

INTELLECTUAL PROPERTY ALERT

THE PRO-IP ACT OF 2008: FOR WHOM? FOR WHAT? AND DOES IT MATTER?

On October 13, 2008, the Prioritizing Resources and Organization for Intellectual Property Act of 2008 (the "PRO-IP Act" or "Act") was signed into law. The Act increases the protection for intellectual property, focusing on copyrights and trademarks.

Title I provides for enhanced protection under both the Copyright and Lanham Acts. Changes to the Copyright Act make initiation of civil and criminal actions easier. Copyright preregistration or registration is now required only in civil actions, and inaccurate certificates are acceptable unless the information was known to be inaccurate and would have caused registration to be refused.

Section 503(a) is expanded to allow a court to impound records documenting the manufacture, sale or receipt of things involved in copyright infringement, with appropriate protective orders.

A new provision in Section 602 adds exporting of copies or phonorecords as a violation of the right to distribute under 17 U.S.C. §106.

Damages and other remedies available under the Lanham Act have also been increased. Treble damages under 15 U.S.C. §1117(b) may be assessed against offenders who provide goods or services necessary to the commission of counterfeiting with the intent that they be so used.

The minimum and maximum amounts of statutory damages available in cases involving the use of a counterfeit trademark have been doubled to \$1,000 and \$200,000, respectively.

Title II expands remedies for violations of the criminal intellectual property laws.

The most significant provision is Section 206, which makes forfeiture under Section 2323 of the Federal Criminal Code applicable to certain acts of copyright and trademark infringement. This section harmonizes formerly disparate forfeiture rules for criminal copyright infringement; trafficking in counterfeit goods, labels and packaging; unauthorized recording of motion pictures; unauthorized fixation and trafficking in sound recordings and videos of live musical performances; and theft of trade secrets. Infringing or prohibited articles; property used, or intended to be used, to commit the offense; and property constituting or derived from any proceeds from commission of these offenses is subject to forfeiture. Subsection (b) provides for forfeiture of the same property for anyone convicted of a criminal offense under the specified statutes and the destruction of any forfeited item bearing or consisting of a counterfeit mark and any article, the making or trafficking of which, is prohibited under the previously specified statutes. Subsection (c) requires restitution to the victim. In criminal cases, the Act mandates that forfeiture be governed by the procedures in drug cases.

Under 18 U.S.C. §2319(A) the Secretary of Homeland Security is given authority to issue regulations allowing for notification to the artist of importation of unauthorized copies or phonorecords by customs and border protection.

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The prison terms in 18 U.S.C. §2320(a) have been increased. An individual that knowingly or recklessly causes or attempts to cause serious bodily injury in the course of trafficking or attempting to traffick in counterfeit goods/services may be subject to 20 years in prison. A life sentence may be imposed if the offender knowingly or recklessly causes or attempts to cause death in the course of such activities. This provision also provides that the transshipment or exportation of counterfeit goods from the United States is a violation of Section 42 of the Lanham Act.

Title III addresses the coordination and planning of federal efforts to protect intellectual property.

The position of Intellectual Property Enforcement Coordinator (“IPEC”) is created within the Executive Branch, to be appointed by the President with the advice and consent of the Senate. The IPEC is to develop policies related to intellectual property enforcement, however, the IPEC may not control or direct any law enforcement agency. The IPEC also chairs an interagency intellectual property enforcement advisory committee composed of the Register of Copyrights and Senate-confirmed representatives from various government agencies.

This committee is to create a Joint Strategic Plan focused on reducing counterfeiting and infringement and protecting intellectual property domestically and abroad. This plan is to be established within the first 12 months and then every third year thereafter. Finally, the IPEC is to provide an annual progress report on the activities of the committee.

Title IV creates additional programs for protecting intellectual property to be undertaken by the Department of Justice and authorizes 25 million dollars in annual grants to State or local law enforcement (“IP-TIC” grants).

FBI agents are to be added to support the Computer Crime and IP Section of the Criminal Division of the DOJ and Assistant U.S. Attorneys added to the Computer Hacking and IP Crime units. The DOJ and FBI, and other relevant law enforcement agencies, are to develop a long-range plan to combat organized crime syndicates engaged in theft of intellectual property. 20 million dollars annually are appropriated to carry out these provisions.

As with the IPEC, annual progress reports are to be provided by both the Attorney General and the Director of the FBI.

Finally, Title V provides for oversight by the Government Accountability Office.

The Comptroller General shall report on counterfeiting activity in the U.S., the impact of the current intellectual property laws and counterfeiting on domestic manufacturers, any recommended changes to intellectual property laws, and provide an audit report on the activities of the IPEC and the Attorney General.

Congress sets forth its justification for the Act in Section 503. Among the key rationales offered by that section and the Act’s sponsors and supporters were (1) the need to coordinate and strengthen enforcement of United States intellectual property and reduce the billions lost from “pirating,” counterfeiting, and infringement, (2) the use of counterfeiting to fund terrorists and organized crime, and (3) the protection of

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the public from the safety hazards presented by counterfeit items like pharmaceuticals, automobile and airplane parts, and by adulterated toys, foods, etc.

Despite including patents in the calculation of “IP industries,” nothing in the Act directly addresses patent rights or remedies. The Act instead increases protection for copyrights and trademarks, expanding remedies for copyright and trademark infringement. Ironically, the same Congressional committees involved in the Act have advocated the precisely opposite approach with respect to patents, seeking in patent reform legislation to limit damages for patent infringement. Even without the Act’s new provisions, copyright and trademark infringement remedies were, in certain respects, broader than those for patent infringement. The provisions of the Act reflect the agenda of its strongest proponents: the entertainment and software industries.

