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April 2010

ACTA April 2010 - Analysis of Provisions

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ACTA in April 2010: Summary of Concerns
Kimberlee Weatherall[1]

Summary Table

Area	Concerns	Page Refs (January Consolidated Text)	Page Refs for more detail
Scope	1. Inappropriately extends to matters of substantive law such as secondary liability for intermediaries; 2. Affects private and individual acts despite 'focus' on commercial activities: a) Would put individuals at risk of potentially large statutory damages awards; b) Would subject individual private information to potential release without court supervision under some versions of the ISP Safe Harbours; c) Would subject some private acts to criminal liability, especially in copyright; 3. Could extend customs and criminal provisions to 'ordinary' (non-counterfeit) trade mark cases; 4. Could extend customs seizure to patented goods;	Pp25-26	pp19ff
Damages	1. Questionable protection for innocent infringers; 2. By requiring certain measures of damage (like retail price) to be considered, including in patent cases, some versions of the text may be inconsistent with patent law reform in US and require changes to Australian law to include new factors for consideration.	Art 2.2.1, pp 4-5	pp9ff
Statutory Damages	1. If mandatory would change Australian law; if optional creates a target for lobbyists; 2. Potential for injustice from excessive awards (esp in digital environment) or awards in inappropriate circumstances (where there is a colourable defence or case for non-infringement); 3. Potential multiplier effects operate *in terrorem* as threats to induce settlement; 4. No exclusion/exception/limit in current text for private acts or for innocent infringers: may disproportionately affect individual consumers; 5. Objectionable on principle: can lead to awards in excess of those that would occur in a criminal trial with a criminal burden of proof – and the money	Art 2.2.3, p5	pp10ff

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	goes to IP owners; 6. No indication of the purpose in the text – will lead to further disagreement and lobbying. If the negotiators don't know what purpose the damages serve, or can't agree, the provision shouldn't be there at all.		
Rights to Information	1. Extends TRIPS by requiring infringer to provide *any* information, not just identity of other persons involved: would seem to invite 'fishing expeditions' by rightsholders and does not seem to be subject to usual procedural rules confining the evidence-gathering burden; allowing for recovery of costs.	Art 2.4, p8	pg15
Intermediaries	1. ACTA text envisages court power to order injunctions against intermediaries in the absence of any infringement/involvement by them – this could be a possible backdoor route to a three strikes system; 2. Affirmation of secondary liability in terms that match US law but are a poor reflection of secondary liability principles in other countries. Will lead to confusion and another decade of uncertainty in the courts in Australia.	Art 2.X Option 2	pp17ff
Safe Harbours	Text unclear/contentious, but: 1. Safe Harbours for online service providers could be subject to relatively onerous conditions; 2. Could preclude a notice-and-notice system as envisaged in Canada's Bill C-61, even on more user-protective proposed language; 3. Imposes a requirement on ISPs to 'adopt and reasonably implement a policy to address the unauthorized storage or transmission of materials protected by copyright or related rights'. Not clear what policy short of a graduated response policy would be considered sufficient. For countries subject to a US FTA, there is some risk this would impose additional obligations on ISPs. 4. Scary Japan proposal to require ISPs to act where 'technically possible' (thus imposing ever-escalating obligations; note that language is not clear whether high expense technological solutions would be required; 5. Language of one proposal suggests ISPs should divulge identity of users even without court order.	Art 2.17.3	pp21ff

Seizure of infringing goods and implements	1. Some proposals extend seizure power to implements used in infringement – not just those whose predominant use is infringement (so includes general purpose equipment and computers); 2. Includes provisional seizure power for purposes of gathering evidence, not conditioned on rules applicable in Australia to *Anton Piller* orders – like a requirement that seizure only occur where there is imminent risk of destruction. 3. No references in text to defendant's right to challenge provisional seizures, even in case of *ex parte* orders made in defendant's absence (however, TRIPS protections would continue to apply – see TRIPS Art 50.4).	Art 2.3 Pg 6; Art 2.5.2 p8.	Pg 24ff
Border Measures	1. Could extend customs provisions to patent infringement: inappropriate given difficulties identifying patent infringements and risk of interference with legitimate business activities; 2. Could extend customs seizures to 'ordinary' trade mark infringement - risk of interference with legitimate business activities; 3. Could extend customs provisions to both *export* and *transshipment:* changing Australian law and creating a new right of 'possession' on which law operates (in the case of transshipment). 4. Some inconsistency with TRIPS possible via Art 2.10 which envisages *authorities* initiating procedures to determine whether goods are infringing. 5. Art 2.11 may cause doubling up of penalties on importers.	Page 9ff	pp26ff
Criminal Liability	1. Expansion of definition of criminal copyright infringement to acts done for private financial gain – beyond even what Australia has now as a result of AUSFTA 2. New camcording offence would be controversial in Australia – we've had this debate in 2006 and criminal liability for personal acts (which would be covered by present drafting) are not acceptable; 3. Ancillary offences (inciting, assisting) – not new for Australia but what does it mean, anyway? 4. Expansion of criminal penalties to ordinary trade mark infringement	Pg 20ff	pp29ff
Random use of the three step test	1. Some suggestions in text that three step test might be applied to limit exceptions to damages and to limits on secondary liability.		pp33ff

The Anti-Counterfeiting Trade Agreement: Analysis of the January Consolidated Text

Kimberlee Weatherall[2]

April 2010

Since October 2007, a rather interesting set of negotiations have been going on, directed at producing an Anti-Counterfeiting Trade Agreement ("ACTA"). The present author has previously discussed some issues to watch in the ACTA negotiations,[3] and the international context for these negotiations has been considered in detail elsewhere.[4] More recently, however, there have been leaks of significant, apparently genuine documents: one appears to be an internal European Union document, dated 12 February 2010, analyzing various proposed provisions and negotiating countries' reactions and preferences;[5] the other appears to be a consolidated version of the Japan-US Joint Proposal dated 18 January 2010.[6]

This document provides an updated analysis of the provisions and proposals reflected in these documents.

1 Analysis of ACTA's Substantive Provisions

1.1 The Scope of ACTA

An initial, and most fundamental, question about ACTA relates to its scope. From the outset of the negotiations, certain assertions have been made about the scope of the ACTA:

1. That the ACTA aims to define effective procedures for

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3 Kimberlee Weatherall, 'The Anti-Counterfeiting Trade Agreement: What's it all about?' (2008) Available at: http://works.bepress.com/kimweatherall/18.

4 Susan K. Sell, "The Global IP Upward Ratchet, Anti-Counterfeiting and Piracy Enforcement Efforts: The State of Play", June 9, 2008

5 Marked Document 6437/10 and dated 12 February 2010, it is a document of the Council of the European Union. At the time of writing it is available at http://blog.die-linke.de/digitalelinke/wp-content/uploads/ACTA-6437-10.pdf (copy also on file with author). Hereafter referred to as 'EU Counterproposal'.

6 Labelled 'Consolidated Text – Anti-Counterfeiting Trade Agreement: Informal Predecisional/Deliberative Draft January 18, 2010, it is available at http://www.laquadrature.net/files/201001_acta.pdf and a copy is on file with the author. Hereafter 'the January Consolidated Text'. These leaks build on earlier ones. In 2008, a "Discussion Paper" (dated 2007) was published on Wikileaks (hereafter referred to as the "Wikileaks Document". Available at http://www.wikileaks.org/ This document appeared written from a US perspective regarding proposals for the negotiations. However, it was not clear (a) how far the Discussion Paper reflected only the "ideal ACTA" envisaged by the USTR, or (b) to what extent it had already been the subject or even basis of discussions. In the lead-up to the November 2009 negotiations, there were futher 'leaks' or comments detailed on websites such as the website maintained by Michael Geist: see generally http://www.michaelgeist.ca

enforcing **existing** intellectual property rights, not create new rights;

2. That the ACTA is concerned with combating commercially-oriented IP counterfeiting and piracy;
3. That the ACTA is concerned with three key areas:
    a. cooperation among the ACTA parties to address the challenges of cross-border trade in counterfeit and pirated goods;
    b. establishing a set of enforcement best practices that are used by authorities, and
    c. a legal framework of enforcement measures.

The early understandings of the ACTA also suggested that it was focused on copyright and trade mark rather than other forms of IP.

The January Consolidated Text suggests either that there has been some 'mission creep' of the ACTA – it has been expanded to areas not contemplated earlier on – or that the negotiators have a different understanding of what constitutes 'existing intellectual property rights' and 'commercially-oriented IP counterfeiting and piracy' from most laypersons. The ACTA text addresses substantive rights in a number of ways: it would establish, for the first time, an international framework for secondary liability (discussed further below[7]), and create a right to prevent circumvention of an access control: which is a matter of enforcement of existing rights, since copyright recognizes no general right to control access to copyright material.

In terms of the posited *commercial* focus of ACTA, there are clearly a range of ways that the provisions will impact on private, non-commercial acts and on individuals. First, the definition of 'copyright piracy' clearly covers individual, personal acts. "Pirated copyright goods" are defined to mean:

> *Any goods that are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and that are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country in which the procedures set out in this Section are invoked.*

Note that:

- this definition is not limited to commercial acts: it would clearly cover copies of, say, music, made for personal use if made without permission of the copyright owner;
- it does not contain any requirement of distribution: the mere making of a copy (even for personal use) is an act of 'piracy' under this definition;

The definition itself comes from the TRIPS Agreement (see footnote 14), so the fault is not ACTA's here necessarily. The difficulty is that the blurred definition of 'piracy' means that remedies that *ought* only apply to genuinely commercial-scale activity that

[7] Part 1.3.2, page 20ff.

harms copyright owners are applied more generally and may impact on individuals.

Second, many of the remedies provisions apply generally regardless of whether an act is commercial or not. Thus, for example, the statutory damages provisions are proposed to apply to all copyright infringement. As such, they are likely to impact significantly on individuals, particularly in a digital context. The risk is that individuals, detected infringing copyright (for example, through file-sharing) will be threatened with civil proceedings with astronomical damages – and settle, rather than fight such a case.

Even the few provisions designed to shield individuals appear to risk being ineffective. An exception has been proposed, for example, to shield individuals and their luggage from the customs provisions on seizure of infringing goods (page 9-10, Article 2.X). The first problem with the provision is that it is optional: there is nothing to stop countries failing to recognize any limit to who can be searched for counterfeit goods. The second problem is that it would appear to limit the existing TRIPS exception (TRIPS Article 60) further, at least on one proposal (page 10) – goods should not only be 'of a non-commercial nature' but also 'in quantities reasonably attributable to the personal use of the traveler' (page 10).

It is also worth noting that the ACTA has considerable potential to impact on legitimate businesses – it is not confined to the 'most blatant and flagrant' forms of infringement that most of us think of when we talk about 'piracy' or 'counterfeiting'. In particular, there are proposals:

- 'copyright piracy' (definition extracted above) is not limited to 'substitute good' type copying – where the whole product is reproduced, such as in the case of a pirated (in the lay sense) DVD or software or music CD. This definition is broad enough to cover cases where a book includes a photograph reproduced without permission of the copyright owner and many other potentially legitimate commercial activities;
- There are proposals to expand the criminal provisions and the border seizure provisions to ordinary trade mark infringement, and not confine them to counterfeiting; and
- Statutory damages applies to all forms of copyright infringement, which has the potential to multiply damages for which businesses could be liable even in ordinary civil proceedings.

In terms of the types of IP covered, two proposed extensions of scope, in my view, are particularly concerning:

1. The inclusion of the border measures to patent law. At present, border measures (for seizure of goods by customs) apply, under TRIPS, only to copyright and trade mark infringements: indeed, under TRIPS, only to copyright piracy (which is broad) or trade mark counterfeiting (which is less broad, as it extends only to the application of identical or near-identical marks to goods, and not to all trade mark infringements).

