

The PRO-IP Act: Another Weapon Against a Failing Economy

By Stephen J. Zralek and Dylan Ruga

We are a nation in the midst of an unprecedented financial crisis. It is not just our financial enterprises that are shaken but our confidence in our own economic strength. The members of this Congress and the people of this nation are being asked to take extraordinary steps to contain the explosions on Wall Street.

We must not, as we try to repair the structure of our financial institutions, neglect the very sources of our economic power. Intellectual property—copyrights, patents, trademarks, and trade secrets—is an ever-growing sector of our economy. We are the envy of the world for the quality and the quantity of our innovative and creative goods and services. If we want to continue to lead the world in producing intellectual property, we need to protect Americans' rights in that property.

—Senator Patrick J. Leahy (D-VT)¹

On October 3, 2008, the president signed into law the biggest bailout in U.S. history, the Emergency Economic Stabilization Act of 2008. Ten days later, on October 13, 2008, against the backdrop of the worst financial crisis since the Great Depression, President Bush signed the Prioritizing Resources and Organization for Intellectual Property Act of 2008, better known as the PRO-IP Act.²

Among other things, the PRO-IP Act

- increases criminal penalties and available civil remedies for counterfeiting and infringement;
- relaxes the registration requirements needed in civil cases to establish jurisdiction and recover statutory damages and attorneys' fees;
- elevates the federal coordinator of IP protection efforts to a position reporting directly to the president;
- explicitly allows for the seizure of related records and equipment used to carry out infringement or counterfeiting efforts; and
- provides significant amounts of funding for enforcement measures at the federal, state, and local levels.

Impetus for the Act

In touting the merits of the bill on the floor of the Senate, Senator Leahy, one of the Senate cosponsors, described American intellectual property as the “lifeblood of our economy.”³ Senator Tom Coburn (R-OK) warned about “illegal importation of counterfeit goods, such as pharmaceuticals, [threatening] the health and safety of U.S. citizens.”⁴ Other senators cited the need to protect Americans from faulty electrical products and fake auto parts.

Senator George Voinovich (R-OH) called those who violate American intellectual property the “pirates of the twenty-first century.”⁵ As he explained, IP theft has expanded beyond merely knocking off purses and illegally downloading digital music. “Today,” he stated, “almost every product being made is subject to being counterfeited.” He gave an example of counterfeit air brakes in tractor-trailers that look so authentic that some counterfeit products are returned to the legitimate

manufacturer seeking a replacement or refund under the warranty program. “[G]iven the proliferation of counterfeit goods into areas such as pharmaceuticals and auto parts, it is only a matter of time before our nation sees the dire health and safety consequences arising from this problem.”⁶

In reviewing the goals of the bill, the Senate connected its desire to strengthen protection of American intellectual property with its efforts to repair the economy. Senators discussed the U.S. Chamber of Commerce’s study showing that IP theft costs American businesses an estimated \$250 billion each year, as well as an estimated 750,000 jobs. They also noted that “we are a nation in the midst of an unprecedented financial crisis.”⁷ “Our bill,” Senator Leahy remarked, “is going to improve the enforcement of our nation’s intellectual property laws, . . . bolster our intellectual-property-based economy, and . . . protect American jobs.”⁸

Controversial Provisions of the Bill Eventually Amended

The most controversial provisions of the bill in its early form included measures that would: (1) authorize prosecutors to pursue civil infringement actions; (2) authorize the seizure of devices used to carry out infringement or counterfeiting activities without any safeguards to protect privacy and sensitive or proprietary information; (3) alter the “one-work” approach to statutory damages for copyright infringement of works in a compilation so that each work in a compilation would have been entitled to separate remedies; and (4) create an Intellectual Property Enforcement Coordinator (IPEC), or what some commentators have called the “IP czar,” who could operate without any restrictions that would prohibit his or her interference in enforcement or prosecution efforts. By the time the Act was signed into law, each of these issues had been resolved. (Some opponents continue to fight against the seizure and forfeiture provisions of the Act, in general, but amendments to the bill at least added missing protections for privacy and confidential material.) The bill passed the House by a vote of 410 to 11, and it passed the Senate unanimously.

When originally proposed, the bill had many opponents, not the least of which were the Bush Administration and the Department of Justice. The House version of the bill and the version that initially made it out of the Judiciary Committee authorized the attorney general to not only pursue civil remedies for copyright infringement, but also to secure civil damages in the form of restitution to be awarded to the copyright owners. In a letter to the Senate Judiciary Committee, the Departments of Justice and Commerce warned that the bill could result in prosecutors “serving as pro bono lawyers for private copyright holders regardless of their resources. In effect, taxpayer-supported Department lawyers would pursue lawsuits for copyright holders, with monetary recovery going to industry.”⁹ In the Act’s final form, however, this controversial provision was stricken, and copyright owners alone have standing to pursue civil infringement actions.

