

KEI Research Note 2010:1

Comments on ACTA Provisions on Injunctions and Damages

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1 Malini Aisola and Judit Rius contributed to this research note.

2 The citation of 35 USC 271(e)(6)(B-C) has been corrected in this version.

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I. Introduction

The following are comments on the proposed ACTA provisions on injunctions and damages. As the comments have been prepared for consideration by the U.S. government and Congress, they are for the most part U.S. centric. However, the analysis should be of interest to a broader audience following the ACTA or other negotiations involving the enforcement of intellectual property rights, or persons more generally interested in the future of innovation and intellectual property reforms. The analysis also raises questions about the wisdom of conducting such a far reaching norm setting exercise in secret, given the degree to which ACTA would conflict with well known U.S. law and policy interests in the area of damages and injunctions.

II. Context

These comments are based upon the Informal Predecisional/Deliberative Draft of the Consolidated Text of Anti-Counterfeiting Trade Agreement, dated January 18, 2010.

The Chapter 1 section on general definitions says that

intellectual property refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II of the Agreement on Trade-Related Aspects of Intellectual Property Rights(TRIPs).

This includes the following categories:

1. Copyright and Related Rights
2. Trademarks
3. Geographical Indications

4. Industrial Designs
5. Patents (and the protection of plant varieties by an effective *sui generis* system)
6. Layout-Designs (Topographies) of Integrated Circuits
7. Protection of Undisclosed Information

III. Commentary on Injunctions

The bracketed section on injunctions now reads as follows:

Article 2.X: Injunctions

Option 1: In civil judicial proceedings concerning the enforcement of [Can/NZ: [copyright or related rights and trademarks](#)] [US/J: intellectual property rights], each Party shall provide its [US/J: judicial authorities] [NZ: [competent authorities](#)] shall have the authority to issue an order to a party to desist from an infringement, including an order to prevent infringing goods from entering into the channels of commerce [US/Aus/Kor/Mor/NZ: [and to prevent their exportation](#)].[2]

Option 2: [EU: Each Party shall ensure that, where a judicial decision is taken finding the infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringements. The Parties shall also ensure that right holders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right.]

[NZ: [Does not support the inclusion of this provision.](#)] **US Comment - which provision? Option 1 or Option 2?**
[CAN: [Need to address statutory limitations](#)]

[2] [Kor: A Party may comply with its obligation relating to exportation of infringing goods through its provisions concerning distribution or transfer.]

Both the US and the EU proposed texts require ACTA members to give judicial authorities the authority to grant injunctions to stop an infringement, without exception. New Zealand wants the provision eliminated, and Canada says there is a need to address statutory limitations.

The WTO TRIPS Agreement provision on Injunctions, is Article 44, which reads as follows:

Article 44: Injunctions

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1. The judicial authorities shall have the authority to order a party to desist from an infringement, *inter alia* to prevent the entry into the channels of commerce in their jurisdiction of imported goods that involve the infringement of an intellectual property right, immediately after customs clearance of such goods. Members are not obliged to accord such authority in respect of protected subject matter acquired or ordered by a person prior to knowing or having reasonable grounds to know that dealing in such subject matter would entail the infringement of an intellectual property right.

2. Notwithstanding the other provisions of this Part and provided that the provisions of Part II specifically addressing use by governments, or by third parties authorized by a government, without the authorization of the right holder are complied with, Members may limit the remedies available against such use to payment of remuneration in accordance with subparagraph (h) of Article 31. In other cases, the remedies under this Part shall apply or, where these remedies are inconsistent with a Member's law, declaratory judgments and adequate compensation shall be available.

There is also a provision about injunctions in Article 37.1 of the TRIPS, on Layout-Designs (Topographies) of Integrated Circuits, that actually prohibits the use of injunctions in cases where

. . . the person performing or ordering such acts did not know and had no reasonable ground to know, when acquiring the integrated circuit or article incorporating such an integrated circuit, that it incorporated an unlawfully reproduced layout-design. Members shall provide that, after the time that such person has received sufficient notice that the layout-design was unlawfully reproduced, that person may perform any of the acts with respect to the stock on hand or ordered before such time, but shall be liable to pay to the right holder a sum equivalent to a reasonable royalty such as would be payable under a freely negotiated licence in respect of such a layout-design.

The proposed ACTA provisions on injunctions are significantly more restrictive than are the provisions in the TRIPS.

Cases of innocent infringement

According to the last sentence in TRIPS Article 44.1, there is no obligation to provide for injunctions to stop an infringement when the protected subject matter was “acquired or ordered by a person prior to knowing or having reasonable grounds to know” that they were involved in the infringement.

The TRIPS flexibility regarding innocent infringements is not included in the ACTA provision.

This conflicts with at least two federal statutes. One is the U.S. implementation of the TRIPS mandatory restriction on injunctions for innocent infringement for semiconductor chip products.

17 USC 907

Limitation on exclusive rights: innocent infringement

(a) Notwithstanding any other provision of this chapter [17 USC § §901 et seq.], an innocent purchaser of an infringing semiconductor chip product---

(1) shall incur no liability under this chapter [17 USC § §901 et seq.] with respect to the importation or distribution of units of the infringing semiconductor chip product that occurs before the innocent purchaser has notice of protection with respect to the mask work embodied in the semiconductor chip product; and

(2) shall be liable only for a reasonable royalty on each unit of the infringing semiconductor chip product that the innocent purchaser imports or distributes after having notice of protection with respect to the mask work embodied in the semiconductor chip product.

Under U.S. law, there is also a provision in the Lanham Trademark Act (**15 USC §§ 1114**) for “Innocent Infringement by Printers and Publishers,” that eliminates the possibility of an injunction for a newspaper, magazine, or other similar periodical or an electronic communication “where restraining the dissemination of such infringing matter or violating matter in any particular issue of such periodical or in an electronic communication would delay the delivery of such issue or transmission of such electronic communication after the regular time for such delivery or transmission.”

The Statutory Exceptions to Injunctions Allowed in Article 44.2 of the TRIPS

The second paragraph of Article 44 contains two sentences, each setting out conditions under which a WTO member may eliminate injunctions in cases where governments provide for “adequate” remuneration or compensation. The first of these cases involves:

“use by governments, or by third parties authorized by a government”

The second is considerably more open ended:

“where these remedies are inconsistent with a Member's law

The U.S. and the EU proposals in ACTA for injunctions do not allow the flexibilities in Article 44.2 of the TRIPS. If adopted, ACTA would require changes in several federal statutes and conflict with other international agreements that address special cases where injunctions are not

permitted.

28 USC 1498: Use by or for the government

According to *28 USC 1498, Patent and copyright cases*, there is no possibility of an injunction for the infringement of patents, copyrights or plant breeder rights, when the use is *by or for* the federal government. The leading federal agency to use this provision is the U.S. Department of Defense, but other federal agencies such as NASA, Department of Energy, the NIH or the Center for Disease Control (CDC) also consider their rights under 28 USC 1498 to be important. The clause is described by NASA's Office of the General Counsel as follows:

PATENT AND COPYRIGHT USE -- AUTHORIZATION, CONSENT, INDEMNIFICATION: One of the remedies available to a patent or copyright owner for patent or copyright infringement is an injunction preventing the alleged infringer from making, using, or selling the invention or work, or carrying out the process, which is the subject of the patent or copyright, until a court resolves the legal dispute. The U.S. Government has waived sovereign immunity with respect to monetary compensation for patent or copyright infringement, but not with respect to injunction. Under 28 U.S.C. § 1498, whenever an invention or work covered by a U.S. patent or copyright is used by the United States, or for the United States and with its authorization and consent, the patent or copyright owner's only remedy is an action against the United States in the U.S. Court of Federal Claims for the recovery of reasonable and entire compensation for such use and manufacture.

Where cognizant patent or intellectual property counsel determine that activities undertaken by NASA's cooperating partner, its contractors, and subcontractors are likely to be legally enjoined by a patent or copyright owner in the United States, then an authorization and consent clause should be included in an agreement in order to avoid an injunction. This also avoids any legal arguments regarding whether authorization and consent, if not expressed, should be implied because of the beneficial cooperation involved in the MOU or letter agreement. If not included in the agreement, however, it can be added subsequently by the parties by mutual agreement.