2. The extension of the border measures to trade mark infringements involving 'confusingly similar' marks (see page 10, EU proposal; also proposed Articles 2.6, 2.7, 2.14). Confusingly similar' is the standard for ordinary trade mark infringement in American law and in TRIPS Art 16.

A more general issue of scope concerning the proposed treaty is the way it goes beyond IP law and law enforcement to affect general matters of civil procedure. It is questionable whether an international IP treaty is an appropriate place to make significant alterations in this area. While IP law has long been the subject of treaty and considerable harmonization, civil procedure has not, and varies significantly from country to country. Further, the risk is that ACTA will force changes to civil procedure in signatory countries, *only* in relation to IP. To the extent that an ACTA seeks to change important parts of procedural law in the context of IP only, it is likely to result in uncertainty and the development of divergent jurisprudence and rules within national systems. These are not desirable developments by any stretch of the imagination. As several leading IP scholars noted when the EU IP Enforcement Directive was proposed:

> *Procedural law, civil as well as criminal, encapsulates a whole set of balances concerning fundamental freedoms of individuals when they face the operations of the justice system. How much of their private affairs should defendants be obliged to reveal? Who will keep control over the proceedings? Who will decide on the merits, who on the remedial consequences? In procedural law lie the real tests of how punitive, and therefore preventive, legal redress should be. The tests have evolved in different countries out of long experience with their own system, each with its virtues and idiosyncrasies. In large measure they apply to all types of claim, not just to particular fields, such as intellectual property, and that is a highly desirable presumption to be maintained.*[8]

One particular concern that arises when there is an attempt to determine matters of procedure through a treaty of this kind is how the provisions are intended to interact with general protections for civil liberties. In the US, for example, the Constitution's Due Process Clause acts as a general protection, for example, against excessive damages awards in civil actions.[9] In the European Union, the European Convention on Human Rights offers some general checks on unfair judicial procedures in criminal cases (Article 6) as well as a right to privacy (Article 8). Canada too has a Charter of Human Rights and Freedoms that may act as a check against unfair procedures. Countries like Australia, New Zealand, and Singapore however lack such entrenched protections;[10] operating

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[8] William Cornish, Josef Drexl, Reto Hilty, Annette Kur, "Procedures and Remedies for Enforcing IPRS: The European Commission's Proposed Directive" [2003] 25 EIPR 447, 448

[9] Although this may not be operating effectively. Samuelson and Wheatland make a convincing argument that some of the more punitive and disproportionate statutory damages awards in coyright violate due process standards established under the US Constitution: Pamela Samuelson and Tara Wheatland, 'Statutory Damages in Copyright Law: A Remedy in Need of Reform' (2009) 51 *William and Mary Law Review* 439, Part II.

[10] New Zealand does have a *Human Rights Act* but the extent of any remedy available is a declaration of inconsistency with human rights: it is for Parliament to then consider whether the inconsistency

instead for the most part under a common law system which allows Parliament to abrogate certain freedoms and protections as long as the legislation is explicit. As a result, it is entirely possible that an ACTA could operate more harshly against individuals in these countries.

1.2 The Civil Enforcement Issues: Damages and Statutory Damages

Article 2.2 of the joint US/Japanese proposal provides that the judicial (or, in the proposal of NZ, competent) authorities should have the authority to order an infringer to pay damages, or an account of profits attributable to the infringement. It addresses the availability, type, and assessment of damages awards, raising a number of issues.

1.2.1 Innocent infringers

First is the question of 'innocent infringers': that is, those who did not know that they were infringing. There is no provision to protect innocent infringers in the US/Japan proposal, although the EU and NZ have proposed qualifying the damages provision to require only that the court have power to award damages against a person who 'knowingly or having reasonable grounds to know' engages in infringing activity. Present Australian law would be consistent with any of these proposals, provided that there is no requirement to provide *both* damages and an account of profits. Under Australian copyright law, innocent infringers cannot be required to pay damages but can be required to disgorge profits.[11] Patent law is slightly different: the court has the power to refuse damages or an account of profits but is not required to do so.[12] Australia's trade marks legislation includes no specific defence.[13] Thus it seems in all cases, Australian courts have the power to grant *some* monetary remedy against innocent infringers, which would be sufficient under the joint US/Japan proposal.[14] Alternatively, the case of the 'innocent infringer' might be covered by a proposed proviso from Canada and New Zealand, which would allow a Party to limit or exclude damages in certain special cases (Art 2.2.1(iii)).

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warrants correction – and New Zealand would have little ability to correct a human rights inconsistency if bound by international treaty. The Australian State of Victoria has a similar provision.

11 *Copyright Act* 1968 (Cth) s.115(3).

12 *Patents Act* 1990 (Cth) s.123

13 There is some conflicting authority and commentary on this point. Lahore's Commentary on *Patents and Trade Marks* notes (at [58,480]) that 'Where the infringer has acted innocently in ignorance of the plaintiff's registered trade mark, the infringer is normally liable to pay only nominal damages and the costs of the proceedings'. In *Slazenger v AG Spalding & Bros* (1910) 27 RPC 20, it was said that infringement without knowledge gives no right to compensatory damages. However, Lahore also notes that 'there is considerable uncertainty as to the position in Australia, with a lack of consensus among text book writers': ibid. The position is reviewed in Kelbrick, R. "Damages against the innocent infringer" [1996] 4 *European Intellectual Property Review* 204 and in *Nokia Corporation v Cellnet Group Ltd* (2005) 66 IPR 241.

14 The January Consolidated Text is perhaps less clear on how it is proposed to address the issue of innocent infringers in relation to statutory (pre-established) damages. On one proposal, the IP owner would have the right to elect statutory damages as an alternative to damages. However, if damages are not available – as in Australia where innocent infringers can only be required to disgorge their profits – this might make pre-established damages unavailable.

1.2.2 Assessment of damages

A further issue relates to the factors to be taken into account in assessing damages. Article 2.2 would provide that courts should be either allowed (Aust/Can/NZ) or required (US/Japan/EU) to consider certain measures of damage proposed by the rightholder, including (variously) lost profits, the market or suggested retail price of a product or service, or other legitimate measure. The reasons for having this provision at all are not clear – particularly in its optional form. Under the optional form, a court could presumably consider, but dismiss as largely irrelevant, measures such as the market price: for example, if the court decided that very few of a counterfeiters sales would have translated into sales of the genuine item, or if the court decided that a reasonable license fee was the more appropriate measure of damage. Even under the compulsory form of Art 2.2 a court could consider, but not apply, such measures, although perhaps language that recognized the discretion of the court, by stating that a court can consider such measures 'where appropriate' would emphasise this point.[15]

More controversial is a proposal to apply the provision to patent infringements. The question of the appropriate level of patent damages, and the approach for calculating such damages, has been a matter of fierce debate in the US in recent times. Specifically, various Patent Reform Acts proposed in the US have included provisions designed to limit damages awards in the US.[16] This is surprising given the inflamed debate the US has had in the context of proposals for patent reform over patent damages and apportionment in the case of patents for product components. If a court was required to consider the retail price, could it still drastically discount that price on the basis that the relevant patent only related to a minor component of the final product?[17] It is not clear that such a provision, particularly one *requiring* the court to consider any legitimate measure submitted by a rightsholder, including factors such as 'market value' or retail price, would be consistent with recent legislative proposals to limit significantly the evidence of damage presented to the jury?[18]

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15 Of course, to the extent that we do not trust the courts to be uninfluenced by artificially enlarged demands for damages, we might object even to an optional form of such a provision. Whether such distrust is logical, particularly amongst people who support defences like fair use, is questionable.

16 Specifically, such provisions have proposed that courts have the power to 'apportion' damages – that is, to assess damages according not to the value of the infringing product or component, but according to the economic value properly attributable to the claimed invention's specific contribution over the prior art: see generally David W. Opderbeck, 'Patent Damages Reform and the Shape of Patent Law' (2008) *Seton Hall University School of Law Legal Studies Research Paper Series*, pp6-8 (available at http://ssrn.com/abstract=1213160). This proposal is supported largely by the financial and IT industries which have become concerned about the leverage exerted by holders of patents over relatively small components of products or services – especially where the relevant technology can be invented around. A more recent 'compromise' bill (111th Congress, 1st Sess, S.515) would be less explicit about apportionment but would emphasise the 'gatekeeper' role of the District Court Judge in deciding what evidence of damage is appropriate to go to the jury.

17 Also potentially controversial for similar reasons is a footnote, on page 4, stating that the damages in patent cases 'adequate to compensate for the infringement shall not be less than a reasonable royalty'. Whether that is appropriate, say, in a case where the patented invention is relatively simple to design around, is questionable.

18 See S.515, above n16, sec.4 (page 28). This provision would require the *court* to 'identify the methodologies and factors that are relevant to the determination of damages', and would allow the

1.2.3 Statutory Damages

Another issue in relation to damages is the question of statutory damages. Article 2.2.3 proposes (again, at its most stringent) that each country shall maintain a system for pre-established damages – for copyright (generally) and for trade mark counterfeiting. 'Statutory damages', or pre-established damages, involve the legislature setting figures for damages in legislation or regulations. In practice, legislatures have set minimum and maximum amounts per work infringed.[19] Pre-established damages may serve two goals: to remove from rightsholders the burden of having to prove actual harm caused by an infringement, and to punish infringers and deter infringers and others. It would be extremely surprising if statutory damages became mandatory under ACTA, because although several of the ACTA negotiating parties already have or have agreed to pre-established damages,[20] Australia and New Zealand do not, and the present EU *acquis communitaire* makes pre-established damages optional.[21] Provided that pre-established damages remain optional, Australia would not have to change domestic law.

If on the other hand statutory damages were required by ACTA, it would be a significant change for Australia.[22] Australian copyright law seeks to deter infringement, and address difficulties of proof, through a general discretion in courts to award 'additional damages' (s.115(4)). In trade mark it would be an even bigger shift: despite an AUSFTA obligation to introduce additional or pre-established damages in trade mark law (Article 17.11.7), Australia does not, at present, even have additional damages for trade mark infringement.[23]

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court or jury to 'consider only those methodologies and factors relevant to making such determination', with only evidence relevant to such methodologies being admissible. While District Courts have often held *Daubert* hearings (to determine whether certain expert evidence should be admitted, held under Federal Rule of Evidence 702).

19 For examples, see 17 U.S.C. §504(c) (US – copyright); 15 U.S.C. §1117(c) (US – trade mark); *Copyright Act* (Singapore) s.119; *Trade Marks Act* (Singapore) s.31(5); *Copyright Act* (Canada) s.38.

20 Several negotiating parties already have statutory damages: the US, Canada, Morocco and Singapore. South Korea agreed in Article 18.10.6 of the US-South Korea FTA to supplement its system of civil damages for copyright infringement with a regime of pre-set statutory damages. That FTA is still pending Congressional approval.

21 See Art 13, *Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, including corrigendum*, Official Journal L 195, 02/06/2004 P. 0016 – 0025. Certainly the EU would have difficulty agreeing to a requirement that *innocent* infringers pay statutory damages, since Art 13 of the IP Enforcement Directive only *requires* that Member States provide for damages against an infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity: Art 13.1. Art 13.2 says Member States *may* allow for 'the recovery of profits or the payment of damages, which may be pre-established', in the case of an infringer who 'did not knowingly, or with reasonable grounds know, engage in infringing activity'.

22 Notably, not only does Australia not have statutory damages, but Australia specifically negotiated a variation from the usual US Free Trade Agreement IP Text, to allow her to maintain her current system: see AUSFTA, Art 17.11.7(b).

23 *Trade Marks Act* 1995 (Cth) s.126 is the primary section on relief, and provides only for damages and an account of profits. Additional damages have been proposed for trade mark law: IP Australia, *Review of penalties and additional damages in the Trade Marks Act 1995: Options Paper* (November 2008). In practical terms, some cases will involve both copyright and trade mark infringement, in which case additional damages are available.