As for the provision creating the new IPEC, senators themselves expressed concern that the person in this position would have unchecked powers.¹⁰ The new IPEC will be appointed by the president and be on a par with the U.S. Trade Representative and the director of the federal Office of National Drug Control Policy (i.e., the U.S. “drug czar”) as a member of the Executive Office of the President. As originally drafted, the bill contained no language preventing the IPEC from exercising control over criminal investigations and prosecutions. The Act signed into law, however, states that the IPEC “may not control or direct any law enforcement agency, including the Department of Justice, in the exercise of its investigative or prosecutorial authority.”¹¹ To the extent the “IP Czar” label sticks, the IPEC fits the lesser-known definition of “czar”: “an appointed official having special powers to regulate or supervise an activity,”¹² rather than the more common meaning: “a person having great power; an autocrat.”¹³

Civil Trademark Damages

The Act contains two significant amendments to civil penalty provisions in the Lanham Act; one affects direct infringers, the other affects contributory infringers. With respect to direct infringers, section 104 of the Act doubles the amount of statutory damages available in counterfeiting cases. Prior to the Act, a court had discretion to award statutory damages in amounts between \$500 and \$100,000 or up to \$1,000,000 if the counterfeiting was willful. Under section 104, however, the range now is from \$1,000 to \$200,000 or up to \$2,000,000 in cases of willful counterfeiting.

The apparent goal of section 104 is to deter counterfeiting by increasing the risks to those who are caught. Generally speaking, people who engage in counterfeiting activity (like those who engage in other crimes) are aware that their conduct is wrongful. If we assume that these individuals engage in rational decision making, then they will engage in the wrongful activity if the potential risk is outweighed by the anticipated reward. By increasing the risk involved, the Act seeks to tip the scale and prevent future counterfeiting activity before it starts.

It is doubtful, however, that section 104 will have much effect on the counterfeiting industry because counterfeiters, in general, are difficult to catch and rarely are capable of satisfying a judgment. Indeed, most counterfeiters operate out of

back alleys or anonymous storefronts on the Internet; they are transient and disappear easily when caught. Even if a plaintiff is able to identify a particular counterfeiter and file a lawsuit, the result usually is a default judgment against somebody with few assets. Accordingly, for the vast majority of counterfeiters, the threat of a \$2,000,000 judgment is no more frightening than the threat of a \$1,000,000 judgment.

The second significant change to civil trademark penalties is found in section 103 of the Act, which clarifies that treble damages and attorney’s fees “shall” be awarded in cases of willful counterfeiting regardless of whether the defendant is a direct infringer or vicarious infringer. Former section 35(b) of the Lanham Act stated that treble damages and attorney’s fees shall be awarded whenever someone is liable for willfully using a counterfeit mark “in connection with the sale, offering for sale, or distribution of goods or services.” Section 103 keeps this language but clarifies that the same penalty is available against vicarious and contributory counterfeiters.

Section 103 does not change existing law (vicarious and contributory infringers already were liable for the same penalties as direct infringers), but the new statutory language is significant because it codifies what previously was a judicially made doctrine. Prior to section 103, the Lanham Act’s civil penalty provisions did not distinguish between direct and contributory infringers.

Civil Copyright Damages

The Act also amends the civil remedies available under the Copyright Act. Specifically, section 105 of the Act clarifies that it is wrongful to import *or export* products that infringe a copyright. Previously, under Section 602 of the Copyright Act, only the *importation* of infringing goods was wrongful. Section 105, therefore, closes the loop on the international trade of infringing products.

In addition, the Act significantly broadens the scope of civil forfeitures under the Copyright Act. Under former section 503 of the Copyright Act, a court had the discretion to order the impounding of all infringing copies or phonorecords, in addition to all masters, negatives, and other articles used to reproduce the infringing copies. Section 102 of the Act adds an additional category of items subject to civil forfeiture: all documents that reflect the manufacture, sale, or receipt of infringing products. Although these documents must be turned over to the court and the court must enter an appropriate protective order to maintain the confidentiality of any information in the documents, this amendment is a significant advantage for copyright plaintiffs.

