A new opportunity in the fight against fakes

The Anti-Counterfeiting Trade Agreement (ACTA)

By Lisa Peets and Mark Young of Covington & Burling LLP

With courts and parliaments closing for several weeks, people drifting off on vacation, and all change at the Commission next year, one might have expected little activity on the IP policy front this summer. Nothing could have been further from the truth, however. Within the space of only a few weeks in July and August there was a near flood of communications and consultation documents: the Commission published its long-awaited Communication on an industrial property rights strategy for Europe (addressing enforcement against counterfeiting, amongst other things) and a Green Paper on Copyright in the Knowledge Economy; the European Economic and Social Committee released an opinion on new trade agreement negotiations, which includes recommendations to strengthen IPR provisions and enforcement activity in future bilateral and regional trade agreements; the UK Government adopted a consultation on legislative options to address illicit peer-to-peer file-sharing having brokered a ‘Memorandum of Understanding’ between UK ISPs and the music and movie industries; and the UK Intellectual Property Office announced a new consultation on penalties for copyright infringement.

And meanwhile, over and above these European and more local UK issues, rumbles about a new international trade agreement regarding counterfeiting and piracy continued. The Anti-Counterfeiting Trade Agreement (ACTA) has attracted worldwide press attention, which is unsurprising given that it represents a rare and significant opportunity to achieve international consensus on increased IPR protections in the near-term. The proposed agreement is an important development that trademark and other rights owners should be following and actively supporting.

Origins of ACTA

While the G8 gave early indications relating to various IPR initiatives, the first public statement about ACTA was not made until October 2007, when the United States’ trade ministry – the Office of the U.S. Trade Representative (USTR) – announced that the United States and some of its key trading partners would seek to negotiate an anti-counterfeiting trade agreement. This was echoed by other agencies of participating nations around the world, which at the outset included Canada, the European Union, Japan, South Korea, Mexico, New Zealand, and Switzerland.

ACTA was described as a leadership effort by nations committed to strong IPR protection, which aimed to raise the international standard for IPR enforcement.
to address current challenges of counterfeiting and piracy. Instead of seeking to amend the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), USTR expressed the hope that this new plurilateral trade agreement would “set a new, higher benchmark for enforcement that countries can join on a voluntary basis”. From the U.S. perspective, ACTA also is intended to complement other trade policy tools that USTR uses to protect U.S. intellectual property overseas, such as free trade agreements, World Trade Organisation accession negotiations, and the Special 301 process. Similarly, the European Commission expressed the view that ACTA would strengthen efforts to protect European intellectual property around the world, a key objective of the EU’s Global Europe trade strategy.

Provisions and developments
According to the initial press releases and a USTR fact sheet, the envisioned agreement would include commitments in three areas:

**Strengthening international cooperation.** Recognising that information-sharing and greater cooperation among law enforcement authorities (including customs) is essential to combating international counterfeiting operations, the negotiators put capacity building and technical assistance in improving enforcement first on the ACTA agenda.

**Improving enforcement practices.** ACTA also has been envisaged as providing an opportunity to establish “best practices” in terms of enforcement, by fostering specialised intellectual property expertise within law enforcement agencies to ensure effective handling of IPR cases and by raising public awareness about the vital role IPR plays in modern economies and the damage caused by widespread counterfeiting and piracy.

**Providing a strong legal framework for IPR enforcement.** Acknowledging the importance of a strong legal framework to underpin all of these efforts, USTR suggested possible provisions would include measures on both criminal and civil enforcement, optical disc piracy, border measures, and internet distribution. Following the initial public announcement last year, other countries including Australia, Jordan, Morocco, Singapore and the United Arab Emirates have joined the ACTA negotiations, which have been progressed recently at a June meeting in Geneva, and in July both at the G8 Hokkaido Toyako Summit Meeting and later in the month in Washington DC. While there have been complaints from certain quarters regarding the transparency of the negotiation process, stakeholders have had a degree of opportunity to provide input. USTR, for example, published a notice in the Federal Register in February requesting public comments on

“specific matters that should be the focus of [ACTA],” and on July 8 posted four volumes of public submissions on its website. Outside of the United States there have been consultations and meetings about ACTA, albeit on perhaps a surprisingly small scale. The Australian Department of Foreign Affairs and Trade issued a Discussion Paper in November on whether Australia should join the negotiations, in Europe the Directorate General for Trade of the Commission organised an afternoon meeting in Brussels on 23 June and invited interested parties to present their positions in writing, and Foreign Affairs and International Trade Canada held a consultation in April.