The greatest concern about statutory damages is that they will lead to excessively high awards. This concern is based on the US experience where, as Samuelson and Wheatland note, "[a]wards of statutory damages are frequently arbitrary, inconsistent, unprincipled, and sometimes grossly excessive".[24] The tendency to excessive damages comes in part from the 'per work' rule in the digital context, and in part from the presence, in the US, of jury trials – which mean that damages awards can become very high where a skilled lawyer persuades the jury to express outrage.[25] Examples cited by the Samuelson and Wheatland include:

- *UMG Recordings, Inc v MP3.com, Inc*[26] where a judge proposed to make an order for $25,000 per infringed CD – in a case where 4,700 CDs were in issue (a total of US$118M); and
- *Capitol Records v. Thomas-Rasset,*[27] a peer-to-peer (p2p) filesharing case, in which a jury awarded $80,000 per infringed song against an individual file-sharer, for a total award of over $1.92 million, despite the trial judge's estimate of actual damages of around $50.

Merely having pre-established damages does not mean the figures need be as high, or problematic, as in the US. High US figures are in part a result of the very broad range found in the US Statute, where awards of up to $150,000 per work infringed may be made in the case of willful infringement.[28] The figures in the 1909 US Act were much more realistically linked to the actual damage caused by infringement,[29] and even today,

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24 Samuelson and Wheatland, above n9, 441.

25 Samuelson and Wheatland above n9 at 456. Perhaps we would not have the same issues in Australia. Thus Samuelson and Wheatland outline the situation in the infamous *Jammie Thomas* case: "The jury had no choice, given the implausibility of an innocent infringement defense, but to award Capitol Records at least $750 per infringed work (which would have totaled $18,000). But the 320:1 ratio of actual damages from infringement to the minimum statutory damage award did not suffice for the *Thomas-Rasset* jury who instead awarded Capitol Records $1.92 million for her infringement": ibid at 456. This would seem to bear out the concerns expressed by Lord Reid in *Broome v. Cassell* [1972] A.C. 1027 (''[T]he objections to allowing juries to go beyond compensatory damages are overwhelming. To allow pure punishment in this way contravenes almost every principle which has been evolved for the protection of offenders. There is no definition of the offence except that the conduct punished must be oppressive, high-handed, malicious, wanton or its like—terms far too vague to be admitted to any criminal code worthy of the name. There is no limit to the punishment except that it must not be unreasonable. The punishment is not inflicted by a judge who has experience and at least tries not to be influenced by emotion: it is inflicted by a jury without experience of law or punishment and often swayed by considerations which every judge would put out of his mind.')

26 *UMG Recordings, Inc v MP3.com, Inc* No. 00 Civ. 472 (JSR), 2000 WL 1262568, at *1, *6 (S.D.N.Y. Sept. 6, 2000).

27 *Capitol Records v. Thomas-Rasset* 579 F. Supp. 2d 1210, 1213, 1227 (D. Minn. 2008).

28 17 U.S.C. 504(c). In the case of trade mark counterfeiting, section 35(c) of the Lanham Act (15 U.S.C. §1117(c)) provides that a plaintiff may elect statutory damages of between $500 and $100,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just; or, if the court finds that the use of the counterfeit mark was willful, not more than $1,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just. 'Counterfeit mark' is defined in 17 U.S.C. §1116(d).

29 17 U.S.C. § 101(b) (1976) (superseded) suggested specific amounts for common types of infringements (for example, $10 for every infringing copy of a painting, statue, or sculpture; $1 per infringing copy of other works; $50 for every infringing performance of a lecture, sermon, or address;

pre-established damages in Singapore are considerably lower at up to $10,000 per work infringed with an aggregate cap of $200,000;[30] Canada has proposed limits where infringements occur for private purposes.[31] Low figures, however, would inevitably be a target for lobbying. Because statutory damages provisions can be 'strengthened' simply by lifting the numbers, they offer an easy way to look 'serious about IP infringement', regardless of the practical impact. In the US, Congress has twice raised the statutory minima and maxima in the US since 1976 – first in 1989 and again in 1999.[32]

Even apart, however, from the risk of excessive awards, there are reasons of principle to be concerned about statutory damages. Awards of the kind mentioned above clearly operate punitively, but the money goes to the copyright owner, not the state, leading to a private windfall and encouraging litigation. They are imposed in civil proceedings where the civil burden of proof applies, and yet can outstrip the fines that would be ordered by a criminal court. As a result of the figures in the statute and the number of infringements that inevitably occur in most digital contexts, statutory damages in the US operate '*in terrorem*': that is, they are used "with considerable success to strike terror into the heart of anyone with the temerity to make unauthorized uses" of copyright.[33] If a person has engaged in filesharing, say, with even 20 songs, a simple multiplication of the minimum statutory damages award for knowing infringement ($750) leads to a sum of $15,000 – enough to cause considerable terror in the average young person.

Another problem is that statutory damages are awarded in circumstances where punishment is inappropriate: for example, where a party has an arguable defence or case for non-liability. For example, in *Childress v. Taylor*,[34] the two parties to the action had initially collaborated on the production of a play: Taylor approaching Childress with the idea and undertaking a great deal of research and identifying various facts and characters used in the play; Childress actually writing the text of the play. Following a falling out, Taylor hired someone else to write a play based on the same story and research (and supplied a copy of Childress' text to the playwright). Childress sued when the new production was performed. The key argument for Taylor was that Taylor was a co-author

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$10 for every infringing performance of a musical composition, and so on). Newspapers and motion picture studios persuaded Congress to cap their potential liability for unwitting infringements: see Samuelson and Wheatland, above n9 at 449.

30 Singapore Copyright Act, s.119. Interestingly, the statutory damages in Singapore for trade mark counterfeiting are identical (in figures) to those in the US: *Trade Marks Act* (Sing) s.31(5). Why trade mark statutory damages are the same where copyright is different is not clear. It could have something to do with the fact that pre-established damages in trade mark are confined to cases of counterfeiting – and hence confined to conduct that is more appropriate for punishment.

31 Canadian Copyright Law, Bill C-61, s.30 would have included a general limit for statutory damages awards for infringements done for the defendant's private purposes of $500 (per work) – with a further provision to prevent other copyright owners subsequently recovering statutory damages against a given individual for infringements prior to the proceedings being filed.

32 Samuelson and Wheatland above n9 at 455. The attempt to *lower* or limit statutory damages will similarly be fiercely opposed, as the Canadian suggestion to limit statutory damages for private infringements was by the International Intellectual Property Association (IIPA): see IIPA, Submission (Canada) to the USTR Special 301 Report on Copyright Enforcement and Protection (2010) (copy on file with author).

33 Samuelson and Wheatland above n9 at 454.

34 798 F. Supp. 981, 996-97 (S.D.N.Y. 1992).

of the original Childress script: an argument that, while it failed, was not (given uncertainty of the law concerning co-authorship) unarguable or frivolous. The court concluded that Taylor was a willful infringer, and made a 'primarily punitive' order of $30,000 in damages against her. In another case, *Los Angeles Times v Free Republic*, the plaintiffs were two major newspapers (the LA Times and the Washington Post). The defendant was in effect a 'bulletin board' – a website whose members used the site to post news articles (mostly the full text) to which they added remarks or commentary. The defendant asserted a fair use defence (seeking summary judgment on that basis). While the defence was unsuccessful, the subsequent order for US$1 million seems excessive given that there was at least some kind of arguable defence;[35] the lack of proportion is perhaps illustrated, as Samuelson and Wheatland point out, by the fact that the case was later settled for $10,000.[36]

The risk of excessive damages awards in inappropriate circumstances is greater under a statutory damages system, particularly where the choice of statutory damages lies with the rightsholder (as would be the case under the Japan/US Proposal, Art 2.2.3). This risk is of course lowest where no punitive damages are available in civil proceedings (as is the case, at present, in the United Kingdom).[37] Under an additional damages system as found presently in Australia, additional damages can be punitive, and indeed, awards of additional damages in many cases been for very significant sums.[38] However, at least in

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35 No. CV 98-7840 MMM (AJWx), 2000 WL 565200, at *1 (C.D. Cal. Apr. 4, 2000)

36 Samuelson and Wheatland, above n9, 462-463; Stipulation for Entry of Amended Final Judgment, Los Angeles Times, Inc. v. Free Republic, No. 98-7840 NMM (AJWx) (C.D. Cal. June 11, 2002).

37 The UK Act allows for additional damages: *Copyright Designs and Patents Act* 1988 (UK), ss.97(2), 229(3) and 191J(2). However, courts have interpreted additional damages as not being punitive, although aggravated damages may be awarded to compensate for harm to pride and dignity, humiliation, distress, insult, or pain caused by the circumstances of the defendant's conduct: *Nottinghamshire Healthcare National Health Service Trust v News Group Newspapers Ltd* [2002] EWHC 409 at [51]. Two reasons are given: first, there is an equivalent criminal offence (*Copyright, Designs and Patents Act* 1988 (UK) s.107) and second, owing to the frequent existence of concurrent rights in the same object, a defendant might risk being exposed to successive actions by the owners of the different copyrights, each seeking punishment in respect of his own interest.

38 *Aristocrat Technologies Australia Pty Ltd v Global Gaming Supplies Pty Ltd* [2009] FCA 1495 (compensatory damages US$44,800; additional damages Aus$450,000); *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)* (2007) 157 FCR 564 (compensatory damages $80,000; additional damages $200,000); *G-Star Raw Denim Kft and Anor v Urban Culture Pty Ltd and Anor* [2009] FMCA 1317 (compensatory damages of $40,727 (including $35,000 for harm to reputation), additional damages $50,000); *Deckers Outdoor Corporation Inc v Farley and Others (No 5)* (2009) 262 ALR 53 (compensatory damages $3.04 million; additional damages $4 Million); *Rutter v Brookland Valley Estate Pty Ltd and Another* (2009) 81 IPR 549 (compensatory damages $208,684; additional damages $150,000); *Futuretronics.com.au Pty Ltd v Graphix Labels Pty Ltd* [2009] FCAFC 2 (compensatory damages nominal at $10, additional damages $10,000); *Autodesk Inc and Ors v Ginos Engineers Pty Ltd and Anor* [2009] FMCA 14 (Compensatory damages of $38,012; Additional Damages of $76,000) *APRA v Cougars Tavern and Ors* [2008] FMCA 369 (compensatory damages of $22,640.83; additional damages against various respondents totalling $315,000); *Microsoft Corporation v PC Club Australia Pty Ltd* (2005) 148 FCR 262 (compensatory damages of US$188,950; additional damages of $350,000 against the corporate respondent, and $350,000 against its director with day to day control. $30,000 and $50,000 against other directors); *Universal Music Australia Pt Ltd v Hendy Petroleum* (2003) 59 IPR 204 (additional damages of $17,500 while awarding $299.00 in compensatory damages); *SBO Pictures Inc v Kaos Shop Pty Ltd* [2006] FMCA 82 (Compensatory damages of $3,500; additional damages of $46,500); *Microsoft*

Australia there is no minimum award, innocent infringers are protected from all damages, and copyright owners can be required to prove harm. There have been cases in Australia where additional damages have been awarded where arguably inappropriate,[39] but this is less likely to occur, and, importantly from an individual's perspective, there is no capacity for rightsholders to write letters threatening massive damages awards, as occurs in the US. The January Consolidated Text has no limitations on the availability of pre-established damages – meaning they could be (required to be) available against innocent infringers and against individual consumers engaged in private acts.[40]

If the decision was make to adopt pre-established damages, the form presently proposed in ACTA is also unsatisfactory in that it gives no clear indication at all as to their purpose;[41] this contrasts with Art 2.2.1 on ordinary damages;[42] it also contrasts with the statements about presumptions in proposed Art 2.2.2(b).[43] This no doubt reflects the fact that countries differ in the purpose they attribute to pre-established damages. In the US, statutory damages operate as a deterrent.[44] The EU Counterproposal, on the other hand, includes a specific note that punitive damage is not acceptable.[45] Given these differences of approach, failure to agree on the purpose of pre-established damages will lead to

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Corporation v Mayhew t/as Rodney's Computers (2008) 75 IPR 166 ($1126.35 in damages and $12,000 in additional damages: but note that actual damage in the case reflects only the one proven infringement); *Zero Tolerance Entertainment Inc and Ors v Venus Adult Shops Pty Ltd and Ors* [2007] FMCA 155 (compensatory damages: $41465.80 Additional damages: $150,000)..