The *CCH Government Contracts Reference Book* describes the practice as follows:

Authorization by the government for a contractor to use an invention that has been patented but to which the government has no rights. Under 28 USC 1498(a), when such authorization and consent has been granted, the owner of the patent can only sue only the government in the U.S. Court of Federal Claims (it cannot sue the contractor damages or obtain an injunction against the contractor to block use of the

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patent). The government grants such authorization and consent in order to further the progress of work on its contracts –to obtain the performance of the work in the most effective manner without the need to create new technology.

FAR 27.201-2 provides for the use of two different Authorization and Consent clauses. The clause in FAR 52.227-1 is used in supply and service contracts (including CONSTRUCTION contracts) and gives authorization and consent to use all patents necessary to perform the specified work or required to be used by the contracting officer. The Alternative I clause in FAR 521.227-1 is used in RESEARCH AND DEVELOPMENT contracts and gives blanket authorization and consent to use any invention.

The diverse areas where 28 USC 1498 has been used or considered include, for example, an action by the Justice Department to block an injunction for patent infringement involving the Blackberry email service, a threat by former DHHS Secretary Tommy Thompson to acquire generic versions of the antibiotic ciprofloxacin for the treatment of Anthrax poisoning, the creation of databases of abstracts of copyrighted biomedical articles, the Foreign Broadcast Information Service (FBIS), navigation technology for NASA geosynchronous satellites, and as a possible model for facilitating access to patents on genetic inventions.

The U.S. and EU proposals to ACTA on injunctions are contrary to this statute.

The Safe Harbour exception for uses of patents related to the development and submission of information concerning the sale of drugs or veterinary biologic products.

35 USC 271 (e) (3)

A much litigated (and recently amended statute) in U.S. law is the so called “Safe Harbour” exemption for the use of patents related to the development and submission of information concerning the sale of drugs, veterinary biologic products or biologic products. 35 USC 271 (e) (3) provided that “no injunctive or other relief may be granted which would prohibit the making, using, offering to sell, or selling within the United States or importing into the United States of a patented invention” for the following purposes:

to make, use, offer to sell, or sell within the United States or import into the United States a patented invention (other than a new animal drug or veterinary biological product . . . which is primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques) solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs or veterinary biological products.

Sometimes called the “early working” or the “Bolar” exception, this provision was first enacted to allow manufactures of generic medicines to manufacture, test and register products with the US FDA, before the expiration of patents. One practical impact of the Safe Harbour provision is to reduce by a period of 18 to 24 months the time before a generic competitor can enter the market. This, which in practice saves consumers, taxpayers and employers billions of dollars every year, is contrary to the proposed requirement in ACTA that judges have the authority to grant injunctions.

Non-disclosed biological product patents

35 USC 271(e)(6)(B-C)

The newly passed health care reform (HRC) legislation includes amendments to 35 USC 271, including new restrictions on the use of injunctions. The HRC bill created a new pathway for the registration of “biosimilar” medicines. Sometimes called biogenerics, the bill creates a system where manufacturers of biologic products may register new biologics that rely upon another previously approved biologic's safety and efficacy data, if they are similar enough. While controversial in the form finally passed, everyone agrees that a biogenerics pathway can save consumers billions of dollars, if implemented effectively.

One part of the new biosimiliars pathway involves obligations on the innovators of biologic medicines, called “reference product sponsors” (RPS), to make informative disclosures of the patent landscape on a product, as part of a new regulatory regime that also includes 12 years or more of exclusive rights in the uses of safety and efficacy data in regulatory filings. If patents are not properly disclosed, there are severe limits on remedies for infringement of the patents. A failure to identify a patent in an initial 351(l)(3)(A) patent list will be considered a non-assertion of the patent right, under 271(e)(6)(C). A failure by the RPS to list a patent on an “exchanged list,” or bring timely litigation, modifies the remedies by providing for no injunctions, and limiting damages to only a reasonable royalty. See:

35 USC 271(e)(6)(B) In an action for infringement of a patent described in subparagraph (A), the sole and exclusive remedy that may be granted by a court, upon a finding that the making, using, offering to sell, selling, or importation into the United States of the biological product that is the subject of the action infringed the patent, shall be a reasonable royalty.

And,

35 USC 271(e)(6)(C) The owner of a patent that should have been included in the list described in section 351(l)(3)(A) of the Public Health Service Act, including as provided under section 351(l)(7) of such Act for a biological product, but was not timely included in such list, may not bring an action under this section for

infringement of the patent with respect to the biological product.

In both cases, the statutory restrictions on injunctions are contrary to the US and EU proposals for ACTA.

The Convention on International Civil Aviation, signed at Chicago, on 7 December 1944 (Chicago Convention)

The United States and most if not all other ACTA members are signatures to the The Convention on International Civil Aviation, signed at Chicago, on 7 December 1944 (Chicago Convention). Article 27 of that Convention provides an exemption from seizure on patent claims. Paragraphs (a) and (b) of the Convention read as follows:

Article 27 - Exemption from seizure on patent claims

(a) While engaged in international air navigation, any authorized entry of aircraft of a contracting State into the territory of another contracting State or authorized transit across the territory of such State with or without landings shall not entail any seizure or detention of the aircraft or any claim against the owner or operator thereof or any other interference therewith by or on behalf of such State or any person therein, on the ground that the construction, mechanism, parts, accessories or operation of the aircraft is an infringement of any patent, design, or model duly granted or registered in the State whose territory is entered by the aircraft, it being agreed that no deposit of security in connection with the foregoing exemption from seizure or detention of the aircraft shall in any case be required in the State entered by such aircraft.

(b) The provisions of paragraph (a) of this Article shall also be applicable to the storage of spare parts and spare equipment for the aircraft and the right to use and install the same in the repair of an aircraft of a contracting State in the territory of any other contracting State, provided that any patented part or equipment so stored shall not be sold or distributed internally in or exported commercially from the contracting State entered by the aircraft.

The Chicago Convention prohibits any patent related seizure, detention, claim or other interference against the owner or operator of an aircraft engaged in international air navigation, with or without landings.

A related treaty provision is Article 5^{ter} of the Paris Convention of the Protection of Industrial Property, which provides a **mandatory** exception for patented devices forming part of vessels, aircraft or land vehicles that “temporarily” entry a country, a provision implemented in the United States in **35 USC 272**.

Temporary presence in the United States. The use of any invention in any vessel,

aircraft or vehicle of any country which affords similar privileges to vessels, aircraft or vehicles of the United States, entering the United States temporarily or accidentally, shall not constitute infringement of any patent, if the invention is used exclusively for the needs of the vessel, aircraft or vehicle and is not offered for sale or sold in or used for the manufacture of anything to be sold in or exported from the United States.

Non-Military uses of nuclear power

The U.S. government can declare any patent “to be affected with the public interest if ... the invention or discovery covered by the patent is of primary importance in the production or utilization of special nuclear material or atomic energy.” In such cases, injunctions are not available.

42 USC 2184. Injunctions; measure of damages

No court shall have jurisdiction or power to stay, restrain, or otherwise enjoin the use of any invention or discovery by a patent licensee, to the extent that such use is licensed by section 2183 (b) or 2183 (e) of this title. . . .

No injunctions for patent infringement by medical practitioners

After a lobbying effort by physicians, the Congress eliminated remedies for patent infringement, including injunctive relief under section 283, for cases involving medical practitioners.³

35 U.S.C. 287 Limitation on damages and other remedies; marking and notice.

(c) (1) With respect to a medical practitioner’s performance of a medical activity that constitutes an infringement under section 271(a) or (b) of this title, the provisions of sections 281, 283, 284, and 285 of this title shall not apply against the medical practitioner or against a related health care entity with respect to such medical activity.