Because no drafts of the agreement itself have been released, however, the available information on specific topics being negotiated is limited. Our analysis therefore derives from leaked papers and is surmised from submissions that interested parties have made to consultations. Among these, a leaked discussion paper from the negotiating parties (the author is unclear) published on May 22 on Sunshine Media’s wikileaks.org website repeats the three broad categories of agenda items outlined above – international cooperation, enforcement practices and legal framework – and identifies more specific examples of provisions that could be included in the new agreement. These include such proposals as a provision criminalising IPR infringements “on a commercial scale”, which the paper describes as including “significant wilful infringement without motivation for financial gain to such an extent as to prejudicial affect the copyright owner”. Given disagreements over the definition of “commercial scale” in some markets – with some suggesting that the term, which derives from Article 61 of the TRIPS Agreement, should be limited to infringements undertaken for profit – the proposed ACTA definition would be a welcome development for right holders. Indeed the question of how to define “commercial scale” was recently at issue in the EU, in the context of the proposed Directive to harmonise criminal sanctions for IP infringements. European Parliamentarians had proposed amending the
Directive, which has been on the back-burner for over a year, to include a definition of infringement on a “commercial scale” that would limit the phrase to cover only infringements “committed to obtain a commercial advantage”. This would have excluded some of the most serious infringers from the Directive’s scope, including so-called “release groups” who some estimate are responsible for up to 90% of Internet piracy. These groups, rather than pursuing any commercial purpose, thrive on the simple notoriety of being the first to make unauthorized copies of copyright works available for further unlawful distribution on the internet. Although such activity is unmotivated by profits, it takes place on a commercial scale and has the same impact on right holders as for-profit piracy.

ACTA discussions also appear to include a proposal to address “knowingly trafficking in counterfeit labels which are intended to be used on protected goods.” This would be a welcome development for many brand owners, who experience significant problems both with counterfeit labels that appear to be genuine but are not, and also with ‘illicit’ labels that are genuine authentication documents obtained through illicit means (e.g., theft or fraud) and fraudulently bundled with counterfeits or other unauthorised copies. While some countries already have laws that could provide the basis for imposing criminal penalties on trafficking in counterfeit labels (at least in certain cases), the position regarding criminalising trafficking in illicit labels appears less certain.

Another eye-catching element of the legal framework part of the leaked discussion paper relates to civil enforcement and the proposal to introduce “[d]amages to compensate, including measures to overcome the problem of right holders not being able to get sufficient compensation due to difficulty in assessing the full extent of the damage”. This appears to be aimed at introducing pre-established or statutory damages, or a statutory formula to calculate damages with a view to arriving at fines that are likely to act as a deterrent to counterfeiters and pirates (as required under the WTO TRIPS Agreement) – critically necessary, given that current damages regimes often result in awards far lower than the actual losses to right holders and actual profits of certain infringers. Border measures also are high on the agenda, including ex officio authority for customs authorities to suspend import, export and trans-shipment of suspected IPR infringing goods, and authority to impose deterrent penalties. Several interested parties including the International Trademark Association have expressed support for such measures, which would help to disrupt the flow of counterfeit goods.20

One issue that did not feature prominently in the discussion paper, but which is a top priority for some in the right holder community, is secondary liability and an increased onus on ISPs to detect online copyright infringement.21 The discussion paper proposes that there should be “safeguards for Internet service providers (ISPs) from liability, to encourage ISPs to cooperate with right holders in the removal of infringing material”. This encouragement of voluntary, industry-led cooperation will certainly be welcomed by many internet stakeholders – particularly given efforts in some markets, such as France, to compel ISPs and technology providers to detect, intercept and/or prevent online infringement. Some sectors have questioned the efficacy of such proposals, given that government regulations are not apt to keep pace with technological change. Other opponents have raised equally important issues ranging from user privacy to due process, and questioned whether ISPs should police the interests of other third party right holders.

A further issue that is a high priority for right holders but that was not mentioned in the discussion paper relates to the processing and collection of internet protocol (IP) addresses in the context of investigating piracy. As it is possible to detect online infringement by monitoring the distribution of unauthorised content over peer-to-peer networks and potentially identify participants by their IP addresses, many right holders argue that online enforcement is impeded by privacy authorities that deem IP addresses to be personal data and therefore subject to stringent data protection rules. This issue is complicated by the differing approaches taken towards data privacy in the U.S. and in Europe, but it may benefit right holders if the proposed agreement were to address the issue regarding IP addresses.

The negotiating process and the position of the European Commission

As stated at the outset, the goal of the negotiating parties is to provide a high-level international framework that strengthens the global enforcement of intellectual property rights and assists in the fight to protect consumers from the health and safety risks associated with many counterfeit products. In short, the hope is that the agreement will create a new global “gold standard” on IPR enforcement.22 While some in the IP community have expressed concern about the negotiations not taking place within established international policymaking fora that permit greater transparency such as the WIPO or the WTO,23 the European Commission has been open from day one that “the approach of a free-standing agreement gives us the most flexibility to pursue this project among interested countries”, and that while it “fully supports the important work of the G8, WTO, and WIPO”, it believes that “membership and priorities of those organizations simply are not the most conducive to this kind of path breaking project.”24 In light of this objective and the ambition of the negotiators, there clearly is a real opportunity for right holders to achieve new IPR enforcement standards via the proposed agreement.

