcing copyrights.

The growth of the Internet as an important platform for communications and commerce in the years after the completion of the Uruguay Round has prompted U.S. trade negotiators to seek additional copyright provisions reflecting this new medium. Thus, the free trade agreements contain provisions requiring signatories to adopt prohibitions on the circumvention of technological measures similar to those found in Title I of the Digital Millennium Copyright Act (DMCA). At the same time, the U.S. government recognized that Internet service providers (ISPs) need relief from liability from the infringing activities of their users if they are to invest in the development and deployment of new services. Accordingly, Congress enacted safe harbors for ISPs in

Title II of the DMCA, and the free trade agreements require contracting parties to adopt similar provisions limitations and exceptions.

As U.S. technology companies have expanded globally, they have become more aware of the challenges posed by the diverse legal systems they confront. Internet companies, for example, have learned that DMCA-style safe harbors, by themselves, are insufficient to permit the full range of new services introduced by these dynamic firms. The DMCA works well in the U.S. because it operates against the backdrop of the fair use doctrine. The DMCA provides Internet companies with relief from certain copyright remedies when they engage in a specific set of activities. Fair use, by contrast, permits a court to exercise its judgment to permit otherwise infringing content. The DMCA is definite, rigid, and relatively narrow; fair use is indefinite, flexible, and accommodating. Together, the DMCA and fair use create a legal environment with both a degree of certainty and flexibility. This combination of attributes encourages Internet companies to invest in innovative products and services.

The Internet is an integral part of a new digital environment in which we all live. Users connect to this environment via a diverse array of devices including desktop and laptop computers, personal digital assistants (PDAs), cell phones, MP3 players, and digital video recorders (DVRs). These devices all enable their users to make hundreds, if not thousands, of digital copies each day. Many of these copies exist only temporarily in a computer's random access memory; other copies persist for longer periods in hard-drive. While users often employ these devices for personal entertainment purposes, they also use them at the workplace. The copies made by these devices typically do not infringe copyright because they are permitted by the fair use doctrine. The knowledge

that these devices have substantial noninfringing uses allows technology companies to invest in their development without incurring liability as secondary copyright infringers.

Although the U.S. Copyright Act contains both a fair use provision and the DMCA's safe harbors, the copyright laws of most other countries possess neither. Through the free trade agreement process, some countries have started to adopt DMCA-type safe harbors. But even in these countries, a flexible fair use provision is missing. The absence of such an exception exposes U.S. technology companies to potential copyright liability for activities permitted in the U.S., and thus inhibits the expansion of their activities abroad. Accordingly, U.S. trade negotiators should urge other countries to adopt broad fair use provisions, both in free trade agreements and other fora.

## **II. What Is Fair Use?**

The term "fair use" often is employed to describe the full range of exceptions and limitations found in the Copyright Act. Technically, however, the fair use doctrine is embodied in one specific provision, 17 U.S.C. 107. This paper will employ the term "fair use" in this technical sense. Section 107 in its entirety provides:

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

Congress first codified the fair use doctrine in the 1976 Copyright Act, but courts had been applying fair use at least since the Supreme Court's 1841 decision in *Folsom v. Marsh*. Judges and scholars have struggled to categorize fair use. It has been called an affirmative defense, a user privilege, and even an affirmative right. Some scholars have viewed it as a solution to market failure – as a means of permitting a use when the transaction costs were too great relative to the use, *e.g.*, a short quotation, or the copyright owner refused to license the use, *e.g.*, a parody.

Regardless of its categorization, fair use has a constitutional dimension. Scholars have long noted a tension between the Constitution's Intellectual Property Clause, which authorizes Congress to provide copyright protection to authors, and the First Amendment, which prohibits Congress from restraining speech. Litigants have attempted to exploit this tension in an effort to convince courts to declare various provisions of the Copyright Act unconstitutional. The U.S. Supreme Court recently rejected such an effort on the grounds that the "copyright scheme ... incorporates its own speech-protective ... safeguards." *Eldred v. Ashcroft*, 123 S.Ct. 769, 788 (2003). In *Eldred*, Justice Ginsburg specifically identified fair use as one of copyright law's "built-in First Amendment accommodations...." *Id.* at 788-89.