(2) For the purposes of this subsection:

(A) the term “medical activity” means the performance of a medical or surgical procedure on a body, but shall not include (i) the use of a patented machine, manufacture, or composition of matter in violation of such patent, (ii) the practice of

³ See, for example: Mossinghoff, Gerald J., Remedies under Patents on Medical and Surgical Procedures, 78 J. Pat. & Trademark Off. Soc’y 789 (1996)

a patented use of a composition of matter in violation of such patent, or (iii) the practice of a process in violation of a biotechnology patent.

(B) the term “medical practitioner” means any natural person who is licensed by a State to provide the medical activity described in subsection (c)(1) or who is acting under the direction of such person in the performance of the medical activity.

The US proposals for ACTA are in conflict with this statute.

Areas where policy makers may consider future limits on injunctions.

Orphan Copyrighted Works

As is discussed in greater detail below, the Library of Congress and some members of Congress are exploring ways to provide better access to millions to copyrighted works that are out of print and effectively abandoned by publishers and authors. Among the solutions that are under consideration are those that eliminate the possibility of injunctions in some cases, such as for unsold stock of printed copies that were made in good faith, or for works originally accessed as orphaned works, and included as part of a larger published work.

Disclosure of Patents on Standards

In interventions from the floor and in side meetings, WIPO has discussed a possible instrument to address the problem of inadequate disclosure of patents on standards. The model for doing this is exactly the same as was proposed in the new U.S. health care reform legislation in 35 USC 271(e)(6)(B-C) – an obligation for constructive disclosure, backed up by limits on remedies for infringing non-disclosed patents.

Foreign restrictions on injunctions for infringement of architectural works

Canada has asked ACTA negotiators to address statutory limits on injunctions. Canada has such a statutory limit with regard to injunctive relief for architectural works:

“40. (1) Where the construction of a building or other structure that infringes or that infringes or that, if completed, would infringe the copyright in some other work has been commenced, the owner of the copyright is not entitled to obtain an injunction in respect of the construction of that building or structure or to order its demolitions. (2) Sections 38 and 42 do not apply in any case in respect of which subsection (1) applies. R.S., 1985, c. C-42, s. 40; 1997, c.24, s.21”

The Indian Copyright Act of 1957 provides for a similar statutory limit on injunctive relief for cases involving architectural plans.

Chapter XII Civil Remedies

“59. Restriction on remedies in the case of works of architecture.- (1) Notwithstanding anything contained in 123 [the Specific Relief Act, 1963], where the construction of a building or other structure which infringes or which, if completed, would infringe the copyright in some other work has been commenced, the owner of the copyright shall not be entitled to obtain an injunction to restrain the construction of such building or structure or to order its demolition.

(2) Nothing in section 58 shall apply in respect of the construction of a building or other structure which infringes or which, if completed, would infringe the copyright in some other work.”

IV. Commentary on Damages

The current negotiating text in the ACTA includes an Article 2.2 on damages for infringements. Before examining the ACTA proposals, it is helpful to review the relevant provisions in the WTO TRIPS agreement on damages.

The general provision in the TRIPS on damages is Article 45, which reads as follows:

Article 45 Damages

1. The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person's intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.

2. The judicial authorities shall also have the authority to order the infringer to pay the right holder expenses, which may include appropriate attorney's fees. In appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.

Note that in Article 45.1 of the TRIPS, the obligation to provide damages for infringement only applies when the infringer “knowingly, or with reasonable grounds to know, engaged in infringing activity.”

In TRIPS Article 45.2, judicial authorities “shall” have the authority to order infringers to pay

right holder expenses, and *may* consider statutory damages.

Several other articles in the TRIPS are also relevant to damages:

- Article 44.2 allows governments to eliminate the possibility of an injunction in cases where governments provide “adequate” remuneration or compensation for an infringement or use not authorized by right owners.
- Article 37 limits the liability for cases where a person “did not know and had no reasonable ground to know” that an act involved infringement of integrated circuit designs.
- Articles 8, 31.k, 37.2⁴ and 40 provide additional flexibilities for the control of Anti-competitive practices, including in some cases, zero compensation for infringement.
- Article 73 is a general exception to TRIPS requirements for “essential security interests,” or “taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security.”

The US government uses all of these flexibilities, and some were added to the TRIPS precisely at the request of the US government.

The TRIPS standards are not trivial, but they are not aggressive either. This is because they represent a minimum standard, covering all cases. Under the WTO agreement, governments can ramp up damages as much as they like, but they cannot do less than is required by the WTO.

The proposed ACTA text on damages is Article 2.2. As of January 18, 2010, the proposal reads as follows:

Article 2.2: Damages

1. Each Party shall provide that:

(a) in civil judicial proceedings, [US/J: its judicial authorities] [Mex/NZ: or competent authorities][EU/NZ: on application of the {EU: injured party} {NZ: right holder}] shall have the authority to order the infringer [EU/NZ: who knowingly or with reasonable grounds to know, engaged in infringing activity] of [Can/Sing/NZ: copyright or related rights and trademarks] [US/J: intellectual property rights] to pay the right holder

(i) damages adequate to compensate for the [EU: actual] injury the right holder has suffered as a result of the infringement[3]; or [EU:

4 In Article 37.2, the standards for remuneration for non-voluntary authorizations at those found in Article 31.h and 31.k.

~~or~~]

(ii) [US/Mor/Aus/Kor/Sing: at least in the case of copyright or related rights infringement and trademark counterfeiting,] [MX: in the case of IPR infringements] the profits of the infringer that are attributable to the infringements, which may be presumed to be the amount of damages referred to in clause (i) [Aus/Sing/NZ/EU: ~~which may be presumed to be the amount of damages referred to in clause (i)~~]; and

[EU: Delete (ii) {as originally proposed?} and move (ii) into paragraph 2.2.1(b)-----Please clarify].

[(iii) Can/NZ: For greater certainty, a Party may limit or exclude damages in certain special cases.]

(b) in determining the amount of damages for [Can/Sing/NZ: copyright or related rights infringement][MX: IPR] infringement [US/J: of intellectual property rights] [Can/Sing: and trademark counterfeiting] its [US/J: judicial][NZ: competent] authorities [US/J: shall][Aus/Can/NZ: may] consider, *inter alia*, [Can/NZ: any legitimate measure of value that may be submitted by the right holder, including] [EU/Can/NZ: the lost profits], the value of the infringed good or service, measured by the market price, [Can: or] the suggested retail price [NZ: suggested retail price], or other legitimate measure of value submitted by the right holder [Can/NZ: ~~or other legitimate measure of value submitted by the right holder~~], [EU: the profits of the infringer that are attributable to the infringement].

[MX: Please specify the way in which the amount of the damage, particularly the scope of the "legitimate measure"] {Editorial comment: Please clarify this statement}

2. At least with respect to works, phonograms, and performances protected by copyright or related rights, and in cases of trademark counterfeiting, in civil judicial proceedings, [EU/Can: As an alternative to paragraph 1,] each party [US/J: shall][EU/Can/NZ: may] establish or maintain a system that provides [Sing/NZ: for]:

(a) pre-established damages; or [Sing: a system that provides for]

(b) presumptions for determining the amount of damages[4] 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.[5] [Sing: Such damages shall be an amount sufficient to constitute the right holder for the harm caused by the infringement.]

[Aus/Mex/NZ: Delete paragraph 2.]

3. Each party shall provide that the right holders shall have the right to choose the system in paragraph 2 as an alternative to the damages in paragraph 1.

[US: will propose editorial changes at upcoming round to clarify the language]

[Aus/Mex/NZ: Delete paragraph 3.]

[3. EU: Where the infringer did not knowingly, or with reasonable grounds knows, engage in infringement activity, each Party may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established.]