39 *Elwood Clothing Pty Ltd v Cotton On Clothing Pty Ltd* [2009] FCA 633, where the trial judge, having been reversed by the appeal court on her finding of non-infringement, went on to make a significant award of additional damages ($200,000).

40 Subject to a proposal from Canada/NZ to provide that 'a Party may limit or exclude damages in certain special cases'.

41 In both the January Consolidated Text and the EU Counterproposal, no statement is made in Art 2.2.2 about the purpose of pre-established damages.

42 Under proposed Art 2.2.1, awards of damages should be either (a) adequate to compensate for the injury the right holder has suffered as a result of the infringement or (b) equal to the profits of the infringer.

43 Which, it is stated, ought to be 'sufficient [**US/Can:** *to constitute a deterrent to future infringements and*] to compensate [**US:** fully] the right holder for the harm caused by the infringement.[Singapore would simply state compensation for harm]. It is interesting to note that according to Samuelson and Wheatland, statutory damages were not originally intended by Congress to have a deterrent or punitive effect, but, instead, to provide for proper compensation in the case of infringements where the actual damage is hard to calculate or difficult to prove: in other words, they were originally made available in the 1909 Act "in lieu" of actual damages and profits, which could overcome the severe difficulties of proof of damages and profits complained of in the statutory history: Samuelson and Wheatland, above n9, 444, 448. Samuelson and Wheatland make this conclusion based on a number of elements of the history: the fact that they are provided for 'in lieu' of the primary remedies: damages or account of profits; the statutory history talks about providing relief in situations where damage is hard to prove; there were guidelines on what Congress considered reasonable damages for different kinds of works/infringements; and the 1909 Act specifically provided that statutory damages did not operate as a penalty: 1909 Act, §101(b). This provision was notably omitted from the 1976 Act in the US. According to Samuelson and Wheatland, it is in the 1990s – in particular, when the Act was amended in 1999, that the statutory history becomes peppered with statements about the need for "stringent deterrents" and increased "penalties" for infringement.

44 See also *Copyright Act* (Sing) s.119(5) (referring to both flagrancy and deterrence as factors relevant to an award of statutory damages); *similarly Trade Marks Act* (Sing) s.31(6).

45 EU Counterproposal, above n5, at page 4.

ongoing tension and wildly divergent approaches. One wonders, indeed, given the extent of disagreement over the role and purpose of statutory damages, whether the ACTA negotiating parties are ready to reach agreement on their necessity.

In summary, it seems unlikely that statutory, or pre-established damages will become compulsory as a result of ACTA: that would involve substantive change at least in Australia, Europe and New Zealand. But there is at least one good reason to oppose their inclusion at all: even having the provision in ACTA creates a target for lobbying. Further, there are even better reasons to oppose the inclusion of statutory damages in domestic laws: the potential for injustices both through excessive awards and awards in inappropriate circumstances, and the operation of statutory damages *in terrorem* to force settlement are likely, and undesirable outcomes.

1.2.4 Information

The ACTA text includes a series of provisions to give rightsholders more extensive rights to obtain information:

1. Article 2.4 (page 7): Authority in the courts to order the infringer to provide information on the origin/distribution network of infringing goods, including:
    a. information regarding any person or persons involved in any aspect of the infringement;
    b. information regarding the means of productions or distribution channel of such goods or services,
    c. identification of third persons involved in the production and distribution of the infringing goods or services or in their channels of distribution.

    This extends the rights of information in TRIPS. TRIPS only requires that courts have the authority to order an infringer to provide information about *the identity* of third parties involved in the production and distribution of the infringing goods or services and of their channels of distribution. ACTA extends this to *any* information: in fact, it would seem to invite 'fishing expeditions' by rightsholders – effectively risking a situation where the rightsholder can require the infringer to do the work of providing evidence of infringement against a third party. While it has long been established in common law systems that evidence can be obtained from third parties (via processes like subpoenas) it is unclear whether a provision like this in ACTA would mean the removal of the protections in that system: like protection against 'fishing expeditions', the recovery of costs, 'conduct money' and the like. To address this concern, the authority of the courts (here, and in other provisions) should be made subject to the Party's usual procedural rules and principles.

2. Article 2.12 (page 16): Authority to customs authorities, who have seized suspected infringing goods, to inform the right holder of the names and addresses of the consignor, the importer and the consignee and of the quantity of the goods in question, and provide a description of the goods (this would

not change Australian law);

3. Article XX (page 17): relating to exchange of information between parties (ie between customs authorities) where goods are seized (this would be new).

The negotiating parties seem to be unclear concerning the protections to be built in to protect confidentiality and personal data: although arguably to some extent TRIPS protections would kick in to require some protection of confidentiality at least (see below, Part 1.8 (page 35).

1.3 Secondary and ISP Liability; remedies to be available against intermediaries

One could be forgiven for thinking that ACTA is about intermediaries more than anything else: not because the provisions on intermediaries are more numerous, but because they are potentially the most significant: there is very little extant international law addressing secondary liability and the position of intermediaries. To date, secondary liability has not been harmonized through international treaties; in many countries too it is dealt with minimally, or not at all, in legislation; this is true of copyright[46] trade mark;[47] and patent. In the proposals for ACTA, however, there are a whole series of provisions relating to intermediaries to be found in the present text, ranging across both provisions on substantive liability *and* procedure and remedies:

1. **Procedure:**
   (a) Article 2.X Option 2 (page 4): An EU proposal which would require countries to "ensure that right holders are in a position to apply for a (permanent) injunction against intermediaries whose services are used by a third party to infringe an intellectual property right";
   (b) Article 2.5.X (page 7): another EU proposal, to give courts the authority to issue an *interlocutory* injunction against an intermediary whose services are being used by a third party to infringe an intellectual property right;[48]

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[46] For a discussion by leading international copyright experts Jane Ginsburg and Sam Ricketson, see Jane Ginsburg and Sam Ricketson, 'Inducers and authorisers: A comparison of the US Supreme Court's *Grokster* decision and the Australian Federal Court's *KaZaa* ruling' (2006) 11 *Media and Arts Law Review* 1-25 (available at SSRN: http://ssrn.com/abstract=888928), at p20 and following. According to Ginsburg and Ricketson, 'there is no explicit treaty obligation that deals with these matters' of intermediary liability, and even the language in the *Berne Convention* (which does refer to 'authorising' acts such as translation: see article 5) would not, in the minds of the negotiating parties, have been concerned with extended liability of intermediaries: not least because at the time the provisions were drafted the meaning of 'authorisation' would not have extended beyond the agency relationship: ibid.

[47] For a recent proposal for a substantive international norm in relation to intermediary liability in trade mark, see Graeme Dinwoodie, Rochelle Dreyfuss and Annette Kur, 'The Law Applicable to Secondary Liability in Intellectual Property Cases' *Oxford Legal Studies Research Paper No. 51/2009*, available at SSRN: http://ssrn.com/abstract=1502244.

[48] It is not entirely clear whether this proposal would extend in addition to orders against intermediaries to preserve relevant evidence in respect of the alleged infringement. Such measures may include *inter alia* the detailed description, the taking of samples, or the physical seizure of documents or of the

(c) In the context of the Safe Harbours, there is a proposal that rightsholders would be able to obtain information about the identity of a subscriber on giving 'effective notification to an OSP'. Provision of information would not seem to be predicated on any kind of judicial review or court order.

2. **Substantive liability**

(a) On page 25 of the January Consolidated Text, a proposal to require signatories to 'confirm' that civil actions are available in their legal system in cases of third party liability for certain kinds of IP infringement (proposals differ on which rights would be included). A definition of third party liability is offered: with Parties 'understanding' that such liability either means, or may include, 'liability for any person who authorizes for a direct financial benefit, {**US:** induces through or by conduct directed to promote} {**CH:** induces an} infringement or knowingly and materially aids any act of' infringement;

(b) On page 26, online service provider safe harbours are proposed.

1.3.1 Injunctions against intermediaries

In relation to injunctions against intermediaries, there are a number of aspects of Art 2.X Option 2 that are potentially controversial. First, it does not appear to require that the intermediary itself be held liable, for example, for authorizing infringement, in order to justify an injunction; nor need the intermediary be a party to the action. This proposal matches the position in the European Union, where the *Information Society Directive*, Art 8.3 imposes an obligation in almost identical terms.[49]

But is this controversial? Orders against third parties against whom no cause of action is alleged are far from unusual in civil litigation. In Australia, for example, a plaintiff may seek preliminary discovery against third parties to obtain information about the identity of an alleged wrongdoer;[50] *Mareva* orders ('freezing orders' or 'asset preservation orders') may be obtained to require third parties to hold assets in their possession, custody or control, which may be required to satisfy a judgment against another person;[51] *Anton Piller* orders ('search orders') may be obtained against a third party who 'possesses important evidentiary material', where there is a 'real possibility that the respondent might destroy such material or cause it to be unavailable for use in evidence in a proceeding or anticipated proceeding before the Court.'[52] The power of courts, then,

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infringing goods. While included in the same article intermediaries are not specifically mentioned in relation to evidence.

49 For one example of implementation of this requirement, see UK *Copyright, Designs and Patents Act* 1988 (UK) s.97A.

50 see eg *Federal Court Rules* Order 15A

51 see eg *Federal Court Rules* Order 25A; Practice Note CM-9 (Freezing Orders (Also known as "Mareva Orders" or "Asset Preservation Orders"))

52 *Federal Court Rules* Order 25B. The 'risk of destruction' may arise owing to the inherent nature of the evidential material sought: for example, transitory electronic information may risk destruction even when in the hands of an innocent third party against whom no wrongdoing is alleged: *Universal*

to make orders against third parties to litigation is undoubted. Indeed, when the UK first proposed to implement the *Information Society Directive*, the view was taken that there were sufficient powers in the courts to grant injunctions of the kind envisaged in the Directive; consultations revealed however that both rightsholders and intermediaries preferred the certainty of a new provision, and thus s.97A was added to the *Copyright Designs and Patents Act* 1988 (Cth).[53]

On the other hand, involving an intermediary in enforcement of rights, perhaps involving active steps (as opposed to, say, mere preservation of evidence), under pain of contempt of court,[54] arguably creates a new role for intermediaries as the (temporary and permanent) enforcement arm of the courts. We have not in the past seen injunctions against the postal service requiring it to refuse mail service, or telecommunications companies requiring them to refuse phone services to persons accused of wrongdoing: the more usual approach is to make orders against an alleged or convicted wrongdoer and put them under risk of being held accountable in court should they fail to comply with those orders.

Further, if we consider the *kinds* of orders that might be sought, it is not difficult to imagine a kind of sliding scale of types of orders, which would differ in terms of the ease with which an intermediary such as an ISP could comply. An order requiring an ISP to terminate the service to an individual might be drastic, but easy to comply with. An order requiring an ISP to send a warning and then monitor the user would be less drastic for the user but more expensive and complicated for the ISP, as would an order requiring the ISP to, say, block traffic using the BitTorrent protocol in order to reduce infringement while not depriving the user of their connection to the Internet. An order requiring an ISP to block access to certain websites would, one imagines, be relatively easy initially, but if the list of sites it could become more difficult.[55] How a court is to balance the ease of compliance is an interesting question; further, the proceedings in court could become very complicated – and expensive for the intermediaries involved. And who represents the interests of the consumers in this equation?