In other words, fair use is not simply an exception created by Congress during the course of the political process that led to the 1976 Copyright Act, nor is it just an enactment of a long standing judicial principle of equity. Rather, fair use is a constitutionally required structural element of the copyright law that harmonizes the copyright law with the First Amendment. As the Eleventh Circuit's Judge Stanley Birch

recently argued in the Brace Lecture sponsored by the Copyright Society of the U.S.A., fair use is essential to the constitutionality of the Copyright Act.<sup>1</sup>

Fair use also plays another constitutional role: it helps achieve the stated objective of the IP Clause – promoting the progress of science and the useful arts – by permitting socially beneficial uses that do not unreasonably prejudice the copyright owner. The Supreme Court explains that fair use is an “equitable rule of reason which permits courts to avoid rigid application of the copyright statute when, on occasion, *it would stifle the very creativity which that law is designed to foster.*” *Stewart v. Abend*, 495 U.S. 207, 237 (1990)(emphasis supplied). Judge Kozinski writes that fair use, along with the idea/expression and fact/expression dichotomies, are “necessary to maintain a free environment in which creative genius can flourish.” *White v. Samsung Electronics*, 989 F.2d 1512 (9<sup>th</sup> Cir.)(Kozinski, J., dissenting), *cert. denied*, 113 S. Ct. 2443 (1993). Judge Kozinski observes that these limitations allow “much of the fruit of a creator's labor may be used by others without compensation.” *Id.* Paraphrasing the Supreme Court’s decision in *Feist v. Rural Telephone*, 111 S. Ct. 1282, 1289-90 (1991), Judge Kozinski stresses that this reuse “is not some unforeseen byproduct of our intellectual property system; it is the system's very essence.” 989 F.2d at 1517. Judge Kozinski explains that “culture, like science and technology, grows by accretion, each new creator building on the works of those who came before.” *Id.* The intellectual property system provides authors with an incentive to create, but at the same time permits other authors to build on this creativity. This “is the means by which intellectual property law advances the progress of science and art.” *Id.*

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<sup>1</sup> Stanley F. Birch, *Copyright Fair Use: A Constitutional Imperative*, 54 J. Copyright Society 139 (2007).

In sum, fair use is part of the constitutional fabric of the copyright law. It harmonizes the IP clause with the First Amendment, and it promotes the progress of science and the useful arts by allowing new authors to build on the work of earlier authors.

U.S. trading partners, of course, do not possess the same constitutional framework as the U.S. However, the tension between the goals of promoting free expression and protecting copyright exist in any legal system with those two goals, and thus a fair use provision can play an important role in alleviating that tension. Similarly, all copyright laws seek to encourage creativity. A fair use provision would further that objective, regardless of the legal system.

### **III. What Activities Related to the Digital Environment Fall Within Fair Use?**

By definition, fair use is open-ended. Applying the four statutory factors, and other considerations it deems relevant, a court can excuse any otherwise infringing conduct. There have been hundreds of reported decisions concerning fair use, and, not surprisingly, they are far from consistent with one another because they reflect a judge's weighing of the fact-specific equities before him. Courts have not hesitated to apply fair use to new circumstances, resulting in a gradual expansion of fair use over time.

Traditionally, the uses approved by courts (or the Congressional reports relating to the 1976 Copyright Act) tend to fall into three categories. *See* Birch at 157. First, a wide range of **educational uses** are considered fair use, including for example photocopying newspaper articles for use in a classroom. Second, courts have treated certain **personal uses** as fair, most notably the time shifting of television programs permitted by the Supreme Court in *Sony v. Universal*, 464 U.S. 417 (1984). Third, courts have allowed

**creative uses** of works, such as rap group 2 Live Crew's parody of Roy Orbison's "Pretty Woman" in *Campbell v. Acuff-Rose*, 510 U.S. 569 (1994). More recently, courts have expanded the boundaries of these categories to accommodate the technological needs of the digital environment.<sup>2</sup>

Below we provide a few examples of activities critical to the digital environment that fair use permits.

