

KEI TPP Note: IP Chapter language on damages conflicts with US copyright law, and blocks reforms being considered by the USPTO Green Paper

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The Wikileaks release of the August 30, 2013 version of the TPP chapter on intellectual property rights raised many issues, one of which concerns the standards the US has proposed for damages. The US proposals are consistently the most aggressive, and some now exist in the text without brackets. We note that the TPP text on damages conflicts with US law, and blocks reforms being considered by the USPTO Green paper.

The USPTO green paper notes that it will solicit comments or establish multi-stakeholder dialogue or recommend additional work on various issues that relate to remedies and damages. However, the language proposed in the TPP will limit reform in numerous areas that the USPTO has identified in its green paper as areas where additional work could be done.

First, consider the TPP IPR Chapter paragraphs 2, 2bis and 2ter of Article QQ.H.4, which creates standards for damages involving all intellectual property rights, including copyright.

Article QQ.H.4: {Civil Procedures and Remedies / Civil and Administrative Procedures and Remedies}

2 Each Party shall provide [198] that in civil judicial proceedings its judicial authorities have the authority at least to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered [PE oppose: 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.]
[SG/PE/AU/NZ/MY/CL/CA/MX/BN/VN oppose: 199]

2bis. At least in cases of copyright or related rights infringement and trademark counterfeiting, each Party shall provide that, in civil judicial proceedings, its judicial authorities have the authority to order the infringer to pay the right holder the infringer's profits that are attributable to the infringement.[200]

2ter. In determining the amount of damages under paragraph 2, its judicial authorities shall have the authority to consider, inter alia, any legitimate measure of value the right holder submits, which may include lost profits, the value of the infringed goods or services

measured by the market price, or the suggested retail price.

198 [AU/NZ/MY/CA/JP/SG propose: A Party may also provide that the right holder may not be entitled to either of the remedies set out in 2 and 2bis in the case of a finding of non-use of a trademark] [JP/AU/SG/CA/MY propose: it is understood that there is no obligation for a Party to provide for the possibility of the remedies in 2 and 2bis to be ordered in parallel.]

199 [US propose: In the case of patent infringement, damages adequate to compensate for the infringement shall not be less than a reasonable royalty.] [Negotiators' note: JP can go along with consensus.]

200 [CA propose: A Party may exclude from the application of this Article cases of Copyright or related rights infringement where an infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity or where an infringer is a non-profit entity.][JP propose: A Party may presume those profits to be the amount of damages referred to in the preceding paragraph.]

Particularly aggressive is the language in 2ter (also used in ACTA, an agreement not approved by the Congress and not subject to dispute resolution), which states:

“its judicial authorities shall have the authority to consider, inter alia, any legitimate measure of value the right holder submits, which may include lost profits, the value of the infringed goods or services measured by the market price, or the suggested retail price.”

The general standard for actual damages and lost profits in the US copyright law is set out in 17 USC 504(b), which states:

(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(b) uses the term “actual damages,” and when discussing the infringers profits, refers to the infringer’s “gross revenue,” reduced by “his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.”

In contrast, the TPP language requires member countries to consider “any legitimate measure of value,” and states that this “may include the value of the infringed goods or services measured

by the market price, or the suggested retail price.”

A defendant in an infringement suit, for example, arguing over whether or not distribution of a work on a listserve, Facebook or a blog is protected by fair use, would likely object to the notion that the suggested retail price of a work was the correct value to use in calculating damages to the copyright holder, particularly if the infringement did not have an impact on right holder sales. But the TPP language requires that copyright holders have the right to present and have considered by judicial authorities “any legitimate measure of value the right holder submits, including the “suggested retail price.”

More generally, for anyone who thinks that sales are equal to suggested retail price, I recommend a visit to Costco, Amazon.Com, eBay, Safeway, CVS drugs, Best Buy, Marshalls, Joseph Banks, or even 7-11, Brooks Brothers or Nordstroms, which, like 99 percent of all retail outlets, routinely sell goods at discounts below the suggested retail price.

In Chapter 13 of the US Copyright law, regarding Protection of Original Designs, the current US standards for damages and infringer profits are set out in 17 USC 1323. Damages are specifically described as "compensation and not a penalty." Profits are based upon "the infringer's sales" less the infringers expenses. Again, this does not square with "suggested retail price."