Applying for injunctions also has the potential to become an attractive alternative to bringing lawsuits against individual infringers, and an alternative way to bring about a 'three strikes' type system – albeit one involving the courts. Article 2.X Option 2 does not appear to require that there be any action taken against the direct infringers (the end users). Thus, at least in theory, a rightsholder could bring an action against an ISP,

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Music Australia Pty Ltd v Sharman License Holdings Ltd [2004] FCA 183. In that case, the *Anton Piller* orders allowed a very wide range of information to be gathered from Sharman networks, Sharman's Internet Service Providers and several Australian universities whose networks may have been used as supernodes

53 Notably, s.97A includes a requirement that the service provider must have actual knowledge of another person using their service to infringe copyright.

54 Which "must realistically be seen as criminal in nature": *Witham v Holloway* (1995) 183 CLR 525 at 534

55 Such a power has been proposed in the UK's *Digital Economy Bill* as the new s.97B. The internet industry of the UK has complained of both the expense, and the ineffectiveness, of making such orders.

identifying a series of individuals who can be shown to be using the service to infringe copyright,[56] or trade mark,[57] and seeking an injunction requiring the ISP to warn, suspend, or terminate the internet service of the identified users. It would be interesting to see what level of proof would be required by a court in such circumstances before issuing such an injunction; it would be interesting too to see what the courts would make of the question of proportionality, and how the rights of the direct infringers (to a hearing, to offer explanations or the like) would be protected. It is notable that the present drafting of ACTA is unqualified as to the conditions for such an injunction. It could be argued that general law principles, such as the courts' reluctance to issue orders which cause uncertainty as to the exact requirements, and the possibility of "repeated applications for rulings on compliance", may operate to reduce the kinds of orders courts are willing to issue under such a power.[58] But the impact of these general law principles in the face of a specific legislative power is unclear, and in any event, one has to ask: should these battles be fought through the courts, which are not necessarily equipped to assess the longer term economic and social impact of their orders?

While we might applaud the fact that this would at least lead to a system that involved the courts in any proposals to suspend or terminate internet service,[59] bringing about such a 'system' through the mechanism of a court power to issue injunctions, without any of the detailed protections that have been inserted into three-strikes legislation in, say, the UK, France, or South Korea, would seem to be undesirable.

In sum, the provision concerning injunctions against intermediaries has the potential to balloon into a significant provision indeed, depending on how it is used. We should not doubt, given past experience, that attempts will be made to use any new powers to maximum effect. Given this potential, it would be better that such a provision were not introduced into the treaty, but if it is, the negotiators need to be very clear what they are trying to achieve, and consider what limits will be placed on these powers when domestic legislation is written.

1.3.2 Substantive Secondary Liability

In relation to the proposal to 'confirm' the availability of third party liability, there are also a number of issues. First, there is the key issue: secondary liability is not a matter of

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56 As to methods for identifying infringing individuals, see the detailed discussion of the methods of DTecNet in *Roadshow Films Pty Ltd v iiNet Ltd (No 3)* (2010) 83 IPR 430; [2010] FCA 24. In that case the court accepted the methods were accurate and identified users of a particular ISP who had engaged in uploading and downloading files using the BitTorrent protocol.

57 For example, the evidence could identify a series of 'sellers' on an online auction site who are selling counterfeit goods.

58 *Co-operative Insurance Society Ltd v Argyll Stores (Holdings) Ltd* [1998] AC 1 at 13; *Patrick Stevedores Operations No 2 Pty Ltd v Maritime Union of Australia* (1998) 195 CLR 1, at 46-8.

59 The French Constitutional Court overturned the first version of a French law imposing a 'three strikes' system for the warning and then termination of copyright-infringing internet users, on the basis that "free access" to online communications services is a human right and cannot be withheld *without a judge's intervention*: see 'French anti-filesharing law overturned', *The Guardian*, 10 June 2009, available at http://www.guardian.co.uk/technology/2009/jun/10/france-hadopi-law-filesharing. A later version involving the courts was upheld by the court in October 2009.

enforcement, but creates substantive rights. It ought not, therefore, be included in ACTA at all.[60] This is all the more true given that there are no other existing international IP treaties dealing with secondary liability: this would be a 'first' for international IP and is hence unsuitable for negotiation in such a forum.

Second, there is the fairly obvious difficulty of attempting to offer a definition of third party liability, suitable across countries and across areas of IP law. For these reasons, jurisprudence has developed in various directions, not all of them entirely consistent. To take just three countries that are potentially involved in ACTA, and to focus for a moment on copyright law alone:

1. The US recognizes two forms of secondary liability based on common law principles: vicarious liability (which applies where a person has the right and ability to control the infringement, and a direct financial interest in the infringement[61]) and contributory liability (knowing and material contributions to infringement, including the supply of the means to infringe, knowing the use to which the means will be put (or turning a blind eye), although generally there is no liability where one distributes an infringement-enabling device capable of substantial non-infringing uses[62]). As set out in the *Grokster* case, a person can also be liable where they distribute a device which they intend to be used to infringe copyright, thus 'inducing' infringement;[63]

2. In Australia, a person may be liable for authorizing infringement of copyright where they 'sanction, countenance or approve' infringement, a determination which depends on the court's assessment of a series of factors: the relationship between authoriser and infringer (including whether the authoriser is making money indirectly from the infringements), knowledge of the infringing activity, the authoriser's power to prevent the infringing acts and whether the alleged authoriser has taken 'reasonable steps' to prevent the infringements;[64] Australia, like the US, has recognized that 'exhortations to infringe', are relevant in finding authorization;[65]

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60 A reason has been given by the US Trade Representative for the inclusion of this provision: that in order for the Safe Harbours for ISPs to be meaningful, there must be some form of potential secondary liability against which the Safe Harbours provide shelter. This is ludicrously circular reasoning of course.

61 *Fonovista, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996)

62 *Sony Corp of America v Universal City Studios*, 464 US 417 (1984). This principle was qualified in *A&M Records, Inc v Napster, Inc* 239 F 3d 1004 (9th Cir 2001), where the 9th Circuit held that where it is possible to segregate and prevent infringing uses, it is not appropriate to exculpate the entire system by virtue of its capacity for non-infringing uses

63 *MGM Studios, Inc. v. Grokster Ltd* 545 U.S. 913 (2005). The Supreme Court set out three elements probative of intent to induce infringement: (1) the defendant promoted the infringement-enabling virtues of its device; (2) the defendant failed to filter out infringing uses; (3) defendant's business plan depended on a high volume of infringement

64 Key authorities include *University of New South Wales v Moorhouse* (1975) 133 CLR 1 and more recently *Cooper v Universal Music Australia Pty Ltd* [2006] FCAFC 187.

65 *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd* [2004] FCA 183

3. In the United Kingdom, the courts use the language of 'sanction, countenance or approve' but apply that terminology more narrowly, looking for the grant or purported grant of the right to do the act complained of; not mere enablement, assistance or even encouragement.[66]

The differences are subtle, but they are there. Further, in each country, courts have, over time, developed various 'glosses' on these basic principles in a constant process of adjustment of liability according to new technological developments and capacities on the part of intermediaries to control infringement.[67] Any attempt to superimpose slightly different treaty language on this mix of jurisprudence will likely lead to considerable uncertainty.[68] Australia attempted to 'codify' factors relevant to authorization liability taken directly from Australian caselaw in 1999: the attempt has led to a decade of uncertainty and debates over whether the statute broadened the basis for liability.[69]

A second concerning aspect lies in a footnote which talks about exceptions in terms that are unclear, but perhaps suggest application of the 'three step test'. This provision is discussed below.[70]

1.3.3 Safe Harbours

The January Consolidated Text proposes that 'safe harbours' be created, subject to certain conditions, to protect online service providers from liability for copyright infringement occurring through certain activities:

- Automatic technical processes (ie transmission)
- Actions of users that are not directed/initiated by the service provider (ie caching and possibly hosting);
- Referring or linking users to an online location; or
- Storage at the request of the recipient of the service (ie, web-hosting)

The language of the January Consolidated Text is very unclear, subject to many qualifications and clearly reflects significant differences between the negotiating parties. A few points, however, can be made about text that appears to date:

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66 *C.B.S. Songs Ltd and ors v Amstrad Consumer Electronics Plc* [1988] 1 A.C. 1013; recently applied in the online context in *Twentieth Century Fox Film Corporation v Newzbin Limited* [2010] EWHC 608 (Ch).

67 For a discussion of the US and Australian positions, see Jane Ginsburg and Sam Ricketson, 'Inducers and authorisers: A comparison of the US Supreme Court's *Grokster* decision and the Australian Federal Court's *KaZaa* ruling' (2006) 11 *Media and Arts Law Review* 1-25 (available at SSRN: http://ssrn.com/abstract=888928).

68 Australia ought to know this through hard experience. The attempted 'codification' of authorization law in the Australian *Copyright Act* in 1999 has, instead of providing certainty, created significant uncertainty where the statutory language does not quite appear to match the pre-existing common law: see generally

69 Rebecca Giblin, 'The uncertainties, baby: Hidden perils of Australia's authorisation law' (2009) 20 *Australian Intellectual Property Journal* 148-177; see also Ginsburg and Ricketson, above n67, 14-16.

70 See below Part 1.7 page 30.

1. One area of concern is the impact of providing Safe Harbours of this kind, and whether a provision would preclude the creation of additional Safe Harbours for other kinds of activity. While 'more of the same' for a country already party to a US FTA,[71] negotiators from other countries may want to consider what happens in relation to future activities: does inclusion of these Safe Harbours preclude further ones?[72] The possibility of the need for more Safe Harbours has already been raised in the context of content aggregators.[73]

2. The US/Japan language envisages a notice-and-takedown system for hosting and search engines (expeditious removal when the service provider obtains actual knowledge) – similar to the US DMCA system. This would seem to preclude the 'notice and notice' system proposed in Canada in Bill C-61. Even the more user-protective language versions (page 29) may preclude a full notice-and-notice system: it requires removal 'in the absence of a legally sufficient response from the relevant subscriber of the online service provider indicating that the notice was the result of mistake or misidentification'. However, a user who asserts that the material was indeed uploaded by them and is indeed copyright but that they have a defence (like fair dealing) is not arguing that there is a 'mistake or misidentification'.

3. The language is presently unclear on the issue of whether Parties *may not* impose an obligation on ISPs to monitor their service for infringements (see language in Option 2, page 29), or whether Parties may not *condition the Safe Harbours* on a requirement to monitor (see language in option 1, page 28). A general provision *prohibiting* creation of a monitoring obligation would be more protective of intermediaries (see, for example, Article 15 of the EU Ecommerce Directive[74]).

4. Some of the language on the adoption of policies towards user infringements is troubling, even for a country like Australia with already-stringent US FTA provisions binding it. Under proposed ACTA language, safe harbours would be conditional on service providers:

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[71] Australia is already constrained as a result of footnote 38 to Chapter 17 of AUSFTA, which provides that 'Either Party may request consultations with the other Party to consider how to address under this paragraph functions of a similar nature to the functions identified in paragraphs (A) through (D) above that a Party identifies after the entry into force of this Agreement'. This would suggest that neither Australia, nor the US, is free to establish new Safe Harbours without at least consulting the other party to the Treaty.

[72] Note that further Safe Harbours might be precluded too if the three step test were applied to exceptions to secondary liability: see below Part 1.7, pp33ff.