### **A. Fair Use and Search Engines**

Search engines, the basic tool that allows users to find information on the Internet, rely on fair use in their daily operations. A search engine firm sends out software "spiders" that crawl publicly accessible websites and copy vast quantities of data into the search engine's database. As a practical matter, each of the major search engine companies copies a large (and increasing) percentage of the entire World Wide Web every few weeks to keep the database current and comprehensive. When a user issues a query, the search engine searches the websites stored in its database for relevant information. The response provided to the user typically contains links both to the original site as well as to the "cache" copy of the website stored in the search engine's database.

Significantly, the search engines conduct this vast amount of copying without the authority of the website operators. Although the search engines will respect an exclusion header, a software "Do Not Enter Sign" posted by a website operator, the search engines does not ask for permission before they enter websites and copy their contents. Rather, the search engine firms believe that the fair use doctrine permits their activities. In 2003,

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<sup>2</sup> For example, courts have enlarged the category of transformative uses to include the automatic translation of object code into source code or the storing of thumbnail images in a search database. These examples will be discussed below in greater detail.

the Ninth Circuit in *Kelly v. Arriba Soft*, 336 F.3d 811 (9<sup>th</sup> Cir. 2003), confirmed that search firms were correct in this belief. The court found that the caching of reduce-sized images copied from websites, and the display of these images in response to search queries, constituted a fair use. Relying on *Kelly*, the district court in *Field v. Google*, 412 F. Supp. 2d 1106 (D. Nev. 2006), excused Google’s display of text cached in its search database as a fair use.<sup>3</sup>

Thus, the billions of dollars of market capital represented by the search engine companies are based primarily on the fair use doctrine. Moreover, the hundreds of billions of dollars of commerce on the Internet facilitated by search engines rely heavily on fair use.

To be sure, Section 512(d) of the DMCA creates a safe harbor for providers of information location tools such as search engines. However, the specific terms of the safe harbor apply to infringement occurring “by reason of the provider referring or linking users to an online location containing infringing material or activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link.” While search firms take the position that this safe harbor applies to all the copies a search engine makes in the course of its provision of information location services, to date no court has interpreted Section 512(d) in this manner. Furthermore, two district courts have construed the system caching safe harbor in Section 512(b) as applying to the caching performed by a search engine, *see Field v. Google, supra, and Parker v. Google,*

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<sup>3</sup> The district court in *Perfect 10 v. Google*, 416 F. Supp. 2d 828 (C.D. Cal. 2006), rejected Google’s fair use defense with respect to its display of thumbnails in its image search results on the grounds that Google’s use of the thumbnails was “more commercial” than Arriba’s and would harm an emerging market for the licensing of adult images to cellphone users. The decision is on appeal to the Ninth Circuit.

422 F. Supp. 2d 492 (E.D. Penn. 2006), but so far no appellate court has ratified this construction.

Yet, even if sections 512(b) and (d) unquestionably applied to the full range of search engine activities, search engines would still be subject to injunctions relating to the reproductions they make during the course of performing their search function. Sections 512(b) and (d) prohibit monetary relief against an eligible service provider, but still permit injunctive relief. Moreover, a search engine is eligible for the Section 512(d) safe harbor only if it expeditiously removes material at the request of the copyright owner, and meets a variety of other conditions. As a result, even with the DMCA's protection, a search engine could still be required to remove information relating to vast numbers of legitimate websites, to the extent that the search engine indexed that information without the express permission of those websites' operators.