So, does the Act provide any more effective methods or remedies to counteract counterfeiting and infringement of intellectual property?

Rather than providing effective new weapons, the Act increases the size of the bludgeon. This leaves the question: if the threat of hitting someone in the head with a 2” x 4” will not change conduct, will the threat of hitting the same person with a 3” x 6” produce the desired change?

Efforts to increase copyright statutory damages exponentially failed, but the Act doubles statutory damages in trademark actions involving nonwillful and willful use of counterfeit marks. However, it continues to leave open the criteria to be applied in assessing the appropriate amount. It seems unlikely that the differences in potential recoveries on the low or high end are significant enough to affect enforcement efforts.

It may be difficult to determine the impact of the changes in the context of any increase in federal enforcement activity as called for by Title IV of the Act. Further complicating the determination are economic factors which may encourage “knock-offs” and risk taking and may lead companies to take a less aggressive approach to knock-offs perceived to be of less economic importance.

Granted the draconian nature of the remedies, there is likely to be every effort made where there is a colorable claim to seek the benefits of the Act rather than relying on the standard remedies for infringement found in the Lanham and Copyright Acts.

Even before its enactment, there have been efforts to encompass within the counterfeiting provisions of the Lanham Act marks that are not counterfeit in the sense of being “substantially indistinguishable,” but are obvious knock-offs which might be properly viewed as infringements.

In *Colgate-Palmolive Company v. J.M.D. All-Star Import And Export, Inc.*, 486 F. Supp. 2d 286 (S.D.N.Y. 2007), the plaintiff sought to invoke the benefits of the anti-counterfeiting provisions against a seller of a toothpaste product called “Colddate” using, inter alia., the phrase “Cavity Fighter” based on its prior use or packaging for Colgate toothpaste of “Cavity Protection.” It took the court seemingly little effort to conclude the packages were not “substantially indistinguishable.”

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In *Louis Vuitton Malletier v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007), the plaintiff pursued up to appellate court level its contention that “CV” and “Chewy Vuiton” as used on dog toys were counterfeits of (and so substantially indistinguishable from) its LV and Louis Vuitton marks, used for handbags. Again, it took the court little effort to conclude that the marks were not substantially indistinguishable.

Clearly, there is even more incentive with enhanced penalties for luxury goods producers to charge counterfeiting and claim counterfeit damages for acts that are no more than ordinary infringement. The impact of enhanced civil penalties and huge damages awards on counterfeiting is questionable. A high percentage of the huge damages awards reported in counterfeiting cases are obtained by default. The portion of the award actually recovered from the defendant(s) may frequently be insignificant in comparison to the publicized judgment.

Other provisions of the Act that purport to enhance protection of intellectual property are of dubious benefit. Preregistration or registration is no longer required before commencing an action for criminal copyright infringement, but copyright registration is generally simple and inexpensive and serves an important notice function. It is difficult to envision a scenario where an infringement important enough to warrant criminal action involves a copyright that has not been registered or preregistered.

Additionally, the Act removes court discretion in ordering forfeiture in copyright, trademark and trade secret actions. Courts presumably impose proportionate forfeiture orders and do not require Congressionally imposed mandates on the extent of those orders. Further, the new forfeiture provisions are broad and potentially encompass seizure of the home computer or other home device.

It is also worth questioning whether the creation of the IPEC and the joint committee will have any significant effect on the protection of intellectual property. In its original form, the Act would have increased government involvement in prosecution of intellectual property claims. The IPEC position no longer has an enforcement role and its primary function is to chair an interagency advisory committee.

This is not the first such interagency committee. The National Intellectual Property Law Enforcement Coordination Council (NIPLECC) was created in 1999 to coordinate the domestic and international intellectual property enforcement activities of various U.S. government agencies. The GAO reported that the NIPLECC has been ineffectual and has failed to produce coordination among the agencies. Congress decided that placement of the position within the White House was key; giving the Representative the clout to accomplish what could not be done by NIPLECC.

With the position's limited role, the difficulties inherent in any efforts to coordinate diverse government agencies, and the many more pressing priorities in the incoming White House, whether anything substantial can be accomplished by the IPEC remains to be seen. According to *Business Week*, Paul Goldstein, a Stanford Law Professor, opined that the addition of a new representative “is window dressing at best and insertion of more bureaucracy at worst” and that it “has the appearance of accomplishing something but all these resources are already there.” Further, in a time of fiscal crisis, adding another layer of bureaucracy to questionable effect does not seem to be the best use of limited government resources.

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As to safety concerns, many hazardous items, like toys with toxic paint, bear authorized trademarks, and the problem is poor quality control in foreign plants. Adulterated pharmaceuticals are frequently sold as “generic” versions of branded products - not under counterfeit marks.

What may make a difference is the greater involvement of the DOJ and a stepping up of enforcement activity on the criminal side of the equation, provided the allocated resources are applied effectively. The difference, however, is not likely to be one widely felt by the majority of rights holders. Those most likely to benefit from the Act are those companies with products where there is a clear impact on public health and safety (repair parts for airplanes, pharmaceutical preparations, etc.) and those companies with significant political capital and products that are distributed and pirated on a world wide basis: the media giants and the rights holders in famous marks for widely available luxury goods.

*The Intellectual Property Alert is intended to keep readers current on matters affecting intellectual property and is not intended to be legal advice. If you have any questions, please call **Janet Linn** at 914.286.2817, **Robert Jacobs-Meadway** at 215.851.8522, **Christian Sado** at 215.851.6628 or any other attorney with whom you have been working.*

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