[73] See eg Ben Allgrove and Paul Ganley, 'Search Engines, Data Aggregators and UK Copyright Law: A Proposal' (2007) 29(6) *EIPR* 227; Paul Ganley, 'Google Book Search: Fair Use, Fair Dealing and the Case for Intermediary Copying', Working Paper, 13 January 2006, available on SSRN; UK Department of Trade and Industry, *DTI Consultation Document on the Electronic Commerce Directive: The Liability of Hyperlinkers, Location Tool Services and Content Aggregators*, June 2005, and *Government Response and Summary of Responses*, December 2006.

[74] *Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce'), Official Journal L 178 , 17/07/2000 P. 0001 - 0016*

> *Adopting and reasonably implementing a policy to address the unauthorized storage or transmission of materials protected by copyright or related rights.*

For countries not yet subject to a US FTA, the language is *all* alarming, because it suggests that service providers will be under an obligation to engage in some way on the question of stopping online infringement. Rightsholders will argue that one (good) way to comply with such an obligation is for service providers to adopt 'graduated response' (also known as a 'three strikes system') – warning letters, followed by more stringent penalties for repeat infringers identified by copyright owners. It is not clear, from this text, what steps *short* of a graduated response system would be sufficient: would, for example, 'educative' steps be sufficient? Rightsholders might argue no.

Further, the language of 'policy' implies that in the absence of some official, government, judicially-monitored system service providers would be required to take (extra-judicial) action to impose some kind of penalty.

For countries subject to a US FTA, the situation is more complicated. In such countries, as quoted above, service providers are already required to have a user termination policy. Under AUSFTA, the benefit of the Safe Harbours are conditional on service providers:

> *adopting and reasonably implementing a policy that provides for termination in appropriate circumstances of the accounts of repeat infringers (AUSFTA Art 17.11.29(vi)(A)).*

But it is arguable that some policies that would comply with this language would not comply with ACTA: for example, a policy to terminate a user where directed to do so by a court or administrative tribunal on the basis of a finding of infringement, which might be a policy for 'termination of repeat infringers in appropriate circumstances' but it may not be 'a policy to address unauthorized storage and transmission'.[75] To the extent that ACTA could eventually be seen as imposing *additional* requirements on ISPs in addition to those already in AUSFTA, it must be rejected.

5. The Japanese language is particularly concerning (page 29): it would seem to require action on the part of the ISP where 'technically possible'.

6. There is language on page 29 which suggests that rightsholders would be able to obtain information about the identity of a subscriber on giving 'effective

[75] This possibility has been foreseen: footnote 29 on page 28 suggests that an example of a policy 'to address unauthorized storage and transmission' *is* a policy for the termination in appropriate circumstances of repeat infringers. It is not clear this footnote would be effective, particularly in circumstances where a termination policy was seen to be ineffective by rightsholders.

notification to an OSP'. Provision of information would not seem to be predicated on any kind of judicial review or court order (or even a chance for the user to object and seek an injunction). Unsupervised *private* systems for sharing customer details, without the necessity for independent (judicial or administrative) assessment of the case for infringement, would be much more problematic and raise significant privacy concerns.

1.4 Seizure of Infringing Goods and Implements and Anton Piller Orders

The January Consolidated Text would require that courts have the authority to order:

1. Forfeiture and destruction of goods that have been found to be infringing an intellectual property right (Art 2.3.1, p6); and

2. Forfeiture and destruction of 'materials and implements' that either 'have been used' (US/Aus/NZ) or 'the predominant use of which has been' (J/Can/EU) in the manufacture or creation of either infringing goods, or (more narrowly) 'pirated or counterfeit' goods (Art 2.3.2 p6)

The infringer is to bear the costs (Art 2.3.4 p6-7).

The main difference between TRIPS and the ACTA text are the *slight* extensions in language in the US proposal – it would cover implements even if their predominant use is non-infringing (general purpose computers spring to mind), and require forfeiture 'at least' of goods found to be pirated or counterfeit. The latter could mean extension of forfeiture provisions to goods found to be infringing patents or registered designs – although the language would not *require* such a remedy.[76]

The US/Japan proposal would not include a requirement of proportionality, or a consideration of the interests of third parties, although the EU, Canada and NZ all propose such a requirement (Art 2.3.5 p7). Proportionality is important: it would not be proportionate to require forfeiture of a general-purpose device like a laptop worth $4,000 on the basis of one known copyright infringement. Forfeiture ought to be confined to commercial or commercial scale infringement. This may be somewhat of a moot point in legal terms, however, since the protection in TRIPS will continue to apply. Art 46 of TRIPS *requires* that:

> In considering such requests [for seizure/destruction of infringing goods or implements the predominant use of which has been the creation of infringing goods], the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties *shall* be taken into account (emphasis added).

[76] Note that Art 46 of TRIPS is already broad enough, potentially, to allow for forfeiture remedies for IP rights other than copyright and trade mark, as it refers to 'infringing' goods.

One *good* point about the January Consolidated Text is that seizure of property – particularly property in the form of equipment used to infringe IP – by enforcement authorities such as police is *not* proposed. Such forms of seizure raise extremely difficult questions, which have recently been canvassed in Australia.[77]

As a provisional measure (Art 2.5.2 p8), ACTA also includes a provision for what the UK and Australia know as *Anton Piller* orders: orders for the seizure and preservation of evidence pending civil proceedings. In broad terms, the provision requires that judicial authorities:

> *Shall have the authority to order [in appropriate cases] the seizure or other taking into custody of suspected infringing goods, materials, and implements relevant to the act of infringement [and, at least for trade mark counterfeiting, documentary evidence relevant to the infringement].*

The difference between this provision and the operation of *Anton Piller* orders in the Australian system is that in the Australian system, seizure is only allowed where there is a 'real possibility that the respondent might destroy such material or cause it to be unavailable for use in evidence in a proceeding or anticipated proceeding before the Court.'[78] Given that 'implements relevant' to infringement could extend to important business equipment, including general purpose computers, this would seem to be an excessive power – and arguably would require a change to Australian law.

Interestingly, there is no text dealing with the defendant's (or a third party's) rights to challenge orders made *ex parte* or orders made for seizures of evidence. However, the mandatory protections in TRIPS would continue to bind the parties: including:

- Decisions may only be made on the basis of evidence on which the parties were offered an opportunity to be heard (TRIPS Art 41.3);
- Where provisional orders are made without the defendant present, a review, including a right to be heard, shall take place upon request of the defendant with a view to deciding, within a reasonable period after the notification of the measures, whether these measures shall be modified, revoked or confirmed (Art 50.4).

Similar seizure powers are envisaged in criminal proceedings: Article 2.16 page 22ff.

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[77] In 2006 Australia introduced a series of new criminal offences into the Copyright Act and a scheme for the issue of infringement notices. In 2007 the Attorney-General's Department issued Draft Infringement Notice Guidelines which dealt, inter alia, with issues of forfeiture to police officers. The guidelines arguably raised more questions than they answered. For some discussion of the forfeiture issues, see Kimberlee Weatherall, Submission: Draft Guidelines on the Infringement Notices and Forfeiture of Infringing Copies and Devices Scheme, Copyright Amendment Regulations 2006, available at http://works.bepress.com/kimweatherall/14/, and Paramaguru, Abi; Vaile, David; Bond, Catherine; Maurushat, Alana "Copyright Infringement Notices Scheme: A Submission to the Attorney-General's Department" [2007] UNSWLRS 62, available at http://www.austlii.edu.au/au/journals/UNSWLRS/2007/62.html.

[78] *Federal Court Rules* Order 25B.

1.5 IP at the Border: Customs Seizures and Transshipment Issues

The January Consolidated Text contains extensive provisions on enforcement at the border. There are 4 key issues that arise from this text:

1. It could extend customs provisions to patent infringement (see Page 9). TRIPS only applies customs measures to copyright piracy and trade mark counterfeiting (TRIPS Art 51);

2. It could extend the provisions to all trade mark infringement – ie where the mark on the goods is 'confusingly similar' – not just trade mark counterfeiting involving use of identical or near-identical marks (see page 9, footnote 9) (although note that this is already possible in Australia[79]);

3. It could extend the customs provisions to allow Notices of Objection and Seizure of goods being *exported*. At present, Australian law only covers *imports*, and TRIPS only requires customs to act in the case of *import* (although it allows for the possibility of provisions applying to export: Art 51)). (See Art 2.6, page 10).

4. It could extend the customs provisions to allow interception of goods in-transit (ie goods that are not destined for the market of the country exercising the seizure powers) (See Art 2.6, page 10). This, too, would be a change to Australian law.

As to the inclusion of **patent,** this would be better left out, in my view, from the ACTA treaty. There are good reasons why, to date, many countries have not involved customs authorities in policing patent infringements: most obviously, because in the case of counterfeit copyright and trade mark-infringing goods, the infringing nature of the goods will be clear on the face of the goods in question. Patent infringement will usually be less obvious. Further, Europe's use of such customs rules in relation to patented goods has in recent times generated much controversy as European authorities have detained drugs in transit, thus causing India and Brazil to threaten WTO proceedings.[80] Until such controversial matters are worked through, it would be premature to extend protection via international agreement.[81]

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79 See *Trade Marks Act* 1995 (Cth), s 132, 133 (references to 'infringement' and 'deceptively similar' marks).

80 see "India, Brazil to move WTO against EC over drug seizure issue", *Business Standard* (India), 9 October 2009, available at http://www.business-standard.com/india/news/india-brazil-to-move-wto-against-ec-over-drug-seizure-issue/75571/on..

81 In Europe, a patent owner (or owner of other specified IP rights) may lodge a written application with the customs authorities, including an accurate and detailed technical description of the goods in question, any information concerning the nature of the alleged fraud and the name and address of the contact person appointed by the right-holder; customs officers may then detain the goods on importation and notify the rightsholder, giving them a chance to institute proceedings to prevent the importation permanently as a result of *Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights***.** For an incorporation of these provisions into domestic law see the UK: *Goods Infringing Intellectual Property Rights (Customs) Regulations* 2004 No. 1473.

As to the extension to **all trade mark infringements** (and not just counterfeiting): admittedly this is already available in Australia, and I am not aware of evidence of abuse of the system. However, there must be some potential. The most obvious industry for whom this might be an issue would be is the generic pharmaceutical industry who sometimes adopt trade marks that are similar, but not by any stretch identical, to those applied to (formerly) patented drugs. But in reality, this could capture perfectly legitimate businesses who have simply sailed a bit too close to the wind – and hit them with all the systems designed for the criminal counterfeiters (although it should be noted that Australian trade mark law already allows for such measures).

The extension to **export and in particular, transshipment** is particularly concerning. Transshipment, in particular, comes close to creating a right of possession in IP law. Ordinarily, IP law is concerned with creation of infringing articles (eg reproduction), sale, or, in the case of copyright, performance or communication of a protected work. But it is not, ordinarily concerned with possession of existing articles. In the case of a shipment made elsewhere, and destined for sale or distribution elsewhere, it is not clear on what 'right' the transshipment country exercises jurisdiction. And, as noted, given the controversy in relation to the EU's exercise of jurisdiction over trans-shipped goods, it would be better not to attempt to lock such provisions into a treaty.

One interesting provision is proposed Article 2.10 (page 14).

> *Each Party shall provide a procedure by which competent authorities will/may determine, whether upon request or on their own initiative within a reasonable period of time after the initiation of the procedures described under Article 2.6 or 2.7, whether the suspected infringing goods infringe an intellectual property right.*

This is odd, because under TRIPS Article 55:

> *If, within a period not exceeding 10 working days after the applicant has been served notice of the suspension, the customs authorities have not been informed that proceedings leading to a decision on the merits of the case have been initiated by a party other than the defendant, or that the duly empowered authority has taken provisional measures prolonging the suspension of the release of the goods, the goods shall be released, provided that all other conditions for importation or exportation have been complied with*

In other words, under TRIPS, it is the *rightsholder* who is *required* to take the initiative to commence some form of proceedings on the merits of the case – *not customs*. TRIPS Article 55 will continue to be binding regardless of ACTA, so it is not at all clear what Article 2.10 could do.