For this reason, fair use remains critical to the efficient operation of search engines. And for the same reason, the ISP safe harbor provisions in the FTAs are insufficient. Like the DMCA on which they were modeled, at most they only provide a safe harbor against money damages, not injunctive relief.

It is worth noting that EU law is much more hostile to search engines than U.S. law. No court has interpreted the EU Copyright Directive's exception in Article 5(1) for temporary and incidental copies of no economic significance as shielding search engines from liability for the copies they make. The EU E-Commerce Directive has safe harbors for mere-conduit, caching, and hosting functions, but not for information location tools. Additionally, it is far from clear that the caching safe harbor would apply to the kind of caching performed by search engines. The U.K. copyright law has a fair dealing

exception, but it is narrower than fair use; it is limited to noncommercial uses for research or study. Finally, and perhaps most significantly, several European courts have found search engines' gathering of information from websites to violate national implementations of the EU Database Directive.

It is no accident that the world's leading search engines are all based in the United States; fair use provides a far more fertile legal environment for innovation than regimes with a handful of specific exceptions.<sup>4</sup> However, as U.S. search engines expand their operations globally, they expose themselves to infringement liability.

### **B. Fair Use and Software Development**

Fair use is also critical to the inner workings of digital network technology. A user's computer can access information stored on a distant server only because the software on the user's computer, on the server, and on all the computers in between, can communicate with one another. This interoperability often can be achieved only if the software developer can reverse engineer the products with which it seek to communicate. And because of the nature of software, this reverse engineering, this studying of the operation of an existing product, can require the making of temporary copies or translations of the existing program. Several courts have concluded that fair use permits the copying that occurs during the course of software reverse engineering. *See Sega v. Accolade*, 977 F.2d 1510 (9<sup>th</sup> Cir. 1992); *Atari v. Nintendo*, 975 F.2d 832 (Fed. Cir. 1992); *Sony v. Connectix*, 203 F.3d 596 (9<sup>th</sup> Cir. 2000).

The EU Software Directive contains exceptions for reverse engineering, as does Australia's copyright law. But these exceptions were the result of a lengthy, hard fought

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<sup>4</sup> British Commonwealth countries have adopted the U.K. concept of "fair dealing," which typically is much narrower than the U.S. concept of "fair use."

legislative process. For example, “Australia debated the issue of software reverse engineering for over a decade.”<sup>5</sup> According to the Australian Attorney-General, the Hon. Daryl Williams QC, the reverse engineering exception to copyright law was vital in order for Australia to maintain its competitive edge in the world economy.<sup>6</sup> The decision making process to create an exception to copyright for software reverse engineering allowed for extensive input from concerned parties, jurists, and other experts. However, the delay between the start of discussions and the final passing of legislation creating this exception allowed other countries a long head start in technological innovation. Significantly, Australia’s fair dealing provisions failed to adapt to the changing environment of software development without a statutory amendment.

The FTAs permit parties to fashion exceptions to the prohibition on circumvention of technological protection measures to permit

noninfringing reverse engineering activities with regard to a lawfully obtained copy of a computer program, carried out in good faith with respect to particular elements of that computer program that have not been readily available to that person, for the sole purpose of achieving interoperability of an independently created computer program with other programs.

U.S.-Chile Free Trade Agreement, Article 17.7(5)(d)(ii). However, the FTAs do not require parties to create exceptions to the copyright law to permit the copying necessary to perform reverse engineering essential for interoperability. Thus, an FTA might require a country to create a reverse engineering exception to the circumvention law, but that act of reverse engineering might still infringe the country’s copyright law. This, of course,

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<sup>5</sup> Jonathan Band, *Software Reverse Engineering Amendments in Singapore and Australia*, J. Internet L., Jan. 2000, at 17, 18.

<sup>6</sup> *Id.*

makes absolutely no sense. Inclusion of fair use in the FTAs would resolve this absurdity.