Documents related to the manufacture, sale, or receipt of infringing goods are valuable for several reasons. First, they allow a copyright plaintiff to determine how many infringing

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ing products were made and sold. This information is often used to calculate a reasonable settlement. Second, they allow a copyright plaintiff to determine from where the defendant obtained the infringing goods. Copyright plaintiffs generally use this information to pursue the source of the goods as well as the distributor. Finally, the category of documents subject to civil forfeiture arguably is broad enough to include bank account records and other financial information. The ability to determine how much money an infringer has and where it is kept is extremely valuable for copyright plaintiffs for obvious reasons.

Prior to the amendment of section 503, civil discovery was copyright plaintiffs' only means of obtaining documents related to the manufacture, sale, or receipt of infringing goods. Discovery is only available, however, when a defendant disputes the allegations and engages in formal litigation. Section 102 of the Act gives copyright owners the ability to obtain these important documents without the need for civil discovery.

Perhaps the most significant part of the Act is what is *not* included. The Act, as initially drafted, included a change to the statutory damages available for infringements of compilations under Section 504. Section 504 currently states that a copyright plaintiff is entitled to one set of statutory damages per work infringed, and all parts of a compilation constitute one work. Accordingly, a defendant who infringes three songs on a CD that contains 10 tracks is liable only for one set of statutory damages (up to \$150,000 if the infringement was willful).

The original draft of the Act included an amendment to section 504 that would make available one set of statutory damages for each separate work infringed regardless of whether that work is contained in a compilation. In the example above, the defendant would be liable for three sets of statutory damages (rather than one), which would increase his or her potential liability from \$150,000 to \$450,000 for the same infringement. Clearly, this amendment would be a boon for the recording industry, but it was opposed by several organizations, including the Library Copyright Alliance (LCA), the Computer & Communications Industry Association (CCIA), and others who submitted a white paper explaining that the proposed amendment would "undo a central underpinning of statutory damages." Opponents argued, among other things, that the amendment was unfair because it would create the possibility of catastrophic statutory damages against a defendant even where the plaintiff could not demonstrate that it suffered any actual damages.

The white paper must have had a significant influence on the House Intellectual Property Committee. The Committee cut the provision before the bill even reached the floor of the House. This deletion reflects Congress's belief that the current statutory damages scheme—which allows for only one set of damages for infringement of all works within a compilation—reflects the proper balance between plaintiffs' interests and defendants' liability. The balance is not likely to be changed anytime soon.

Criminal Penalties

Section 206 of Act expands the scope of forfeitures in criminal copyright infringement and counterfeiting cases. Specifically, Section 206 adds a new provision to title 18 of the

United States Code that allows for the seizure of "any property used, or *intended to be used*, in any manner or part to commit or *facilitate* the commission of an offense."¹⁴

Countless things may constitute property used to "facilitate" counterfeiting activity or copyright infringement. For example, an iPod that contains an illegally downloaded song is subject to forfeiture under section 206 of Act, as are the servers of an Internet service provider (ISP) that hosts a website that sells counterfeit goods. While these examples demonstrate that the universe of property used to "facilitate" an infringement is broad, the potential universe of property that is "intended to be used" to commit an infringement is limitless.

Proponents of section 206 argued that the ability to seize a broader category of property is necessary to prevent infringements on a macro level. Opponents, however, argued that section 206 casts too wide of a net and was added for the benefit of rights owners so they no longer have to sue grandmothers with illegally downloaded music on their computers. Although the Act casts a wide net with regard to criminal counterfeiting and infringement, it also explicitly states that the attorney general should focus prosecution efforts on cases involving theft of intellectual property for "commercial" advantage or activity.¹⁵

The broad language of section 206 clearly presents a potential for abuse, but it remains to be seen how far courts will allow rights owners to go to protect their intellectual property. Indeed, of all the sections in the Act, Section 206 likely will be subject to the most judicial interpretation.

Creation of the IP Czar

Creation of the IP czar (the IPEC) elevates the importance of federal coordination efforts to protect U.S. intellectual property. Under the Act, the president shall appoint the IPEC with the advice and consent of the Senate. The IPEC's primary responsibility is coordinating efforts within the federal government to protect American intellectual property.

Since 1999, a similar position has existed, although this position has not reported directly to the president: the chair of the National Intellectual Property Law Enforcement Coordination Council (NIPLECC). NIPLECC is an "interagency group responsible for coordinating the U.S. domestic and international intellectual property enforcement activities."¹⁶

Some commentators predict that the first IPEC will not be appointed until the next president is sworn into office. Once appointed, the IPEC will chair the newly created IPEC advisory committee, which will be composed of representatives from various federal departments, including the Justice Department, FBI, USPTO, State Department, Food and Drug Administration, U.S. Department of Agriculture, and U.S. Department of Health and Human Services. Appointing members from each of these departments furthers Congress's intent to safeguard Americans against health and safety threats posed by counterfeits. A representative from the Department of Homeland Security also will be a member of the advisory committee, thereby supporting Congress's goal of pursuing terrorists who utilize piracy and counterfeiting to further their activities.¹⁷ The Register of Copyrights will be a member of the advisory committee as well.