Also confusing is Article 2.11 on remedies, which, it is proposed, would require Parties to authorize their 'competent authorities' to impose penalties (or, on one proposal, 'provide remedies') in connection with the importation of goods following a

determination under Article 2.10 that the goods are infringing. It is not at all clear how this provision is intended to interact with ordinary court processes. As is clear from Article 55, TRIPS envisages *rightsholders* taking action, presumably through ordinary court or administrative processes that address IP infringement. Ordinarily, one might expect that such proceedings would be civil proceedings, in which case, the idea of 'penalties' seems misplaced (while damages may, under many countries' systems, have a punitive element they are not ordinarily called 'penalties'). Under the Australian system, too, there is an option for an importer to 'give up' their goods without requiring infringement proceedings;[82] but this is not an 'imposed penalty' (albeit, like a penalty, it imposes a kind of 'cost' or 'fine' on the importer). If on the other hand Article 2.11 is designed to allow for Customs-imposed penalties in addition to any remedies granted on a finding of infringement, there is a risk of doubling-up of penalties. In short, it is not clear what this provision is intended to achieve.

The ACTA text would also 'fix in stone' certain aspects of a customs regime not detailed in TRIPS or which are optional in TRIPS:

- It would require that notices from rightsholders be in effect for a year (TRIPS Art 52 only requires that customs authorities inform the applicant 'the period for which the customs authorities will take action'; and
- A power in customs to act 'ex officio' (without request from a rightsholder) to suspend importation of suspected copyright pirated goods or trade mark counterfeits (Art 2.7, page 13) (this is optional in TRIPS: Art 58);

Perhaps among the strangest provisions are those concerned with costs. According to various provisions in the proposed text:

- The customs authorities could be forbidden from charging a fee to cover administrative costs: page 12, Art 2.6.4 (Aus/EU)
- On one proposal (Art 2.12 p16), any fees (for filing notices, storage, or destruction) could not be set at an amount that unreasonably burdens right holders, or unreasonably deters recourse to the procedure. Presumably, however, fees on a cost-recovery basis would not be 'unreasonable';
- There is at least one proposal that rightsholders could not be made to pay for storage or destruction of infringing materials. This would, of course, put the risk of non-recovery (from insolvent importers, for example, or people who disappear) on the State. Given the relatively high rate of non-appearance in counterfeiting cases, it is readily imaginable that this risk is not a low one.[83] A proposal from one group of states that there should be procedures for rightsholders to recover costs is perhaps a better option, in placing the risk on the rightsholder. Current Australian law, which provides for recovery of costs from the IP owner.[84]

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82 *Trade Marks Act* 1995 (Cth) s.135; *Copyright Act* 1968 (Cth) s 135AE.

83 See Jason Bosland, Paul Jensen and Kimberlee Weatherall, „„Trade Mark and Counterfeit Litigation in Australia"[2006] Intellectual Property Quarterly 347-377.

84 Copyright Act 1968 (Cth) s135AA, 135AJ. As a result of amendments in late 2006, the CEO of Customs has a discretion to request an undertaking to pay costs, and the discretion to decide not to seize goods unless such undertaking is provided.

1.6 Criminal provisions

Moving beyond the possible civil provisions, into the area of criminal liability, one question explicitly on the table is the scope of criminal liability for copyright and trade mark infringement. Various US bilateral trade agreements have required that criminal sanctions should be applied to "IPR infringements on a commercial scale".[85] This requirement already applies for most countries, because it is found in TRIPS (Article 61). In Article 61 of TRIPS, however, 'commercial scale' means 'counterfeiting or piracy carried on at the magnitude or extent of typical or usual commercial activity with respect to a given product in a given market.'[86] The US/Japan Joint Proposal as reflected in the January Consolidated Text however proposes three key expansions.

1.6.1 Criminal offences: trade mark

First, it proposes expanding criminal liability to 'confusingly similar trademark goods' (see page 18, Art 2.14). This is simply unacceptable: it would cover 'ordinary' trade mark infringement, introduce into the criminal law an unacceptable degree of uncertainty (it is hard to know in advance whether your mark is 'confusingly similar' or not), and hence extend criminal liability to all kinds of legitimate businesses or individuals who have, admittedly, infringed on rights but not in the calculated, flagrant way that is implied in the concept of counterfeiting.

1.6.2 Criminal offences: copyright

Second, it redefines 'commercial scale' to include:

1. Any IPR infringement for purposes of commercial advantage or private financial gain (no matter how low the number); and

2. Significant wilful infringements without motivation for financial gain to such an extent as to prejudicially affect the copyright owner (eg, Internet piracy);

This redefinition of "commercial scale" to include all infringements for private gain has nothing to do with the kinds of counterfeiting that are said to be problematic by organisations like the OECD. To counter large- scale counterfeiting or piracy, it is not necessary to criminalise single acts of infringement, especially single acts for 'private financial gain'. Such individual acts are unlikely to be the subject of transborder enforcement or even local enforcement by international IP owners. Nor is the inclusion of language such as 'wilful' likely to be the protection you might hope. In the US, courts have interpreted willfulness so broadly that those who merely should have known their

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85 eg AUSFTA Article 17.11.26.

86 This is the interpretation of the WTO Dispute Settlement Body in *China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights: Report of the Panel* (2009), page 115

conduct was infringing are often treated as willful infringers.[87]

Inclusion of the word "private" here arguably carries the connotation that even purely personal (non-commercial) gain (for example, avoiding paying the full cost of a DVD) would be sufficient to give rise to criminal liability.[88] This would, for most countries, be a significant departure from past approaches. Extension of criminal liability to such circumstances would be contrary to the approach of the Australian Parliament, as embodied in the *Copyright Amendment Bill* 2006 (Cth). In that case (following public protests and concern) there was a concerted effort to remove those offences from the Act which might have given rise to the possibility of criminal liability for purely "private" acts (acts occurring within the home and without even the public distributive effect of, say, the uploading of material to Internet sites). Again, it is not at all clear why the definition needs to be so broad. If the target is organised crime and large scale counterfeiters (being the dangerous ones), then it would be sufficient to apply the provisions to (a) copies for trade or commercial purposes or (b) mass non-commercial infringement (of the large scale internet piracy kind).

Europe, too, has tended to exclude such acts. The EU Directive on Enforcement of Intellectual Property Rights suggests that "acts carried out by end-consumers acting in good faith" are excluded from acts "on a commercial scale".[89] Further, the European Parliament amended a proposed Directive on Criminal Measures Aimed at Ensuring the Enforcement of Intellectual Property Rights to provide a definition of „infringements on a commercial scale" to mean "any infringement of an intellectual property right committed to obtain a commercial advantage" and to exclude "acts carried out by private users for personal and not-for-profit purposes."[90]

The desire on the part of IP owners to have criminal laws to cover single acts, or conduct relating to only a few copies, is understandable. The dispute between the US and China in the WTO illustrates the problems that arise when countries have different understandings of what constitutes conduct on a 'commercial scale'. In that case, the US challenged China's criminal law thresholds, that confined criminal liability to conduct involving (up to 2007) gains of more than CNY 30,000, a business volume of CNY 50,000, or the possession of more than 1,000 items (these figures were halved in 2007). The WTO

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87 See, e.g., Island Software & Computer Serv., Inc. v. Microsoft Corp., 413 F.3d 257, 264 (2d Cir. 2005); see also Samuelson and Wheatland, above n9; see also 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright*, § 14.04[B][3][a].

88 In the US, under the No Electronic Theft Act ("NET Act"), „financial gain" is further defined to include „receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works: 17 U.S.C. §101

89 Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (OJ L 157, 30.4.2004, corrigendum at OJ L 195, 2.6.2004 at 0016), Recital 14.

90 Position of the European Parliament adopted at first reading on 25 April 2007 with a view to the adoption of *Directive 2007/.../EC of the European Parliament and of the Council on criminal measures aimed at ensuring* the enforcement of intellectual property rights, OJ C 74 E/527, 20.3.2008, Art 2. Note that the proposed directive is currently on hold: the proposal of the Commission was amended by the European Parliament; the proposal is currently with the Commission.

Dispute Settlement Body held that the US had not shown what a 'commercial scale' in China was; the case therefore failed on this point. But the US' complaints are understandable. In particular, the US argued, one pernicious effect of the thresholds was to create 'safe havens': infringers could act with relative impunity so long as they always stayed at any given moment below these thresholds. It can readily be imagined that thresholds will operate to have a similar effect anywhere. It is also likely that a clever criminal infringer can readily ensure that they only ever have a limited stock available and keep limited records – and use ordinary consumer equipment so that inferences cannot be drawn solely from the presence of large copying machines. Thus proving infringement, in trade, on a massive scale will not always be straightforward.

The US/Japan goal may be understandable, but that does not make it desirable from a policy perspective. In the interests of capturing the clever criminal, this kind of expansion of criminal liability also ends up capturing many relatively harmless and innocent acts. It results, in other words, in overcriminalisation. The harms caused by overcriminalisation have been well-documented in the legal literature:

- It expands the types of behaviour considered criminal to cover activities not previously proscribed;
- As a result, the category of people at risk of criminal liability expands: particularly for juveniles and 'white collar' offenders;[91]
- In addition, more 'private' conduct – conduct occurring in the home – becomes proscribed;[92]
- More conduct that laypersons would not consider culpable become criminal – potentially reducing respect for the criminal law and the relevant area of substantive law (such as copyright);
- It significantly increases the (relatively unsupervised) discretion of police and prosecutors: by expanding both the number of people who can potentially be prosecuted, *and* the number of offences with which those individuals can be charged;[93]
- This can, potentially, lead in those cases where prosecution does occur to 'piling on' – the multiplication of charges – thus increasing the pressure on defendants to plead guilty.

Australia already has a range of criminal offences in its copyright law that can impact on juveniles, white collar individuals and indeed, potentially, a significant proportion of the population. For example, it is an offence to cause a sound recording to be heard in public in a place of public entertainment – so it would be wise not to play your boombox too loud in the park.[94] More worryingly, there is s.132AC, which creates criminal liability for cases where a person engages in infringing conduct, with a substantial prejudicial impact on the copyright owner, where the infringement(s) occur on a commercial scale. In a

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91 Douglas Husak, *Overcriminalization: The Limits of the Criminal Law* (Oxford University Press 2008), 20.

92 Ibid.

93 Ibid, 20-22

94 *Copyright Act* 1968 (Cth) s.132AO.

context where the record industry's research suggests that 18 per cent of the Australian population, or 2.8 Million people, illegally downloaded music regularly (at the rate, on average, of 30 songs a month) it is arguable that Australia's copyright law already makes criminals of over 10 per cent of Australia's population – disproportionately the young.[95]

Further, clear distinctions ought to be drawn between different *kinds* of infringement. There is all the difference in the world between obviously pirate/counterfeit, identical copies of movies or whole CDs or books which act as full substitutes for the authorized original, and infringements which involve new creativity on the part of the infringer but stray over that sometimes unclear line between acceptable borrowing and infringement. Is there any cause for criminal provisions to apply, say, to the famous Verve song, Bittersweet Symphony, which was said to infringe copyright in a Rolling Stones song. There was copying (of a memorable riff), it was certainly on a commercial scale – anyone feel like sending a famous band to jail? What about a book published with, say, quotes that are too long from existing work – an arguable, but failed, fair dealing? We are, of course, unlikely to see criminal prosecutions in such cases, but the point is a general one: *good faith commercial parties can be caught by overly broad drafting*. There should be some attempt to define what kinds of infringement we are targeting – and it should be the kinds of copying done by the "dudes at markets" – not commercial parties who overstep a very vaguely drawn line.[96] At the very least, any treaty text should clearly empower governments to exclude from criminal provisions, and from any customs procedures and suspensions, ordinary commercial practices and parties acting in good faith for ordinary commercial purposes.