4. Each Party shall provide that its judicial [NZ: competent] authorities, except in exceptional circumstances, [EU: unless equity does not allow this], shall have the authority to order, at the conclusion of civil judicial proceedings [US/J: concerning copyright or related rights infringement, patent infringement, {Can/NZ: patent infringement}, or trademark infringement][EU: ~~concerning copyright or related rights infringement, patent infringement, or trademark infringement~~], that the prevailing party [US/J: shall][Can: shall] be awarded payment by the losing party of [NZ: appropriate] court [{EU: reasonable and proportionate} EU/CAN/NZ: legal] costs and fees. Each Party [US/J:shall] [Mor: may] also provide that its [US/J: judicial] [NZ: competent] authorities, [US/Can/Mor/MX/NZ: except in exceptional circumstances] [EU: unless equity does not allow this], [US/Can/Aus/Mor: {US/Aus/Mor: at least} in proceedings concerning copyright or related rights infringement or willful trademark counterfeiting,] shall have the authority to order, [J/Can/Aus/NZ: in appropriate cases][MX: ~~in appropriate cases~~], that the prevailing party be awarded payment by the losing party of [US/J: reasonable][NZ: appropriate] attorney's fees[6]. [US/Aus/Mor: Further, each Party shall provide that its judicial authorities, at least in exceptional circumstances, shall have the authority to order, at the conclusion of civil judicial proceedings concerning patent infringement, that the prevailing party shall be awarded payment by the losing party of reasonable attorneys' fees.][Mor: , fees should be left to the discretion of the judge who determine the reasonable level of these fees][EU: ~~Further, each Party shall~~

~~provide that its judicial authorities, at least in exceptional circumstances, shall have the authority to order, at the conclusion of civil judicial proceedings concerning patent infringement, that the prevailing party shall be awarded payment by the losing party of reasonable attorneys' fees.]~~

Footnote [3][US/Mor: In the case of patent infringement, damages adequate to compensate for the infringement shall not be less than a reasonable royalty.]
[Sing/Aus/EU/Can/NZ: Delete US/MOR footnote]

Footnote: [4] such measures [**J:** shall][**US/Sing/Can/EU/NZ:** may] include the presumption that the amount of damages is (i) the quantity of the goods infringing the right holder's intellectual property and actually assigned to third persons, multiplied by the amount of profit per unit of goods which would have been sold by the right holder if there had not been the act of infringement or (ii) a reasonable royalty [**EU:** or (iii) a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorization to use the intellectual property rights in question].

Footnote: [5] [**US/Mor:** No Party is required to apply paragraph 2 for infringement against a Party or a third party acting with the authorization or consent of the Party.]

Footnote: [6] [Kor: For greater certainty, the term "reasonable attorney's fees" is not intended to require a higher amount than the amount of "appropriate attorney's fees" under the TRIPS Article 45.2.]

Standards for the Amount of Damages

The ACTA proposals on damages are highly bracketed, reflecting considerable divisions among negotiating parties. Some of the provisions apply to all seven categories of intellectual property rights in the TRIPS. Others apply to copyright and trademark counterfeiting.

Proposals made by the United States and other parties would go far beyond those found in the WTO TRIPS agreement, and several would require changes in US law and practice.

Taken together, the proposals for damages in ACTA are designed to increase damage awards for infringement.

This is partly done by specifying the obligations of courts to consider methodologies on damages

put forward by right-owners, including several that are decidedly aggressive in terms of damage awards. There are also expanded obligations to provide damages for certain types of activity.

Innocent Infringements

One area where the ACTA negotiators are divided concerns cases of so called “innocent” infringement, where there are no reasonable grounds to conclude the infringer knowingly engaged in infringing activity. The TRIPS allows but does not require damages for such cases.

The proposals by Japan and the United States would require that damages be available, even for innocent infringements, for all 7 categories of intellectual property rights.

The European Union and New Zealand want to limit the obligation for damages to cases where the infringer “knowingly, or with reasonable grounds to know, engaged in infringing activity,” as is the case now for Article 45.1 of the TRIPS.

The US position is in conflict with the provisions of 17 USC 907, which limits damages for “an innocent purchaser of an infringing semiconductor chip product” as follows:

17 USC 907 - Limitation on exclusive rights: innocent infringement

(a) Notwithstanding any other provision of this chapter [17 USC § §901 et seq.], an innocent purchaser of an infringing semiconductor chip product---

(1) shall incur no liability under this chapter [17 USC § §901 et seq.] with respect to the importation or distribution of units of the infringing semiconductor chip product that occurs before the innocent purchaser has notice of protection with respect to the mask work embodied in the semiconductor chip product; and

(2) shall be liable only for a reasonable royalty on each unit of the infringing semiconductor chip product that the innocent purchaser imports or distributes after having notice of protection with respect to the mask work embodied in the semiconductor chip product.

Note that for cases described in 17 USC 907(a)(1), there is “no liability” for infringement.

The U.S. proposed text in ACTA on damages is also in conflict with U.S. trademark laws, including, for example, the following cases where damages are not available.

15 USC 1114 Remedies; infringement; innocent infringement by printers and publishers.

(2) Notwithstanding any other provision of this chapter, the remedies given to the

owner of a right infringed under this chapter or to a person bringing an action under section 1125 (a) or (d) of this title shall be limited as follows:

(A) Where an infringer or violator is engaged solely in the business of printing the mark or violating matter for others and establishes that he or she was an innocent infringer or innocent violator, the owner of the right infringed or person bringing the action under section 1125 (a) of this title shall be entitled as against such infringer or violator only to an injunction against future printing.

(B) Where the infringement or violation complained of is contained in or is part of paid advertising matter in a newspaper, magazine, or other similar periodical or in an electronic communication as defined in section 2510 (12) of title 18, the remedies of the owner of the right infringed or person bringing the action under section 1125 (a) of this title as against the publisher or distributor of such newspaper, magazine, or other similar periodical or electronic communication shall be limited to an injunction against the presentation of such advertising matter in future issues of such newspapers, magazines, or other similar periodicals or in future transmissions of such electronic communications. The limitations of this subparagraph shall apply only to innocent infringers and innocent violators.

...

(D)(i)(I)(iii) A domain name registrar, a domain name registry, or other domain name registration authority shall not be liable for damages under this section for the registration or maintenance of a domain name for another absent a showing of bad faith intent to profit from such registration or maintenance of the domain name.

[Underlining added]

Calculating Damages Under ACTA

The standards for damages in ACTA include a general requirement in Article 2.2(1)(a) that Members give judicial authorities the right to order:

damages adequate to compensate for the [EU: actual] injury the right holder has suffered as a result of the infringement

In addition to this general obligation are a series of elaborations and additions. In Article 2.2(1)(a)(ii), the U.S./Morocco/Australia/Korea/Singapore proposal provides that “at least in the case of copyright or related rights infringement and trademark counterfeiting,” damages should be no less than “the profits of the infringer that are attributable to the infringements.”

Comments on ACTA Provisions on Injunctions and Damages

In Article 2.2(1)(b), the U.S. proposal for calculating the amount of damages for all seven categories of intellectual property is as follows:

In determining the amount of damages for infringement of intellectual property rights, its judicial authorities shall consider, *inter alia*, the value of the infringed good or service, measured by the market price, the suggested retail price, or other legitimate measure of value submitted by the right holder.

Some countries want to narrow this provision so that it only applies to copyright and trademark cases. The European Union, Canada and New Zealand want to add “lost profits” to the list of items to be considered. New Zealand would use the phrase “any legitimate measure of value that may be submitted by the right holder.” Defendants in cases are given no rights with regards to measures of value to be considered.

An important proposal that is in brackets was made by Canada and New Zealand, to permit ACTA members to “limit or exclude damages in certain special cases.”

Article 2(1)(a)[(iii) Can/NZ: For greater certainty, a Party may limit or exclude damages in certain special cases.]

In Article 2.2(2-3), for “at least” works and performances protected by copyright or related rights, or trademark counterfeiting, the US is pressing for a system of pre-established statutory damages. In Article 2.2(2)(b), the standards for such damages are aggressively described as follows;

(b) presumptions for determining the amount of damages[4] 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.[5] [Sing: Such damages shall be an amount sufficient to constitute the right holder for the harm caused by the infringement.]

[4] such measures [J: shall][US/Sing/Can/EU/NZ: may] include the presumption that the amount of damages is (i) the quantity of the goods infringing the right holder's intellectual property and actually assigned to third persons, multiplied by the amount of profit per unit of goods which would have been sold by the right holder if there had not been the act of infringement or (ii) a reasonable royalty [EU: or (iii) a lump sum on the basis of elements such as at least the amount of royalties of fees which would have been due if the infringer had requested authorization to use the intellectual property rights in question].

