



Second submission on proposed Anti-Counterfeiting Trade Agreement

Introduction:

The first submission¹ of our Alliance focused on six principles to guide ACTA negotiations. These covered:

- transparency and accountability;
- presumption of innocence;
- proportionality;
- impact on other treaties and laws;
- avoiding risks of internet protocol address filtering for enforcement; and
- safeguards against liability for intermediaries.

This submission responds to the recent invitation from the Department of Foreign Affairs and Trade for submissions relevant to ACTA agenda negotiations, understood to cover the issues of internet/IT distribution, enforcement best practice and related issues.

Self-serving evidence for special enforcement measures

Our alliance notes that the economic data in support of strengthening intellectual property rights and their enforcement comes from the very industries pressing for the new laws.

This was confirmed in the report from Australian Institute of Criminology, *Intellectual property crime and enforcement in Australia* Research and Public Policy, Series, No. 94 (2008)² issued on 3 October 2008.

Its main finding was the “inadequacy of current publicly available data, lack of consistent counting rules and differences in methodologies” on the extent of IP infringements and their estimated costs.³

“While there is no suggestion that piracy and counterfeiting is non-existent in Australia, there is a lack of verifiable empirical evidence on the extent of the problem... There are no published details on the representativeness of samples, or of research instruments and measures. A further complicating factor is the reliance on confidential information held by industry bodies, which is not available in the public domain, and was not provided as part of the present consultations.”⁴

¹ <http://www.digital.org.au/submission/ACTA.htm>

² <http://www.aic.gov.au/publications/rpp/94/>

³ *ibid* p. 69

⁴ *ibid* p.xiii

It adds that the impact on legitimate business cannot be quantified reliably nor is it calculated consistently by industry-instigated research across sectors.⁵

Significantly, the report's main recommendations urge more independent research on the matter so that enforcement efforts can be better targeted and balanced by the severity of the infringements.

It has been suggested that many IP enforcement agenda advocates rely on just one economist, who continues to produce reports that echo the ACTA lobbyists' narrative.⁶

Another US study⁷ looked at the **economic contribution** of fair use. Any economic analysis of the *cost* of IP infringement and the *value added* by industries in Australia that rely on the flexibilities in Intellectual Property, along with the damage that unbalanced copyright protection can have on these industries. For example, the lack of general flexible exception like the US 'fair use' hampers innovation in Australia, such that it's unlikely the next Google could set up from Australia.

Recommendation

Independent studies must be conducted by researchers that are not on industry's payroll and who will not be tempted or obligated to inflate numbers. In the absence of such data, Australia should press ACTA partners to support independent research for policy and enforcement purposes. Data about lost profits due to infringement supplied by major entertainment companies or giant pharmaceutical manufacturers is subject to no scrutiny by Government officials and legislators who adopt the numbers as "fact" and propose new and stronger rights based on biased data.

Governments are yet to recognize that indiscriminate support of a maximal IP rights agenda that is being pressed by global cartels to increased intellectual property rights comes at a significant economic and social cost to society.⁸

Internet and intermediary liability proposals

Judging by the public submissions lodged with the US-Trade Representative⁹ we understand the right holders representatives have been pressing for secondary or intermediary liability approaches to IP enforcement – especially in the areas on online distribution.

For example the MPAA has urged US-TR to introduce "(p)ractical secondary liability regimes for online infringement ... to motivate participants to cooperate in implementing the reasonable practices that will make the online marketplace

⁵ *ibid* p. xiv

⁶ Susan K. Sell The global IP upward ratchet, anti-counterfeiting and piracy enforcement efforts: the state of play, http://www.iqsensato.org/wp-content/uploads/Sell_IP_Enforcement_State_of_Play-OPs_1_June_2008.pdf

⁷ <http://www.ccianet.org/artmanager/uploads/1/FairUseStudy-Sep12.pdf>

⁸ <http://ipjustice.org/wp/2008/03/25/ipj-white-paper-acta-2008/>

⁹ http://www.ustr.gov/Trade_Sectors/Intellectual_Property/IP_Federal_Register_Notices/Section_Index.html

less hospitable for infringers. ACTA parties should refine their secondary liability regimes to reflect the current realities, or to adopt modern, flexible systems where they do not exist.”