1.6.3 Criminal offences: camcording

Third, the January consolidated text also proposes a form of liability for the act of 'camcording'. The elements, under Article 2.14.3 (page 20) would be:

1. Without authorization of the copyright holder
2. Knowingly
3. Making a copy (with an audiovisual recording device) [or transmits to the public]
4. Of a motion picture or other audiovisual work or any part thereof;
5. In a motion picture exhibition facility open to the public.

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95 Compare US law. As a result of amendments introduced by the *No Electronic Theft Act* of 1997, the reproduction or sharing of over US$1,000 worth of copyright material within a 180 day period is a federal offence:, as is 'wilful' copyright infringement 'for purposes of commercial advantage or private financial gain': see 17 U.S.C. §506. 'Financial gain' is defined extremely broadly, to include the 'receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works': 17 USC §101. In the absence of any similar monetary limit in Australia, it would certainly be open to a court to find that considerably less than $1,000 worth of material had a substantial prejudicial impact and was on a commercial scale, but the inclusion of 'receipt of copyright material' would seem to suggest that sharing even very small numbers of copyright files could lead to liability: see eg the case of James Spatafore, who pleaded guilty to a single count of criminal copyright infringement, resulting from his posting online of one film (Star Wars: The Phantom Menace). Details on http://www.justice.gov/criminal/cybercrime/iplaws.html. See Husak, above n91 at 25 (noting how the *NET Act* subjects large numbers of young people to the risk of criminal liability).

96 Discussing this further, see Cornish et al above n21.

Notably, there is no requirement of financial gain, nor of distribution of the copy. Making a copy entirely for personal use would be a criminal offence under this provision. There are clearly considerable differences among the negotiators over the Article. As camcording may be a prelude to distribution of a film online, the desire to create an offence for the act of recording is understandable. In my view, however, there is a need, at the very least, for consideration of exceptions or defences, so as to avoid capturing innocent acts: the person who films a friend when the movie is on in the background; the person who is at a concert and films a moment to relive it later (when there are films showing on the background of the stage) (depending on what 'motion picture exhibition facility means of course). In short, it is highly questionable whether there is sufficient agreement on the elements of such an offence, or its limits, to warrant conclusion of a treaty provision.

1.6.4 Criminal offences: penalties and ancillary offences

As compared to TRIPS Article 61, ACTA (Article 2.15, page 21) would make the availability of penalties of imprisonment mandatory (under TRIPS they are optional), and add in a new form of penalty: forfeiture of assets derived from or obtained through the infringing activity. This would not be new for Australia, but perhaps is worth considering in other countries.

In addition, there is a proposal to extend liability to 'inciting, aiding and abetting' these offences. This requires further consideration. Although no doubt inciting and other ancillary offences could presently be applied under Australian IP law, it is not at all clear what these ideas even mean in an IP context.

1.7 Random uses of (elements of) the three step test

Another concerning aspect of the January Consolidated Text is the way in which the three step test, or elements of it, appear to be experiencing a certain degree of 'mission creep' – an expansion into new areas of IP beyond its initial role. The established role of the three step test, as found in the *Berne Convention* Article 9(2) and *TRIPS* Article 13 is to constrain the right of legislatures to create new limitations on or exceptions to copyright owners' exclusive rights.[97] Even in that role it has, in recent times, proved controversial.

[97] It may be worth noting that the WIPO Copyright Treaty (WCT), Article 10 may extend the three step test beyond this basic goal. Under that provision, member states must confine 'limitations of or exceptions *to the rights granted to authors of literary and artistic works under this Treaty* [to] certain special cases that do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the author.' Most of the provisions of the WIPO Copyright Treaty are concerned with copyright owners' 'rights' classically conceived. The question is whether this provision applies the three step test to the requirement to provide adequate legal protection and effective legal remedies against the circumvention of technologies used to protect copyright (Article 11). It is submitted that the answer is not clear: not least because the provision on exceptions *precedes* the anti-circumvention article. In addition, Art 11 is framed as a requirement for *remedies:* it does not, in terms, grant rights to authors. One method to implement Art 11 would be through the criminal law. It is submitted that the better view is that to the extent that countries party to the WCT wish to limit their remedies against circumvention, they are constrained by the requirements of that article (that

But what we see in the ACTA January Consolidated Text is even more alarming: the three step test (or single steps from that test) creeping outwards from exclusive rights to constrain the freedom of legislatures in other areas: thus we see references:

1. The application to **damages** of one step: a provision stating that a Party may exclude or limit damages *in certain special cases* (Art 2.2.1(a)(iii), p4); and
2. The application to **secondary liability**: a proposal that state their 'understanding' 'that the application of third party liability may include consideration of exceptions or limitations to exclusive rights that are confined to certain special cases that do not conflict with a normal exploitation of the {EU: service or of the product or in the case if copyright of the} work, performance or phonogram, and do not unreasonably prejudice the legitimate interests of the right holder.' (p26).

The first of these is concerning. First, and in most basic terms, imposing limits on the way courts award damages is not what any part of the three step test was designed to do. Second, it is unclear how this limitation would interact with general law limitations on damages awards found in individual countries – is the common law system of damages, for example, to be subject to international scrutiny according to this standard? Third, it could have some highly undesirable effects on the ability of countries to adjust copyright law to changing technological circumstances. 'Certain special cases' are, according to international jurisprudence, clearly defined sets, which are narrow in a quantitative as well as a qualitative sense.[98] In recent times, a number of 'safe harbours' have been created in which injunctions, but not damages, may be awarded particularly against third parties (unwittingly or innocently) involved in others' infringements. For example, ISPs are protected in many countries through safe harbours of one kind of another. It can hardly be said, however, that online infringements are a 'certain special case' as that term is understood in international copyright law: any copyright owner will argue that infringements occurring via ISP services are not 'quantitatively small'.

The second, full proposed use of the three step test in relation to secondary liability is even more alarming – or would be if it were clear what were intended. If it merely intends to state that in determining whether a third party (such as, for example, an online host, or a theatre owner) is authorizing infringement the court must take into account that some of the alleged infringements may be protected by exceptions, there would be little cause for alarm. However, if it is intended to suggest that limitations *on third party (secondary) liability* must be subject to the three step test there is very real cause for alarm. Secondary liability is *not* presently covered by international treaties, and The most alarming reading of the proposal is Entirely new, because at present, secondary liability is not addressed by TRIPS, or Berne, and hence is not presently subject to the three step test found in those treaties. Inappropriate because authorization liability is a very differently constituted form of liability (it depends on concepts such as knowledge, and power to act, that are not relevant to direct liability), has different policy implications

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protection must be adequate and effective) and not subject to a further limitation in the form of the three step test found in Article 10.

98 World Trade Organization, *United States – Section 110(5) of the US Copyright Act, Report of the Panel*, WT/DS160/R, 15 June 2000, [6.109]

(it impacts on the providers of services and technology, rather than wrongdoers themselves, and so can have impact on legitimate as well as illegitimate activity), and hence ought to be subject to different kinds of exceptions and analysis.

1.8 Protections for Defendants/Non-Owners

The most striking thing about the ACTA is the relative *lack* of provisions for the protection of defendants or the 'objects' of enforcement procedures. There are a (very small) number of provisions that may provide some protection for defendants or non-IP owners included in the ACTA text: such as references to the need for 'proportionality' in various articles;[99] requirements for security to compensate persons affected by wrongful measures or seizures;[100] some requirements to respect privacy or confidentiality;[101] and the like. The EU has also proposed a very general provision to state that 'Each Party shall ensure that the rights of the defendants and third parties shall be duly protected and guaranteed' (page 24).

It should also be noted that any party to a future ACTA will remain bound by obligations found in TRIPS, which includes quite specific protections for defendants:

1. General provisions against abuse and to require fairness and proportionality:
    a. Enforcement procedures must be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse (Art 41.1);
    b. Procedures must be fair and equitable, and not unnecessarily costly or complicated (Art 41.2);
    c. Decisions may only be made on the basis of evidence on which the parties were offered an opportunity to be heard (Art 41.3);
    d. There is a requirement of proportionality in the case of seizure/destruction of infringing goods/implements used to make infringing goods (Arts 46, 59)

2. Provisions to protect confidentiality of information:
    a. Civil enforcement procedures must provide way to identify and protect confidential information (Art 42)
    b. Although a country may provide infringer can be required to identify other involved parties to the rightsholders, the Member country may not so provide if it would be out of proportion to the seriousness of the infringement; (Art 47)

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[99] Art 2.1.2 (pg3): A EU/NZ/Can proposal to require that 'measures, procedures and remedies shall … be effective, proportionate and deterrent'; Art 2.3.5 (pg7) (seizure of infringing copies and implements); Art 2.15.2(c) (pg22) (proportionality of criminal penalties), Art 2.16 (pg23) (proportionality of seizures in criminal context); Art 2.17 (or 2.18) (pg 25) (proportionality of remedies in the internet/digital context).

[100] Article 2.5 (pg 8) (security in relation to provisional measures); 2.9 (pg 14) (security in relation to customs procedures)

[101] Art 2.4 (pg 7) (right of information); Art 2.8 (pp13-14) (right of information – customs context);

   c. Member countries may (only?) provide that an importer must provide information after a decision on the merits and without prejudice to the protection of confidential information (Art 57);

3. Provisions to ensure procedural fairness:
   a. There must be opportunities for judicial review of administrative decisions and appeals on legal issues raised in first instance judicial decisions (Art 41.4);
   b. Defendants must have sufficient and timely notice of procedures, be allowed to be represented by independent legal counsel, and have the chance to substantiate their claims and present evidence (Art 42)
   c. In granting provisional measures, judicial authorities shall have the authority to require the rightsholder to provide evidence of imminent infringement and to order the rightsholder to provide security or equivalent assurance sufficient to protect the defendant and prevent abuse (Art 50.3);
   d. Provisional measures must be revoked on the defendant's request if proceedings on the merits are not initiated within a reasonable period (Art 50.6).
   e. Where provisional orders are made without the defendant present, a review, including a right to be heard, shall take place upon request of the defendant with a view to deciding, within a reasonable period after the notification of the measures, whether these measures shall be modified, revoked or confirmed (Art 50.4)

4. Provisions for compensation to parties affected by wrongful measures:
   a. To compensate for loss as a result of abuse of enforcement procedures (Art 48)
   b. For wrongfully instituted provisional procedures (like interlocutory injunctions) (Art 50.7)
   c. For losses as a result of wrongful seizure at the border (Art 56)

5. Other protections for people whose goods are seized at the border:
   a. There must be prima facie evidence of infringement before seizure can occur (Art 52)
   b. The customs authorities must have the authority to require the rightsholder to provide security sufficient to compensate the person whose goods are seized, and prevent abuse; (Art 53)
   c. The goods must be released if proceedings are not commenced within 10 days (Art 55)

There is no reason to think that these protections would not continue to apply under a future ACTA: they are not optional in TRIPS and TRIPS remains binding on all the ACTA parties. Although other protections exist in TRIPS, they may not apply to ACTA

provisions.[102]

Of course, the most striking feature of this list from TRIPS is that many of them are *not* found in ACTA: why *enforcement* provisions from TRIPS are included in ACTA even in the case of overlap, but protections are not is an interesting question.

[102] Consider for example TRIPS Art 47, which provides that 'Members may provide that the judicial authorities shall have the authority, unless this would be out of proportion to the seriousness of the infringement, to order the infringer to inform the right holder of the identity of third persons involved in the production and distribution of the infringing goods or services and of their channels of distribution'. The requirement of proportionality here appears to be a qualification on a positive power, rather than a mandatory requirement of proportionality for all requirements to provide information. However, the more general requirement that procedures be fair and equitable in Art 41 could act a a qualification on any right of information in ACTA.