[5] [US/Mor: No Party is required to apply paragraph 2 for infringement against a Party or a third party acting with the authorization or consent of the Party.]

Comments on ACTA Provisions on Injunctions and Damages

The ACTA negotiators have also tabled highly bracketed text on the award of attorneys fees.

Collectively, the ACTA proposals on damages are designed to be aggressive, particularly for copyright and counterfeit trademark cases, which receive special treatment.

The proposed ACTA norms will correctly be seen as entirely reasonable in some cases, but are not appropriate as a global minimum, given the diverse circumstances where infringement occurs. This is a common failing of the ACTA – it presents mandatory global norm standards that are justified by their supporters by citing particular cases where they will seem appropriate, and ignoring or minimizing the importance of counter examples where they are clearly wrong, inappropriate or excessive

The USTR has not publicly offered any reasons or evidence why the TRIPS standards for damages need to be replaced, and has never agreed to make its proposals on damages public.

To appreciate the importance of the proposal by Canada and New Zealand to allow for statutory limits on damages, consider the following examples from US law.

Relevant US Statutory limitations or guidance on damage awards for infringement

Limits on damages for non-disclosed patents on biological products

As note above, in the new health care reform act, there are limits on the damages that can be assessed in cases involving non-disclosed patents on biological products. These range from zero, for the cases described in 35 USC 271(e)(6)(C), a result likely to be appropriate under Articles 31.k and 40 of the TRIPS, to a “reasonable royalty,” for the cases described in 35 USC 271(e)(6) (B).

These provisions are in conflict with the proposals tabled by the United States in the ACTA negotiations.

Nuclear Energy

For cases involving the infringement of patents used for non-military atomic power, federal statutes have standards for “damages” relating to the non-voluntary use of patents, in the form of a “reasonable” royalty.

42 USC 2184. Injunctions; measure of damages

. . . the measure of damages shall be the royalty fee determined pursuant to section 2187 (c) of this title, together with such costs, interest, and reasonable attorney’s fees as may be fixed by the court.

42 USC 2187. Compensation, awards, and royalties

(c) Standards

(1) In determining a reasonable royalty fee as provided for in section 2183 (b) or 2183 (e) of this title, the Commission shall take into consideration

(A) the advice of the Patent Compensation Board;

(B) any defense, general or special, that might be pleaded by a defendant in an action for infringement;

(C) the extent to which, if any, such patent was developed through federally financed research; and

(D) the degree of utility, novelty, and importance of the invention or discovery, and may consider the cost to the owner of the patent of developing such invention or discovery or acquiring such patent.

(2) In determining what constitutes just compensation as provided for in section 2181 of this title, or in determining the amount of any award under subsection (b)(3) of this section, the Commission shall take into account the considerations set forth in paragraph (1) of this subsection and the actual use of such invention or discovery. Such compensation may be paid by the Commission in periodic payments or in a lump sum.

Semiconductor Chips

As noted above, both the TRIPS and 17 USC 907 place statutory limits on limits damages for infringing semiconductor chips products, ranging from “no liability” [17 USC 907 (a)(1)] to “only a reasonable royalty” [17 USC 907(a)(2)] for certain infringing uses.

Use of patents by Medical Practitioners

Under Article 27.3 of the TRIPS, WTO members may exclude from patentability:

(a) diagnostic, therapeutic and surgical methods for the treatment of humans or animals;

The United States did not exclude surgical methods from patentability, but did eliminate

damages for infringement with respect to a medical practitioner's performance of a medical activity.

35 USC 287 35 U.S.C. 287 Limitation on damages and other remedies; marking and notice.

(c) (1) With respect to a medical practitioner's performance of a medical activity that constitutes an infringement under section 271(a) or (b) of this title, the provisions of sections 281, 283, 284, and 285 of this title shall not apply against the medical practitioner or against a related health care entity with respect to such medical activity.

(2) For the purposes of this subsection:

(A) the term "medical activity" means the performance of a medical or surgical procedure on a body, but shall not include (i) the use of a patented machine, manufacture, or composition of matter in violation of such patent, (ii) the practice of a patented use of a composition of matter in violation of such patent, or (iii) the practice of a process in violation of a biotechnology patent.

(B) the term "medical practitioner" means any natural person who is licensed by a State to provide the medical activity described in subsection (c)(1) or who is acting under the direction of such person in the performance of the medical activity.

(C) the term "related health care entity" shall mean an entity with which a medical practitioner has a professional affiliation under which the medical practitioner performs the medical activity, including but not limited to a nursing home, hospital, university, medical school, health maintenance organization, group medical practice, or a medical clinic.

(D) the term "professional affiliation" shall mean staff privileges, medical staff membership, employment or contractual relationship, partnership or ownership interest, academic appointment, or other affiliation under which a medical practitioner provides the medical activity on behalf of, or in association with, the health care entity.

(E) the term "body" shall mean a human body, organ or cadaver, or a nonhuman animal used in medical research or instruction directly relating to the treatment of humans.

(F) the term "patented use of a composition of matter" does not include a claim for a method of performing a medical or surgical procedure on a body that recites the use

of a composition of matter where the use of that composition of matter does not directly contribute to achievement of the objective of the claimed method.

This statutory limitations on damages are contrary to the US proposals for damages in ACTA.

Use by or for the government

When the US government exercises its rights under 28 USC 1498 to infringe or allow third parties to infringe a patent, copyright or plant breeders right, the Department of Justice routinely asks the courts to reject certain valuation methodologies, as inappropriate. ACTA would shift the norm toward the right-holder, in acts against the US government (and the US taxpayers). Why is this a good outcome? If anything, there is criticism that the current norms for compensation for infringement are already excessive, which was one of the reasons given by DHHS Secretary Tommy Thompson in 2001 for his decision not to use 28 USC 1498 to acquire generic ciprofloxacin, in the face of a U.S. shortage of the medicine and a possibility of a large scale anthrax attack. Concerns about the costs of using 28 USC 1498 have limited its use in expanding access to research tools and patents on genetic tests.⁵ ACTA will make things even worse.

In a number of patent cases, the Courts have upheld standards for compensation in infringement cases that would be considerably different than those that a judge would be required to consider under the US government proposal for ACTA Article 2.2(1)(b). For example, in a number of §1498 cases involving infringing uses by or for the government, Courts have held that

“[t]he proper measure [of damages] is what the owner has lost, not what the taker has gained.” *Leesona Corp. v. United States*, 599 F.2d.

In infringement cases involving the federal government, Courts in several cases have rejected lost profits as an appropriate measure for damages. In some cases Courts have allowed lower damages when the government creates uses outside of the normal commercial market demands, such as for certain defense applications. For example, in a case involving the federal government's purchase of infringing camouflage screens, the Court noted that the US Congress directed the Army to “expand its industrial base for the production of camouflage in order to maintain a reliable industrial mobilization capacity,” and noted that “This type of outside policy making and political influence is peculiar to the federal government and is properly taken into account when considering whether a reasonable royalty would adequately compensate an aggrieved patentee.” The court further indicated that the number of units purchased by the government was greater than would have been the case in the absence of the infringing activity,

⁵ Although, in a report to the Secretary of the Department of Health and Human Services, the Advisory Committee on Genetics, Health, and Society noted that the liability rules under 28 USC 1498 are appealing because of their easier procedures: “Given the administrative hurdles involved with march-in, McGarey and Levey suggest that alternative laws would be more effective if there is a public health need for an invention.(fn 251) For instance, under 28 U.S.C. § 1498(a), the Government can practice an invention without a license if that practice is by or for the United States.(fn 252).” *Revised Draft Report on Gene Patents and Licensing Practices and Their Impact on Patient Access to Genetic Tests Secretary's Advisory Committee on Genetics, Health, and Society.*

and that this supported a lower amount of compensation per unit than that sought by the patent owner.⁶

ACTA negotiators should also be aware that when the US government exercises its rights under 28 USC 1498 to infringe or allow third parties to infringe a copyright, statutory damages do not apply and the damages that are assessed against the government by the court are not designed to “constitute a deterrent to future infringements,” as the U.S. has proposed in Article 2.2(2)(b) of ACTA.