It states that “(o)verly strict interpretations of national data privacy rules increasingly impede enforcement against any array of wrongs that occur on the Internet, including copyright theft – often leaving victims without any means of redress. ACTA partners should ensure that the interpretation of data privacy rules appropriately balances the fundamental rights of privacy and property, including intellectual property in such a way as to encourage meaningful cooperation with telcos/ISPs, in particular the implementation of a “graduated response” mechanism.”

In effect, these suggestions invite Australian representatives to support an enforcement regime partial to rights holder interests only and to ignore due process and privacy rights enjoyed by Australians today.

They seek to move the onus of enforcement from the rights holders to the intermediaries, while qualifying the legitimate rights of consumers that are fundamental to the Australian IP rights regime.

As most recently amended to come into force on 1 January 2007, the Australian copyright law, adopted the concept of “safe harbours” for intermediaries such as ISPs to promote trade and innovation to promote freer trade between Australia and the US.

The liability for secondary copyright infringement (i.e. authorisation) for routine activities was expressly avoided where the intermediary was acting as a mere conduit and took appropriate steps, when notified of potential infringements.

This recently established regime is under attack by global cartels and rights holders that wish to overturn the balance struck in the copyright safe harbour regime, by clamping down on perceived widespread online copyright infringement by Internet users.

They endanger fundamental privacy rights of Internet users and threaten the end-to-end principle that is central to the Internet’s open architecture¹⁰.

Yet there have been consistent calls in various fora, including ACTA to force intermediaries such as ISPs, search engine services and content carriers to block communications using particular Internet protocols, install network-level filtering, and block access to websites that facilitate copyright infringement.

As the EFF noted in its submission of 21 March to the US-TR on the issue, it can result in such intermediaries’ having constructive knowledge of online copyright

¹⁰ A network architecture that employs open standards for key interfaces within a system. The success and growth of the internet lies with its non-proprietary communication protocols to ensure universal access and compatibility with other hardware and software components.

infringement on their systems, and disqualify them from the safe harbours that have previously safeguarded their businesses.

It will increase the costs of an internet service as it saddles the industry with yet another burden of being deputy enforcers for rights organisations. In any event, adopting filtering measures is not effective because they can easily be defeated.

¹¹

Significantly Europe has also declined to revisit such measures as recently as 23 October, following reports¹² that the European Commission agreed to water down proposals to quash a French attempt to turn Internet service providers into policeman able to cut off subscribers who ignore warnings not to download copyright material illegally. The law remains that such action can only be ordered by a court as in Australia.

Recommendation:

Any proposed agreement should respect countries' distinctive national legal regimes and not seek to impose secondary liability on ISPs and Internet intermediaries where none might otherwise exist under national law.

The proposed agreement should not require Internet intermediaries to engage in threats of mandatory termination of Internet access for their subscribers unless ordered to do so by a competent court, following a comprehensive judicial review.

Enforcement

We understand that the next round of ACTA negotiations will also include negotiations around enforcement best practice. We wish to make submissions on statutory damages and possible statutory presumptions for calculation of damages.

Statutory Damages

We oppose the introduction of statutory damages for the following reasons:

1. *Statutory damages confer a power akin to the power to punish to a private company or individual.*
Unlike additional damages under present law, statutory damages are not available solely at the discretion of the court. The decision as to whether an individual should be punished for copyright infringement – and to a significant extent, how much¹³ - is taken out of the hands of the judiciary and put into the hands of a private party.