Despite Europe’s high aspirations for the agreement, however, the EU’s involvement in the ACTA negotiations has been complicated by a tussle between the Commission, Member States and the EU Presidency over who should have a seat at the negotiating table, and by a more fundamental question over whether the Commission has the competence to negotiate criminal measures on behalf of Member States. This latter issue depends on the scope of the Commission’s negotiating authority with respect to ACTA, and on the extent of the Commission’s authority to direct the Member States to implement any criminal measures so negotiated.

Generally, issues relating to criminal measures have been deemed to be within the “competence” of the EU’s Member States. A recent decision by the European Court of Justice indicates that the Commission does have some authority in this regard, however. European Commission v European Council25 suggests that while, as a general rule, criminal law and procedure fall outside Community competence, the Commission may direct Member States to impose criminal penalties on conduct that otherwise falls within the scope of the Commission’s authority to regulate.26 In addition, in an earlier decision, the ECJ confirmed that the Commission, as an institutional matter, has the authority to negotiate international agreements on IPR protection, even where such agreement includes commitments to adopt criminal measures.27 Ultimately, the Commission’s ability to negotiate the criminal measures in the context of an international treaty is determined by the negotiating mandate issued...
by the Council of the European Union before the onset of negotiations. The Council’s mandate to the Commission with regard to the ACTA negotiations is confidential, which is customary practice. That said, there is no indication that this mandate limits or bars the Commission from negotiating or accepting criminal measures in ACTA.

**Next steps and timing**

In their Declaration on the World Economy following the Hokkaido Toyako Summit Meeting in July, G8 members expressed support for the “acceleration of negotiations to establish a new international legal framework [ACTA]” and the wish “to complete the negotiation by the end of this year”. Participants in the negotiation held later in the month in Washington DC welcomed this statement of support, and were reported to have progressed discussions of the proposed agreement by focusing on civil remedies for infringements of intellectual property rights, including such issues as availability of preliminary measures, preservation of evidence, damages, and legal fees and costs. Participants also continued their previous discussions of border enforcement of intellectual property rights. Although the G8’s preferred timescale may be unrealistic and unnerves many who feel too little is known currently about the substance of ACTA, the commitment of participating nations to continue consulting with stakeholders through domestic processes and to continue exploring opportunities for stakeholder consultations is very welcome.

Right holders whose bottom line is affected drastically by counterfeiting and piracy should take every opportunity to engage in the process by mobilising effectively to make their wishes known to their national representatives participating in the negotiations. This should happen now in time for the next round of meetings, which at the time of writing has tentatively been scheduled for October.

**Notes**

1. See http://ec.europa.eu/internal_market/index_en.htm
2. See http://ec.europa.eu/internal_market/copyright/docs/copyright_info/greenpaper_en.pdf
5. See http://www.ipo.gov.uk/about/about-
consult/about/formal/about-formal-
current/about-formal-currentconsult-gowers36.htm
6. Reports based on freedom of information requests also state that internal discussions on ACTA started in 2006, see http://www.thestar.com/sciencetech/article/439551
9. USTR press release, supra n.7.
10. See our article in the July/August edition of Trademark World for an overview and analysis of this year’s Special 301 Report.
13. Id.
14. See, for example, law professor Michael Geist’s submission to the Foreign Affairs and International Trade Canada consultation on ACTA, in which he criticises the developments for lacking transparency and for excluding civil society groups and developing countries, http://www.michaelgeist.ca/content/view/2898/125/
21. See, for example, the submission of the Recording Industry Association of America to USTR, urging ISPs and other intermediaries be required “to employ readily available measures to inhibit infringement in instances where both legitimate and illegitimate uses were facilitated by their services, including filtering out infringing materials”, at http://www.ustr.gov/assets/Document_Library/Federal_Register_Notices/2008/july/asset_upload_file976_14996.pdf
25. C-440/05 [2007] All ER (D) 338 (Oct).
26. Judgment, ¶ 66. Although the ECJ’s decision’s by its terms was limited to measures in the field of environmental protection, its reasoning applies with equal force to other areas of Community policy, such as the free movement of goods and the protection of intellectual property rights.
27. In response to a challenge to the Commission’s competence to conclude measures relating to IPRs in the context of the WTO TRIPS negotiations, the ECJ held that the authority to negotiate such measures does not fall within the exclusive competence of the Member States. Opinion 1/94 [1994] ECR 1-5267.
28. See http://www.g8summit.go.jp/eng/doc/doc080709_01_en.html
30. Id.