Court decisions regarding damages following the U.S. Supreme Court ruling in *eBay Inc v. MercExchange, L.L.C.*

In 2006, the US Supreme Court issued an important decision reversing a Federal Circuit “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.” The Supreme Court set out a four-part test for injunctions:

That test requires a plaintiff to demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. The decision to grant or deny such relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion.

In a concurring opinion authored by Justice Kennedy and joined by Justices Stevens, Souter and Breyer, trial judges were urged to “bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases,” adding:

An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. See FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 3, pp. 38–39 (Oct. 2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> (as visited May 11, 2006, and available in Clerk of Court’s case file). For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. See *ibid.* When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the

⁶ See, *Brunswick Corp. v. United States*, 36 Fed. Cl. 204 (Fed. Cl. 1996), *aff’d* 152 F.3d 946 (Fed. Circ. 1998).

public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.

The equitable discretion over injunctions, granted by the Patent Act, is well suited to allow courts to adapt to the rapid technological and legal developments in the patent system. For these reasons it should be recognized that district courts must determine whether past practice fits the circumstances of the cases before them.

The *eBay* decision, which applies also to injunctions in copyright cases, creates a dynamic where every enforcement action for an intellectual property right can turn into a *de facto* compulsory licensing case. Courts have since in a number of cases withheld injunctive relief in favor of ordering damages to be paid for both past and *future* infringement of the patent. So called “running royalties” are in many notable cases designed to allow the infringement to take place for the life of the patent or copyright – the opposite of being a “deterrent to future infringements.”⁷

The Senate Patent Reform Compromise

For the past few years, the Congress has struggled to modify U.S. patent law. One of the several issues under consideration are those that related to damages. A number of proposals have been considered, in an effort to find language that is not objectionable to various groups actively engaged in lobbying.

On March 4, 2010, the Senate Judiciary Committee released its new “compromise” on patent reform. Senator Leahy described the objectives of the bill as follows:⁸

“we wanted to improve patent quality and the operations at the [Patent and Trademark Office], and address runaway damage awards that were harming innovation. We are close to a compromise that will address these issues.”

Damages in patent disputes are among the most difficult issues to address in the negotiations over patent reform. Leahy and others settled on the so called “gatekeeper compromise,” which allows the court to strictly limit the methodologies and factors relevant to the determination of damages.

5 SEC. 4. DAMAGES.

“(b) PROCEDURE FOR DETERMINING DAMAGES.—

⁷ The proposed standard for damages in Article 2.2(2)(b).

⁸ Juliana Gruenwald, “Leahy: Patent Deal Is Close,” *Tech Daily Dose, National Journal*. February 25, 2010.

“(1) IN GENERAL.—The court shall identify the methodologies and factors that are relevant to the determination of damages, and the court or jury, shall consider only those methodologies and factors relevant to making such determination.

Compare this to the U.S. proposal in ACTA Article 2.2(1)(b), which is in direct conflict to the Leahy proposal in the Senate patent reform bill.

(b) in determining the amount of damages for intellectual property rights its judicial authorities shall consider, *inter alia*, the value of the infringed good or services, measured by the market price, the suggested retail price, or other legitimate measure of value submitted by the right owner.

The “Suggested Retail Price” is an inappropriate global norm for damages

The proposal by the United States and other countries to require judges to consider the suggested retail price of a good in a proceeding on damages for infringement was recently criticized by Professor Fred Abbott, in the context of a similar provision in a US FTA.⁹ Abbott explains that:

Under US law, “suggested retail price” is used in only one of the many U.S. statutes regulating intellectual property, that is, the prohibition in the Tariff Act of 1930 against the importation of goods bearing an infringing trademark. US. courts generally have substantial discretion in determining the basis for establishing the level of damages in cases of infringement. In a trademark infringement suit, the trademark holder is ordinarily required to prove its “actual damages” which would be based on the market price of its goods. The “suggested retail price” of a good or service will be the “market price” in only a limited number of cases. The Copyright Act also uses the measure of “actual damages,” providing:

“(b) Actual damages and profits. The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.”
17 USC §504

A U.S. court might allow a trademark, copyright or patent holder to base its claim for remedies in an infringement action on the suggested retail price of its goods if there was no reasonable way to prove the actual selling price of the goods in the market. However, because the suggested retail price is a hypothetical price this would not be a first option.

⁹ Frederick Abbott: Intellectual Property Provisions of Bilateral and Regional Trade Agreements in Light of U.S. Federal Law. February 2006. UNCTAD - ICTSD Project on IPRs and Sustainable Development

The use of "suggested retail price" as the basis for calculating damages is also problematic because it suggests that the IPRs holder receives the "retail" price for its goods or services. In many cases, the IPRs holder will sell to intermediaries such as wholesalers and distributors and will receive a price substantially discounted from the suggested retail price, even assuming that the suggested retail price represents the price paid by the consuming public. The IPRs holder's "actual damages" should instead be based on the price it receives from the intermediaries.

While the ACTA proposal for damages does not limit courts solely to the consideration of the "suggested retail price," in the calculation of damages, it requires the courts to take this measure into account when presented by the right holder, even in cases where it is clearly inappropriate.

V. TACD Recommendations for ACTA on Injunctions and Damages

The following recommendations on injunctions and damages in ACTA are included in a June 18, 2009 resolution by the TransAtlantic Consumer Dialogue (TACD), a group representing more than 80 consumer rights organizations in the United States and Europe.

Resolution on enforcement of copyright, trademarks, patents and other intellectual property rights

TACD Document No. IP 09-09 DATE ISSUED: June 18, 2009

Recommendations

3(b)(iv). ACTA should not reduce the flexibilities regarding injunctions that currently exist in Article 44.2 of the TRIPS.

3(b)(v) ACTA should not require governments to impose inappropriate damages on consumers. Damages should not be excessive. In appropriate cases, governments should be able to tailor damages to public purposes.

3(b)(vi) ACTA should not foreclose the ability of governments to create reasonable liability rules for the use of protected works or inventions, such as to facilitate access to orphaned copyrighted works, to address infringement of architectural plans for building under construction, to allow governments to use or authorize uses of patents, copyrights or other intellectual property rights (such as 28 USC 1498), or to facilitate access to biomedical inventions or inventions necessary to implement standards involving complex technologies

VI. Proposals for expanding access to orphaned copyrighted works.

As KEI has communicated to the USTR on several occasions, and as is noted in the TACD Resolution on Enforcement of Copyright, Trademarks, Patents and Other Intellectual Property Rights,¹⁰ limits on injunctions and damages are at the center of U.S. proposals to expand access to copyrighted works for which it is difficult or impossible to locate the owner of the copyright.

In testimony before the House of Representatives in 2008, Marybeth Peters called for the elimination of injunctive relief for cases of infringement of certain “orphaned” works, where the “user has provided significant new expression.”

Statement of Marybeth Peters, The Register of Copyrights, before the Subcommittee on Courts, the Internet, and Intellectual Property, Committee on the Judiciary, United States House of Representatives, 110th Congress, 2nd Session, March 13, 2008¹¹

The “Orphan Works” Problem and Proposed Legislation

Finally, we note that injunctive relief is limited under our proposal. If a user has added significant new expression, we do not support the availability of an injunction, provided, however that the user pays reasonable compensation. If the user has not added significant new expression, we support the availability of an injunction with the caveat that a court be instructed to account for any harm to the extent practicable, in order to mitigate the harm resulting from the user’s reliance.

Marybeth Peters also called for the removal of statutory damages, for certain types of uses of orphan works:

Some who oppose orphan works legislation have also objected to the removal of statutory damages, which are available under Title 17 in certain instances. A few have even asserted that statutory damages are an entitlement under the law that cannot be rescinded. We disagree. Statutory damages are an alternative means by which a copyright owner may recover against an infringer in lieu of proving actual damages and lost profits. However, they are only available if the owner has registered the work prior to the infringement or within three months of publication. (While it is possible that a registered work could be an orphan work within the proposed legislative framework, we think this is unlikely to be a common situation, not because the registration is guaranteed to be found, but because an owner who has taken steps to register his work has likely taken other steps to make himself available outside the registration system.) Statutory damages are not an absolute entitlement any more than copyright ownership itself is an absolute right. Just as there are exceptions to, and limitations on, the exclusive rights of copyright owners (for example, fair use), there are exceptions to statutory damage awards. In cases of

¹⁰ TACD Document No. IP 09-09 DATE ISSUED: June 18, 2009.