¹¹ See for example, <http://torrentfreak.com/anti-piracy-lobby-loses-against-non-filtering-isp-081026/>

¹² See for example, <http://www.reuters.com/article/rbssTechMediaTelecomNews/idUSLN35685420081023>

¹³ The issue of the extent of punishment will depend on the number of infringements chosen for pursuit by the copyright owner. The copyright owner may choose not to pursue/plead all the infringements which have occurred. So, for example, in the Jammie Thomas case in the United States, the infringement of 24 songs was pleaded although it was repeatedly suggested in media coverage that her activities in fact were not so confined.

2. *Statutory damages are arbitrary; they remove the nexus between recovery and the degree of harm suffered by a copyright owner*

This is particularly true in a digital context, where it is not uncommon for (a) for a person to infringe more than one copyright work at once, and (b) to infringe in such a way that each infringement causes only a small amount of harm. For example, a person who has downloaded music will in many cases have copies of multiple (say, 100) songs – each of which would cost, say, \$2 to purchase legitimately. The harm in such a case is limited to a maximum of \$200 in lost sales (assuming, for the moment, no upload). Even at the lowest rate for statutory damages in Canada, however, this would give rise to a claim for statutory damages of Can\$50,000 – a sum 250 times the harm.¹⁴

3. Statutory damages, introduce punitive damages for acts which may be done by ordinary consumers, and are therefore inconsistent with the Government's stated aversion to treating ordinary Australians like 'copyright pirates'.¹⁵

4. *Australian legislation adequately addresses issues of deterrence and proof of damage*

One key aim of statutory damages is to deter infringement, however, Australia already has a more flexible system for achieving that end: namely, the award of additional damages under s 115(4). Australian courts have proved themselves willing to award additional damages in appropriate cases; some of these awards are significant: in one case reaching \$780,000 against four respondents.¹⁶ Importantly, this system does not remove judicial discretion as statutory damages schemes do.

Another stated aim of statutory damages is to address difficulties in copyright owners proving damage, however Australian copyright law has various ways of addressing these issues, including section 115(6), which in the case of online infringement allows a court to take into account that 'it is likely that there were other infringements ... of the copyright by the defendant that the plaintiff did not prove in the action', and award damages accordingly. In addition, Australian courts have exhibited a willingness to draw inferences from proven facts in determining the appropriate level of damages: courts have inferred a certain rate of sales¹⁷ and have calculated damage by

¹⁴ Canadian Copyright Act c.42 1985, s38.1(1) (statutory damages may be awarded at a rate per work infringed between \$500 and \$20,000. If the court is convinced that the defendant was an 'innocent infringer' – unlikely in an online context – the damage rate may be reduced to \$200 per work infringed – giving rise to a total award of \$20,000 which is still 100 times the harm: s 38.1(2).

¹⁵ As has been evinced during the ACTA negotiations as well as during the copyright amendments introduced in December 2006.

¹⁶ *Microsoft Corporation v PC Club Australia Pty Ltd* [2005] FCA 1522; See also *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)* (2007) 157 FCR 564 (\$200,000); *Raben Footwear Pty Ltd v Polygram Records Inc & Anor* [1997] FCA 370 (\$15,000, where compensation only of \$275); *Microsoft Corporation v Goodview Electronics Pty Limited* [2000] FCA 1852 (\$500,000); *Microsoft Corporation v TYN Electronics Pty Limited (In Liquidation)* [2004] FCA 1307 (total of \$700,000 against 2 respondents); *Microsoft Corporation v Ezy Loans Pty Ltd* [2004] FCA 1135 (\$350,000 against two respondents); *Aristocrat Technologies Australia Pty Ltd v Vidtech Gaming Services Pty Ltd* [2006] FCA 275 (\$40,000 being an additional 50% to the calculated compensatory damages, before interest); *Sony Entertainment (Australia) Limited v Smith* [2005] FCA 228 (\$500,000).