17 USC Chapter 13 - PROTECTION OF ORIGINAL DESIGNS

17 USC § 1323. Recovery for infringement

(a) Damages. — Upon a finding for the claimant in an action for infringement under this chapter, the court shall award the claimant damages adequate to compensate for the infringement. In addition, the court may increase the damages to such amount, not exceeding \$50,000 or \$1 per copy, whichever is greater, as the court determines to be just. The damages awarded shall constitute compensation and not a penalty. The court may receive expert testimony as an aid to the determination of damages.

(b) Infringer's Profits. — As an alternative to the remedies provided in subsection (a), the court may award the claimant the infringer's profits resulting from the sale of the copies if the court finds that the infringer's sales are reasonably related to the use of the claimant's design. In such a case, the claimant shall be required to prove only the amount of the infringer's sales and the infringer shall be required to prove its expenses against such sales.

In Chapter 9 of the Copyright Act, the standards for damages are limited to “actual damages” plus profits “not taken into account in computing the award of actual damages.” Unless the suggested retail price has some bearing on “actual damages” it would not be permitted. Against, profits are based not on “market” or “suggested retail price” but the “infringer’s gross revenue.”

**Chapter 9
Protection of Semiconductor Chip Products**

17 USC § 911 · Civil actions 6

(b) Upon finding an infringer liable, to a person entitled under section 910(b)(1) to institute a civil action, for an infringement of any exclusive right under this chapter, the court shall award such person actual damages suffered by the person as a result of the infringement. The court shall also award such person the infringer’s profits that are attributable to the infringement and are not taken into account in computing the award of actual damages. In establishing the infringer’s profits, such person 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 mask work.

In Chapter 9 of the Copyright Act concerning protection of semiconductor chip products, there is another problem with the TPP text. In this case, after an infringer receives notice, they can distribute infringing works, and be “liable only for a reasonable royalty” on the infringing works. This is not a minor issue, and in fact, the limitations on damages is actually required by the Article 37 of the TRIPS, one of the few areas (like the quotation or news of the data exceptions) where limitations on rights are mandated by TRIPS.

What is unclear from the TPP language is the status of a work that was once infringed without knowing the work was infringing, but then infringed, after receiving notice.

Chapter 9 Protection of Semiconductor Chip Products

§ 907 · Limitation on exclusive rights: innocent infringement

(a) Notwithstanding any other provision of this chapter, an innocent purchaser of an infringing semiconductor chip product—

(1) shall incur no liability under this chapter 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.

What the TPP proposes is to increase the standards for damages, on all IP cases, and for knowing infringements, at all times, with no exceptions. There is no evidence that such an across the board increase in global norms is needed, or would provide net benefits to US right holders, consumers and businesses that provide access to information, or produce new innovations.

One example of the problems the US text creates concerns orphaned copyrighted works.

Orphan Works

The USPTO green paper is supportive of efforts to address the issue of orphan works, including by specifically noting that past proposals in the United States have included limitations on remedies. The green paper states:

The Task Force believes that the time is ripe to address the orphan works issue, and to ensure that the United States can play a leadership role in shaping international thinking. At the domestic level, the Task Force will support and provide input to the Copyright Office as it examines the issue of orphan works.

Summarizing past reform efforts, the green paper notes:

In a 2006 Report, the Copyright Office endorsed a legislative solution based on limiting remedies against good faith users of orphan works. Legislation was introduced in 2006 and again in 2008 that closely tracked the Report's recommendations.

[...]

Although the user could be liable for infringement if the copyright owner later appeared, any damages would have been limited to a reasonable licensing fee based on what a willing buyer and willing seller would have agreed to in advance

Limiting the amount of damages available with respect to the use of orphan works is a critical part of past proposals. Including language in the TPP that assumes or supports higher damages goes against areas of proposed reform, including orphan works, that rely on limitation

on remedies.

Another area where the USPTO green paper proposes reforms that include limitations on remedies would be those relating to incentives for registering works.

Incentives for public registration and recordation system

The USPTO green paper has proposed that incentives be explored to use public registration and recordation systems, including those dealing with remedies for infringement. One possible implementation of such reforms would be to limit damages for unregistered works, to a lower standard than exists for registered works, not unlike some of the measures proposed to address the orphan works issue. The TPP should not prohibit consideration of such measures.

This comment only addresses a handful of issues relating to copyright damages. The TPP language on damages also presents significant conflicts in the area of patents with the Affordable Care Act, patents on nuclear energy, caselaw on US government use of patents, copyrights and other intellectual property rights, and certain trademark violations.