¹¹ <http://www.copyright.gov/docs/regstat031308.html>

Comments on ACTA Provisions on Injunctions and Damages

“innocent infringement,” the court may reduce statutory damages to \$200; for certain infringements by nonprofit educational institutions, libraries, archives and public broadcasters, the court may reduce the award to zero.³ The fact remains that the possibility of statutory damages, however remote, is the single biggest obstacle preventing use in orphan works situations. In cases of non-willful infringement, statutory damages may be as high as \$30,000 for each infringed work. In cases of willful infringement, they may be as high as \$150,000 per infringed work.

We are not suggesting, in general, that the scheme of statutory damages is unjust. On the contrary, statutory damages fulfill legitimate and necessary purposes. That said, we do believe that in the case of orphan works, the rationale for statutory damages is weak. By definition, in the orphan work situation, the user is acting in good faith and diligently searching for the owner, and the owner is absent. The purposes of statutory damages, i.e. making the owner's evidentiary burden lighter and deterring infringement, weigh less heavily here. If the copyright owner is not identifiable and cannot be located through a diligent, good faith search, we believe the appropriate recovery is reasonable compensation. If orphan works legislation does not remove statutory damages from the equation, it will not motivate users to go forward with important, productive uses. On the other hand, the prospect of orphan works legislation may motivate some owners to participate more actively in the copyright system by making themselves available.

Consideration of damages for uses of orphaned works was elaborated in greater detail in a January 2006 Library of Congress Report on Orphan Works:

Report on Orphan Works, A Report of the Register of Copyrights, Library of Congress, U. S. Copyright Office, January 2006

a. Monetary Relief

A vast majority of the commenters in this proceeding agreed that the prospect of a large monetary award from an infringement claim, such as an award of statutory damages and attorneys' fees, was a substantial deterrent to users who wanted to make use of an orphan work, even where the likelihood of a claim being brought was extremely low. Most of the proposals for addressing the orphan works problem called for clear limitations on the statutory damages and attorneys' fees remedies in cases involving orphan works. Our recommendation follows this suggestion by limiting the possible monetary relief in these cases to only “reasonable compensation,” which is intended to represent the amount the user would have paid to the owner had they engaged in negotiations before the infringing use commenced. In most cases it would equal a reasonable license fee, as that concept is discussed in recent copyright case

law.

While many commenters supported a general remedy like “reasonable compensation,” some expressed concern about the impact that any monetary remedy at all might have on their ability to go forward and use orphan works. For example, museum representatives explained that they would like to use hundreds or even thousands of orphan works in their collections, so the potential of even a minimal monetary award for each work, would, in their view, be prohibitive. Libraries and archives made similar observations, given their desire to make large collections of orphan works accessible.

In our view, a general standard of reasonable compensation is the right solution to this problem, for several reasons. First, with respect to the concern about a chilling effect of any monetary remedy, it must be noted that in nearly all cases where a diligent search has been performed, the likelihood of a copyright owner resurfacing should be very low, so that no claim for compensation is ever made. Second, it should be clear that “reasonable compensation” may, in appropriate circumstances, be found to be zero, or a royalty-free license, if the comparable transactions in the marketplace support such a finding. Our discussions with museums, universities and libraries indicated that in many orphan works situations a low or zero royalty is likely to be the reasonable compensation.

In addition, to make absolutely sure that the concerns of nonprofit institutions like libraries, museums and universities about monetary relief are assuaged, we recommend an additional limitation on monetary relief where the user is making a non-commercial use of the work and expeditiously ceases the infringement after receiving notice of the infringement claim. In that case, there should be no monetary relief at all. Libraries, archives and museums indicated that posting material on the Internet was a primary use they would like to make of orphan works, and that they would take down any material if a copyright owner resurfaced. This additional provision provides certainty about their exposure in that circumstance. If the organization wishes to continue making use of the work, it would have to pay reasonable compensation for its past use, and, as described below, for future use of the work.

In evaluating possible legislative mechanisms to expand access to orphaned copyrighted works, the Copyright Office discussed the difficulty of implementing solutions within the constraints of the TRIPS and the Berne Convention, including but not limited to the three step tests for exceptions found in the Berne Convention and in Part II Article 13 of the TRIPS. However, the Copyright Office preferred an alternative approach involving limits to the remedies to enforce the rights set out in Part III of the TRIPS.

The Copyright Office observed that there is little in the Berne Convention that deals with

Comments on ACTA Provisions on Injunctions and Damages

standards for enforcement of rights. Berne Article 5, on “Rights Guaranteed,” simply says “the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed.”

In the 110th Congress, the U.S. Senate approved the Shawn Bentley Orphan Works Act of 2008, but the measure did not pass the House of Representatives. The provisions in the Senate bill that are relevant to ACTA provisions on injunctions and damages follow:

S.2913 Shawn Bentley Orphan Works Act of 2008 (Engrossed as Agreed to or Passed by Senate)

(a) Definitions- In this section, the following definitions shall apply:

(3) REASONABLE COMPENSATION- The term 'reasonable compensation' means, with respect to a claim of infringement, the amount on which a willing buyer and willing seller in the positions of the infringer and the owner of the infringed copyright would have agreed with respect to the infringing use of the work immediately before the infringement began.

Sec. 514. Limitation on remedies in cases involving orphan works

(c) Limitations on Remedies- The limitations on remedies in an action for infringement of a copyright to which this section applies are the following:

(1) MONETARY RELIEF-

(A) GENERAL RULE- Subject to subparagraph (B), an award for monetary relief (including actual damages, statutory damages, costs, and attorney's fees) may not be made other than an order requiring the infringer to pay reasonable compensation to the owner of the exclusive right under the infringed copyright for the use of the infringed work.

(B) FURTHER LIMITATIONS- An order requiring the infringer to pay reasonable compensation for the use of the infringed work may not be made under subparagraph (A) if the infringer is a nonprofit educational institution, museum, library, archives, or a public broadcasting entity (as defined in subsection (f) of section 118), or any of such entities' employees acting within the scope of their employment, and the infringer proves by a preponderance of the evidence that--

(i) the infringement was performed without any purpose of direct or indirect commercial advantage;

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`(ii) the infringement was primarily educational, religious, or charitable in nature; and

`(iii) after receiving a notice of claim of infringement, and having an opportunity to conduct an expeditious good faith investigation of the claim, the infringer promptly ceased the infringement.

`(2) INJUNCTIVE RELIEF-

`(A) GENERAL RULE- Subject to subparagraph (B), the court may impose injunctive relief to prevent or restrain any infringement alleged in the civil action. If the infringer has met the requirements of subsection (b), the relief shall, to the extent practicable and subject to applicable law, account for any harm that the relief would cause the infringer due to its reliance on subsection (b).

`(B) EXCEPTION- In a case in which the infringer has prepared or commenced preparation of a new work of authorship that recasts, transforms, adapts, or integrates the infringed work with a significant amount of original expression, any injunctive relief ordered by the court may not restrain the infringer's continued preparation or use of that new work, if--

`(i) the infringer pays reasonable compensation in a reasonably timely manner after the amount of such compensation has been agreed upon with the owner of the infringed copyright or determined by the court; and

`(ii) the court also requires that the infringer provide attribution, in a manner that is reasonable under the circumstances, to the legal owner of the infringed copyright, if requested by such owner.

`(C) LIMITATIONS- The limitations on injunctive relief under subparagraphs (A) and (B) shall not be available to an infringer or a representative of the infringer acting in an official capacity if the infringer asserts that neither the infringer nor any representative of the infringer acting in an official capacity is subject to suit in the courts of the United States for an award of damages for the infringement, unless the court finds that the infringer--

`(i) has complied with the requirements of subsection (b); and

`(ii) pays reasonable compensation to the owner of the exclusive right under the infringed copyright in a reasonably timely manner after the amount of reasonable compensation has been agreed upon with the owner or determined by the court.