¹⁷ *Microsoft Corp v Glostar Pty Ltd* (2003) 57 IPR 518; But see *Microsoft Corporation v PC Club Australia Pty Ltd* [2005] FCA 1522 (court finding insufficient evidential basis for inferring certain alleged sales despite respondent's apparent boasting of the rates of sales).

reference to the profits made by an infringer in the absence of other proper evidence.¹⁸ It is also notable that there are many elements of a copyright infringement action other than damage where copyright owners are not required to prove, or where copyright owners have the benefit of presumptions: these provisions assist to reduce further the cost and difficulty of copyright actions.¹⁹

Incorporation of a statutory formula or presumptions for the calculation of damages or an account of profits in IP matters

Many of the same issues explored above regarding statutory damages also apply to the issue of including a statutory formula or presumption for damages: such formulae are at risk of producing arbitrary damages awards unrelated to any proven or even reasonably inferred damage suffered by a copyright owner. This is particularly true in a digital context: any formula which incorporated references to the number of copyright works, or the number of 'infringing acts' which have occurred risks producing grossly disproportionate awards for damages, and imposing significant damages awards on private individuals for private, non-commercial acts, contrary to Australia's historical copyright policy.

Australian courts apply a range of different measures for damages: including a license fee approach (the licence fee or royalty that the respondent would have been made to pay by the applicant for a licence), and the harm approach, which involves assessing the losses caused to the copyright owner by the competition posed by the respondent's unauthorised use, including for example lost sales; on occasion, in the absence of evidence, a court has looked at the profits made by the respondent. Which approach is appropriate depends on the nature of the evidence, the kind of case, the relations between the parties (for example, whether they are in competition or not), and a range of other factors.²⁰

The particular concern with formulae or presumptions is that they may end up requiring that damages be assessed assuming that every infringement is a lost sale at the full retail price. This is not an accurate measure of damage, particularly in a digital context²¹ and may lead to the kinds of arbitrary and unjust awards referred to above. Given also that the number of infringements proven depends on choices made by the copyright owner in pleading its case, inflexible formulae may put significant power into the hands of the copyright owner to influence the level of penalty involved in a case.

Recommendation:

Any proposal to require statutory damages or statutory formulae and presumptions of damages must be rejected.

¹⁸ *Aristocrat Technologies Australia Pty Ltd v Vidtech Gaming Services Pty Ltd* (2006) 68 IPR 229

¹⁹ *Copyright Act 1968* (Cth) ss 126 and 126B (general and ownership); 127 (authorship), 128 (ownership), 129 (ownership); 129A (ownership); 130B and 130C (presumption of infringing copies); 130A, 130, 131 (ownership)

²⁰ *Eagle Rock Entertainment Ltd v Caisley* (2005) 66 IPR 554

²¹ See generally from Australian Institute of Criminology, *Intellectual property crime and enforcement in Australia*, Research and Public Policy, Series, No. 94 (2008)

Definitions of counterfeiting, piracy, enforcement and ‘commercial scale infringement’

We understand that operational definitions of the various concepts under discussion will be considered at the next ACTA round.

An emerging concern for consumers has been the move to redefine civil IP infringements to criminal infringements and provide rights holder cartels with more punitive tools to expand IP rights at the expense of tax payers generally.

It is apparent that ACTA’s IP enforcement proponents prefer to redefine and broaden terms such as trademark counterfeiting and copyright piracy. So it is important to clarify terminology and explicitly distinguish between and create different sets of rules for counterfeited goods, pirated goods, grey goods, parallel imports, generic goods, and goods produced under TRIPS-compliant compulsory licenses.

Also “enforcement” is not a one-sided concept. Enforcement means not only enforcing IP holders’ rights, but it also means enforcing balance, exceptions and limitations, fair dealing, civil rights, privacy rights, and antitrust (or competition policy).

Commercial scale infringement is defined in the *Copyright Act 1968*, as amended in 2006²² requires the following matters to be taken into account:

- (a) the volume and value of any articles that:
 - (i) are infringing copies that constitute the proved infringement; or
 - (ii) assuming the likely infringements actually occurred, would be infringing copies constituting those infringements;
- (b) any other relevant matter.