### **C. Fair Use and Creativity on the Internet.**

The Internet allows every user to publish her creativity globally through blogs, bulletin boards, listserv, and websites. Much of this creative output is commentary on the news or culture of the day. Frequently, this commentary involves quotation from an article or another commentator. It may consist of a parody of a speech or a song. Or it could entail assembling a collage of small pieces of audio, visual, and textual material. Fair use makes this vital form of political and artistic speech lawful in the U.S.

Distinguishing between user-generated content that is infringing or fair use is a complex and uncertain process. Fortunately for web-hosts, Section 512(c) of the DMCA and the parallel provisions of the FTAs provide safe harbors for the entities hosting the user content. With these safe harbors, the web-host does not need to make the difficult determination of whether a specific user-posted item is infringing or not. But these safe harbors provide no shelter for the user. While a creative user in the U.S. receives some protection from the fair use doctrine, a creative user abroad typically lacks an exception permitting transformative uses.<sup>7</sup> This absence of immunity from copyright liability drives down the supply of user-generated content internationally, which in turn limits the ability of U.S. web hosts to penetrate global markets.

### **D. Fair Use and End-User Copies.**

Fair use permits three at least different kinds of end-user copies enabled by digital technology. First, it permits time shifting, where a user records content such as a

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<sup>7</sup> Foreign copyright laws may provide an exception for short quotations or parodies, but these exceptions may be too narrow to permit the copying of audio-visual clips for satire or political commentary.

broadcasted television program to view it at a more convenient time. Digital video recorders such as the TiVo have made time shifting easier and more pervasive than ever. With the press of a button, a user can program a DVR to record a season's worth of episodes of a favorite television program. As noted above, the Supreme Court in *Sony v. Universal* concluded that a user's recording of a television broadcast for later viewing constituted a fair use.

Second, fair use permits "space shifting" – the ability to move content from one device to another so that the user can use the content in different locations. For example, a user can transfer a copy of a song on a compact disc to her MP3 player so that she can listen to the song while exercising at the gym. In *Recording Industry Association of America v. Diamond Multimedia Systems*, 180 F.3d 1072, 1079 (9<sup>th</sup> Cir. 1999), the Ninth Circuit considered the lawfulness of the Rio MP3 player. The court analogized space shifting to time shifting, stating that:

The Rio merely makes copies in order to render portable, or "space-shift," those files that already reside on a user's hard drive. *Cf. Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 455 (1984) (holding that "time-shifting" of copyrighted television shows with VCR's constitutes fair use under the Copyright Act, and thus is not an infringement). Such copying is paradigmatic non-commercial personal use entirely consistent with the purposes of the [Audio Home Recording] Act.

Third, fair use permits the wide range of temporary copies necessary to the digital environment, where even the most basic operations require computers to make copies. For example, for a user to view a website, the user's computer must make a temporary copy of the website in its random access memory. Courts have found these temporary

copies permitted by fair use. *See, e.g., Perfect 10 v. Google*, 416 F. Supp. 2d 828, 852 n. 17 (C.D. Cal. 2006).<sup>8</sup>

Significantly, these uses have become essential to the conduct of business. Workers access the Internet to locate important information throughout the work-day, making temporary copies of the websites they visit. If an employee finds an item of interest, he might time-shift it by copying it onto his hard-drive so that he can read it later. He also might space-shift it by printing it out or making a digital copy that he forwards to colleagues as an attachment to an email.

Fair use is flexible enough to permit these end-user copies even in the business context. To be sure, a few foreign jurisdictions have adopted explicit exceptions for temporary copies. Thus, Article 5(1) of the European Union’s Copyright Directive specifically exempts:

[t]emporary acts of reproduction ... which are transient or incidental and an integral and essential part of a technological process and whose sole purpose is to enable:

- (a) a transmission in a network between third parties by an intermediary, or
- (b) a lawful use

of a work or other subject matter to be made, and which have no independent economic significance ....

Similarly, the Australian Copyright Amendment Bill 2006 permits temporary copies made in the course of telecommunications or “incidentally made as a necessary part of a technical process of using a copy of the work.” *See* Sections 43A and 43B. However, most foreign jurisdictions have no exemption for temporary copies.