Grants for Enforcement and Education

Every year between 2009 and 2013, the federal government will provide \$25 million in grants to state and local governments for a total of \$125 million. Grants can be used to educate the public about preventing IP theft, training law enforcement officers, establishing task forces, and purchasing computer equipment. All of these measures are aimed at protecting U.S. intellectual property and strengthening corresponding enforcement tools.

Similarly, the Act authorizes \$50 million to be given to the FBI and \$50 million to be given to the attorney general over the next five years. These funds will be used to hire and train law enforcement officers to investigate IP crimes and assist in the prosecution of the crimes. The funds are given also so that law enforcement may purchase advanced tools in forensic science and computer assistance.

Hoped-For Results

At the conclusion of the Act is language expressing the “Sense of Congress.”¹⁸ Congress hopes that, by better protecting American intellectual property, the PRO-IP Act will strengthen the U.S. economy by keeping more jobs and income related to intellectual property in the United States, protect Americans from counterfeits that can cause bodily harm and even death, and even root out terrorism and organized crime.

Although the IPEC is not expected to be appointed until the incoming president takes office, and although the grants most likely will not be awarded until that same time, the Act goes into effect immediately. Thus, attorneys in both civil and criminal infringement cases will immediately begin utilizing the enhanced remedies and penalties and relaxed jurisdiction provision of the PRO-IP Act. As Barack Obama steps into the White House, he will have a new tool in the form of the IPEC to coordinate efforts to protect American jobs, income, and safety by safeguarding the intellectual property we create.

The PRO-IP Act reflects a multifaceted effort to strengthen and protect American intellectual property. Its provisions range from civil remedies to criminal penalties, from increased dam-

ages awards to law enforcement measures at all levels of government, from the creation of a new IP czar to grants to educate the public about the law protecting intellectual property. The mechanisms are in place. Now it is up to lawyers and courts to implement these provisions through litigation, and it is up to the executive branch to utilize the new enforcement tools. The Act requires Congress to routinely weigh the effectiveness of the enforcement measures. Time will be the ultimate judge of the effectiveness of the PRO-IP Act. ■

Endnotes

1. 154 CONG. REC. S9591 (daily ed. Sept. 26, 2008) (statement of Sen. Leahy).
2. Prioritizing Resources and Organization for Intellectual Property (PRO-IP) Act of 2008, Pub. L. No. 110-403, 122 Stat. 4256 (2008).
3. 154 CONG. REC. S9589 (daily ed. Sept. 26, 2008) (statement of Sen. Leahy).
4. 154 CONG. REC. S9591 (daily ed. Sept. 26, 2008) (statement of Sen. Coburn).
5. 154 CONG. REC. S9590 (daily ed. Sept. 26, 2008) (statement of Sen. Voinovich).
6. *Id.*
7. 154 CONG. REC. S9591 (daily ed. Sept. 26, 2008) (statement of Sen. Leahy).
8. *Id.*
9. Letter from Keith B. Nelson & Lily Fu Claffee to Sen. Leahy & Sen. Arlen Specter (R-PA) (Sept. 23, 2008), available at <http://www.publicknowledge.org/pdf/doj-letter-20080923.pdf>.
10. See 154 CONG. REC. S9589 (daily ed. Sept. 26, 2008) (statement of Sen. Jon Kyl (R-AZ)).
11. PRO-IP Act § 301(b)(2).
12. <http://www.thefreedictionary.com/czar> (third definition).
13. *Id.* (second definition).
14. PRO-IP Act § 206, emphasis added.
15. See PRO-IP Act § 503(8)(A-B) (setting forth the “Sense of Congress,” which instructs the attorney general to make a priority those criminal activities in which the theft is committed for “commercial advantage or private financial gain” and where it is “central to the sustainability and viability of the commercial activity of the enterprise . . . involved in the violation . . .”).
16. <http://www.uspto.gov/web/offices/dcom/olia/globalip/niplecc.htm>.
17. See PRO-IP Act § 503(5) (setting forth the “Sense of Congress,” which aims to target terrorism through the PRO-IP Act).
18. See *supra* note 15.