However on some scenarios with peer to peer file sharing or iPod or iPhone storage, the rights holders are keen to extend this to any willful infringement including sharing files over the internet.²³ There are also indications that representatives of the music and movie industries want to remove both "intentional" and "commercial scale" as conditions. They deliberately try to make the misconception worse. This way harsh anti-piracy measures can be used against common activities of ordinary Australians.²⁴

Recommendation

That Australia decline to participate in any treaty that seeks to redefine the internationally accepted agreed definitions of counterfeiting and piracy and focus only on legitimate commercial-scale infringements (as universally defined).

²² http://www.austlii.edu.au/au/legis/cth/num_act/caa2006213/sch4.html

²³ See for example, <http://wikileaks.de/leak/acta-proposal-2007.pdf>

²⁴ See for example, <http://action.ffii.org/acta/Analysis>

Restrict the scope of the treaty to anti-counterfeiting

On a more strategic note, our Alliance questions the merging anti-counterfeiting measure with measures to restrain copyright infringements. It is clear to the community of the obvious harms through mass counterfeiting internationally.

However the intellectual property rights and their enforcement are subject to legitimate debate and questioning even from the US, the original proposer of the treaty.

We note for example the public dissent by two otherwise pro-IP rights enforcement US senators have publicly warned the US Trade representative that her negotiations for a speedy and detailed anti-counterfeiting trade agreement may be flawed and undermine rather than strengthen current IP laws locally and internationally.

US Senators. Patrick Leahy (Democrat) and Arlen Specter (Republican) wrote to U.S. Trade Representative Susan Schwab²⁵ warning that the covert treaty known as ACTA "could limit Congress's ability to make appropriate refinements to intellectual property law in the future."

They state that they were concerned the ACTA under consideration will prescribe rules for protection so specifically that it could impede US Congress's ability to make constructive policy changes in the future, especially concerning copyright and intermediary liability issues.

"Regarding the potential breadth of ACTA, we strongly urge you not to permit the agreement to address issues of liability for service providers or technological protection measures. The contours of the law and liability exposure in these areas continue to be debated in the courts and in Congress. As technology is not static, Congress must have the ability to tailor the law as developments warrant without concern that a change may run afoul of ACTA."

We note also that several global company representatives that would support ACTA in principle such as Lucy Nichols, global director of IP right and brand protection for Nokia Corporation, has been reported to favour focusing on counterfeiting.²⁶

Nichols argues that ACTA should focus on product counterfeiting only. "Few can argue with the illegality and potential danger of counterfeit products. If this treaty is to garner widespread public support, as it should, then it must focus on the single issue of product counterfeiting."

Recommendation

That Australia focus the proposed ACTA on counterfeiting issues as implied by its name. Copyright piracy is a major issue. But more than mere enforcement is required to manage that issue on an international basis.

²⁵ http://www.ipjustice.org/wp/wp-content/uploads/Leahy_Specter_ACTA_letter.pdf

²⁶ p. 21. World Trademark Review, Issue 15, September-October 2008

Conclusion

The ACTA Community alliance appreciates the briefings and guidance on the procedures offered by DFAT. We believe further and ongoing consultation including access to draft text is vital.

Our Alliance wishes to remain involved and urges the Australian delegation to allow our perusal of any draft text *before* it is agreed.

On a broader note, we wonder why the rights holders groups prefer to press for *more* enforcement, rather than responding to the industry, educational and community demands for more effective and appropriate business models for the 21st century.

Renowned international IP rights American lawyer who specialises in copyright law., William Patry has a nice quote from Hugh Laddie from a paper entitled "The Insatiable Appetite for Intellectual Property Rights." ²⁷

"Where IP rights perform their function of advancing the sciences or arts, they should be encouraged to do so. Where or to the extent that they do not, they have no justification and the normal discipline of competition should prevail. The gluttony which has resulted in the growth of completely unnecessary or excessively long IP rights undermines the system itself. As Shakespeare wrote in Richard II,—
"With eager feeding food doth choke the feeder.""

10 Dec. 08

²⁷ <http://williampatry.blogspot.com/2007/12/what-does-it-mean-to-be-pro-ip.html>