(D) RULE OF CONSTRUCTION- Nothing in subparagraph (C) shall be construed to authorize or require, and no action taken under such subparagraph shall be deemed to constitute, either an award of damages by the court against the infringer or an authorization to sue a State.

(E) RIGHTS AND PRIVILEGES NOT WAIVED- No action taken by an infringer under subparagraph (C) shall be deemed to waive any right or privilege that, as a matter of law, protects the infringer from being subject to suit in the courts of the United States for an award of damages.

While the U.S. has yet to adopt legislation to expand access to for orphaned copyrighted works, the ACTA should not prejudice a solution along the lines set out by the U.S. Copyright Office or the proposals considered in the 110th Congress by the House and the Senate.

VIII. The Importance of Liability Rules and the Relationship to Injunctions and Damages in ACTA

We are conditioned to think of intellectual property rights as a set of exclusive rights, modeled after the rights we associate with ownership of physical property. In the TRIPS, product patents normally confer on its owner the exclusive rights to make, use, import, offer for sale, or sell the invention. Copyright and related rights normally confer the exclusive right of authorizing a bundle of activities, such as the reproduction, distribution, importation, translation, performance, broadcast or making available of works. In many OECD countries, the owner of test data used to register pharmaceutical or biologic drugs is granted the exclusive right to rely upon for the data for a period of time.

The granting of exclusive rights is a particular way to implement intellectual property rights. It has the advantage of a well known, independent and widely accepted system of valuing the invention, work or data – the market price determined between willing sellers and willing buyers. A system of exclusive rights is also associated with a vast set of shortcomings, flowing from the grant of the monopoly. In important cases, exclusive rights result in high transaction costs, excessive prices, barriers to access and follow-on innovation, and a plethora of other anticompetitive conduct.

Policy makers have a variety of options in dealing with the predictable and not-so-predictable abuses and failures of exclusive rights, including for example the granting of compulsory licenses or other limitations and exceptions to exclusive rights. An important class of such limitations and exceptions are those referred to by some authors as liability rules.

In a liability rule approach, the owner of the patent, copyright or other intellectual property right cannot prevent third parties from undertaking a use without authorization. However, such use will require payment of money to the right owner.

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By redefining intellectual property as a right to remuneration or compensation, without the exclusive right to control use, it is possible to expand the freedom of third parties to use copyrighted works and inventions, and to create more competitive markets for goods that embody the inventions or works.

A decision about whether to use a system of strong exclusive rights, or a liability rule approach, will depend upon judgments about the relative costs, efficiencies and advantages of bargaining controlled by right owners, as compared to a system where the greater freedom to use works is coupled with a system of third party valuation of inventions or copyrighted works. As the context and circumstances differ, so will the decisions about which approach to use.

Like most countries, the United States relies on both approaches. Strong exclusive rights are the rule normally for patents and copyrights. But in some particular areas, including several described above, liability rules exist.

Until recently, governments have had considerable freedom to experiment with alternatives to exclusive rights for both patents and copyrights, but the WTO TRIPS agreement has created a new system of enforceable norms that regulate intellectual property policy and practice among its members. In the area of copyrighted works and patented inventions, it is now more challenging to design limitations and exceptions to the rights described in Part II of the TRIPS. However, there is considerable flexibility in Part III of the TRIPS – the section on enforcement. While Part II of the TRIPS may require the grant of a right to exclude, Part III allows that right to be ignored, so long as adequate compensation or remuneration is provide for, as a damage awarded for use without authorization, under Article 44.2 of the TRIPS.

One illustration of the difference between Parts II and III of the TRIPS is the use of copyrighted works by or for the US government. Under US law, all copyrighted works are subject to use without authorization from right owners, under 28 USC 1498 (b). The U.S. statute is not consistent with the restrictions on limitations and exceptions in the Berne or Part II of the TRIPS, but it is consistent with Part III Article 44.2 of the TRIPS.

Similar liability rules are found in other parts of US law and in foreign government statutes, such as the Canadian law that does not grant injunctions for buildings under construction that infringe copyrighted architectural designs, the US rules for patents on atomic energy, remedies for innocent infringements of protected semiconductor computer chips, certain uses of agriculture test data,¹² or recent Congressional proposals for authorizing uses of orphaned copyrighted works.

KEI has been concerned from early on, and has expressed to ACTA negotiators on several

¹² For cases of regulatory test data involving vertebrate animals, the European Union has proposed a system of liability rules, in order to avoid duplicating the tests, in Article 11 of the intellectual property chapter of the proposed Canada - EU Comprehensive Economic Trade Agreement (CETA).

occasions, that some proposals for ACTA will eliminate or considerably narrow the flexibilities in the TRIPS to implement liability rules under Part III of the TRIPS.

IX. Secrecy is not appropriate for a negotiation on global standards for injunctions and damages

The ACTA has been conducted in extraordinary secrecy. This secrecy has been justified by several false assertions. Among the untrue assertions were the following:

- ACTA negotiations involve sensitive law enforcement issues that cannot be discussed in public.
- ACTA would not require changes to any domestic laws.
- Intellectual Property Negotiations are “always” secret.¹³
- ACTA will only focus on counterfeits and copyright piracy.
- ACTA will only involve provisions already in US FTA agreements.
- The release of the ACTA text would jeopardize the national security of the United States.

Even before the most recent disclosures of the negotiating text from unofficial sources, it was clear that all of these initial assertions were untrue. Today, with a leaked copy of the January 18, 2010 consolidated negotiating text widely available, the rationale for secrecy is extremely weak, and the case for transparency is quite strong. In the damages and injunction sections of the text alone, the ACTA negotiators appear to be poorly informed of the unintended consequences of proposals, in dozens of areas.

Ironically, in numerous U.S. bilateral trade negotiations, the U.S. demands that our trading partners provide extensive transparency of the policy making processes associated with setting reimbursements for pharmaceutical drugs or medical devices, or considering the issuance of compulsory licenses.

Policy makers need to reflect on the purposes and rationale for transparency in policy making. In doing so, it will be useful to consider the memorandum issued by President Barack Obama on January 21, 2009, his first day in office, on transparency and open government.

Government should be transparent. Transparency promotes accountability and provides information for citizens about what their Government is doing. Information maintained by the Federal Government is a national asset. My Administration will

¹³ For evidence to the contrary, see: ACTA is secret. How transparent are other other global norm setting exercises? July 21, 2009. http://www.keionline.org/misc-docs/4/attachment1_transparency_ustr.pdf, Transparency of negotiating documents in selected fora, http://www.keionline.org/misc-docs/4/attachment2_transparency_ustr.pdf.

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take appropriate action, consistent with law and policy, to disclose information rapidly in forms that the public can readily find and use. Executive departments and agencies should harness new technologies to put information about their operations and decisions online and readily available to the public. Executive departments and agencies should also solicit public feedback to identify information of greatest use to the public.

Government should be participatory. Public engagement enhances the Government's effectiveness and improves the quality of its decisions. Knowledge is widely dispersed in society, and public officials benefit from having access to that dispersed knowledge. Executive departments and agencies should offer Americans increased opportunities to participate in policymaking and to provide their Government with the benefits of their collective expertise and information. Executive departments and agencies should also solicit public input on how we can increase and improve opportunities for public participation in Government.

Government should be collaborative. Collaboration actively engages Americans in the work of their Government. Executive departments and agencies should use innovative tools, methods, and systems to cooperate among themselves, across all levels of Government, and with nonprofit organizations, businesses, and individuals in the private sector. Executive departments and agencies should solicit public feedback to assess and improve their level of collaboration and to identify new opportunities for cooperation.

If the ACTA negotiators were not operating in an information cocoon, designed to marginalize consumer interests, they would have had the benefit of feedback from a variety of sources, with expertise far greater than that available to the negotiators under the intense secrecy they have imposed on their activities.