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<sup>8</sup> Additionally, high definition televisions store images in memory, and then change only the pixels that need to be altered to change the image on the screen.

With respect to time-shifting and space-shifting, the Copyright Directive permits reproductions “by a natural person for private use and for ends that are neither directly or indirectly commercial,” only if “the rightsholders receive fair compensation.” Article 5(2)(b). This “fair compensation” typically is accomplished by means of a levy on the sale of devices or storage media. The levy amounts to a tax on new technology, and it inhibits the technology’s adoption.

The Australian Copyright Amendment Bill 2006 contains several sections that permit specific kinds of time-shifting and space-shifting under specific circumstances. For example, one may digitize a photograph in analog format, or make a hard copy of a digital photograph, but one may not make a digital copy of a digital photograph. *See* Section 47J. Likewise, the exception for the reproduction of books and articles appears to permit only digitizing materials originally in analog format, but not making digital copies of digital works. *See* Section 47C.

In addition, the private use exception in the Copyright Directive and the time- and space-shifting provisions in the Australian Copyright Amendment Act 2006 apply only to copies for personal use, and not to copies made in the workplace. Accordingly, the copies routinely made in the workplace, *e.g.*, forwarding by email an item of interest to a colleague, would not be permitting in the EU or Australia.

In sum, fair use permits end-users in the United States to engage in time-shifting, space-shifting, and the making of temporary copies. The lawfulness of these activities, in turn, stimulates a robust market for the provision of devices that enable these copies. Conversely, the uncertain legal status of these activities in foreign markets, or the taxes imposed upon them, has a chilling effect on the market for these products.

#### IV. The FTAs Should Include a Fair Use Provision.

The FTAs require parties to provide authors with “the right to authorize or prohibit all reproductions of their works, in any manner or form, permanent or temporary (including temporary storage in electronic form).” U.S.-Chile FTA at Article 17.5(1). While giving authors these broad and precise rights, the FTAs vaguely instruct parties to “confine limitations or exceptions to rights to certain special cases which do not conflict with a normal exploitation of the work, performance or phonogram, and do not unreasonably prejudice the legitimate interests of the right holder.” *Id.* at 17.7(3). However, almost every activity on the Internet involves the making of a copy: viewing a website; printing out an interesting article; responding to an email; compiling a search index. Thus, in the absence of robust exceptions, Internet service providers are large-scale direct and secondary infringers. Likewise, the providers of the devices employed by users to make these copies are secondary infringers if these copies are treated as infringements.

Given the FTAs’ broad grant of rights, and the inevitability of copying on the Internet, the FTAs’ exception language based on the Berne Convention’s three-step test is too ambiguous. The safe harbors for ISPs are helpful, but they do not go far enough to permit the full range of activities in which Internet and other technology firms routinely engage.<sup>9</sup> Only a broad, flexible exception similar to the fair use doctrine will provide a

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<sup>9</sup> For this reason, the language contained footnote n. 17 of the U.S.-Chile FTA, inspired by Article 5(1) of the EU Copyright Directive, is too narrow: “Article 17.7(3) permits a Party to carry forward and appropriately extend into the digital environment limitations and exceptions in its domestic laws which have been considered acceptable under the Berne Convention. Similarly, these provisions permit a Party to devise new exceptions and limitations that are appropriate in the digital network environment. For works, other than computer software, and other subject-matter, such exceptions and limitations may include temporary acts of reproduction which are transient or incidental and an integral and essential part of a technological process and whose sole purpose is to enable (a) a lawful transmission in a network between third parties by an intermediary; or (b) a lawful use of a work or other subject-matter to be made; and

country's copyright law with sufficient flexibility to respond to evolving technology. The inclusion of fair use language in future FTAs will provide this flexibility, thereby facilitating the global competitiveness of U.S. technology companies.

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which have no independent economic significance."