

July 23, 2008

Stanford McCoy  
Assistant United States Trade Representative  
for Intellectual Property and Innovation  
600 17<sup>th</sup> Street NW  
Washington D.C. 20508

Re: July 29-31 Negotiations on ACTA

Dear Mr. McCoy:

Earlier this week, the Australian Department of Foreign Affairs and Trade (DFAT) published a list of issues to be discussed at the upcoming negotiating round on the Anti-Counterfeiting Trade Agreement (ACTA) on July 29-31. Here we provide some brief observations on these issues.

**Pre-Established or Statutory Damages.** We strongly oppose any requirement in ACTA that signatories enact statutory damages provisions. U.S. law does not permit statutory damages for trademark<sup>1</sup> or patent infringement, so we assume that mandating such damages through ACTA is not contemplated.

While the U.S. Copyright Act does allow copyright owners to seek statutory damages instead of actual damages and profits, the high upper limit on such damages (\$30,000 per work infringed, increasing to \$150,000 in cases of willful infringement) has enabled copyright owners to seek, and courts to grant, draconian awards grossly in excess of any actual harm. This, in turn, has encouraged frivolous litigation and unfair settlements. Additionally, the threat of statutory damages in secondary liability cases has chilled innovation.

Moreover, copyright statutory damages remain controversial in the United States. H.R. 1201 in the current Congress would amend 17 U.S.C. § 504(c) to permit statutory damages only in instances of direct infringement. The PRO-IP Act, as introduced, would have repealed a sentence in section 504(c) that allows only one award of statutory damages for the infringement the works contained in a compilation or derivative work. Repeal of this sentence would have enabled even more exorbitant damage demands by copyright “trolls.” After vigorous lobbying by a wide range of entities, the House IP subcommittee dropped the provision, while recognizing the need to revisit the entire statutory damages framework. Attached is a paper prepared by opponents of the provision that explains in much greater the basis of their opposition. The paper indicates that the existing statutory damages regime is already tilted in favor of copyright owners.

Copyright statutory damages are one feature of our IP law that we should not seek to export. While ACTA could, like Article 45(1) of the TRIPS Agreement, give signatories

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<sup>1</sup> Statutory damages are available under Title 15 for counterfeiting and cybersquatting.

the flexibility to adopt statutory damages, ACTA should not mandate the enactment of a statutory damages system.

**Statutory Formula for Calculation of Damages.** The proper methodology for calculating damages was one of the most contentious issues in the patent reform debate this Congress. This contentiousness demonstrates the difficulty underlying your stated intent in this exercise to “color within the lines” of U.S. IP law. First, IP law is extremely complex, so often it is not clear where the lines are. In the patent damages context, different industries disagree on what the current law is regarding apportionment and the entire market value rule. Second, Congress frequently moves the lines. Because of rapidly evolving technology, virtually every Congress makes significant amendments to the Copyright Act. Congress often amends the patent and trademark laws as well. Thus, ACTA’s provisions concerning damages need to be sufficiently general to accommodate the range of interpretation under existing U.S. law, and to give Congress the flexibility to amend the law.

In any event, the one formula for damages that ACTA should not contain is treble damages. Treble damages are an unfortunate feature of U.S. patent and trademark law, and have had the same negative effects as statutory damages in copyright law. Plaintiffs allege willful infringement in almost 90% of patent cases in an attempt to cash in on the treble damages lottery or force a generous settlement. For this reason, both the House and Senate versions of the patent reform legislation this Congress contain provisions intended to tighten the standards for willful infringement.

**Institutional Issues.** We have grave concerns about the establishment of a new institution to address international trade in infringing material. An institution with such a narrow focus might fail to balance IP enforcement with other important societal goals. The pursuit of counterfeit and infringing products must not unduly burden legitimate commerce, impede innovation, undermine consumer privacy, or restrict the free flow of information.

Finally, we wish to express our disappointment that we learned of the agenda for next week’s negotiations from the DFAT website rather than our own government. Given the stakes for the future innovation and economic growth of our country, we believe USTR should go out of its way to make the ACTA process more inclusive and transparent.

Respectfully,

Computer & Communications Industry Association  
Library Copyright Alliance  
NetCoalition