

## CONCERNS WITH THE LEAKED INTERNET CHAPTER OF ACTA

The U.S. proposal for an Internet chapter in the Anti-Counterfeiting Trade Agreement (ACTA) has been leaked to the press and widely disseminated on the Internet. While the U.S. probably could comply with the draft's provisions without amending the U.S. Copyright Act, the draft is inconsistent with U.S. law in several significant, troubling respects. The common thread of these inconsistencies is that the draft does not reflect the balance in U.S. copyright law. This lack of balance is at odds with the Obama Administration's recently announced policy concerning balanced international copyright law:

[S]ome in the international copyright community believe that any international consensus on substantive limitations and exceptions to copyright law would weaken international copyright law. The United States does not share that point of view. The United States is committed to both better exceptions *in* copyright law and better enforcement *of* copyright law. Indeed, as we work with countries to establish consensus on proper, basic exceptions within copyright law, we will ask countries to work with us to improve the enforcement of copyright. This is part and parcel of a balanced international system of intellectual property.<sup>1</sup>

If adopted, the draft Internet chapter could limit the ability of U.S. courts and Congress to adapt the copyright law to changing circumstances. It could also subject U.S. entities to increased liability overseas. Foreign courts have already imposed infringement liability on U.S. Internet companies for activities permitted under U.S. law. The proposed Internet chapter would accelerate this trend.

### **Third Party Liability**

Section 2 of the Internet chapter (labeled as "Article 2.17: Enforcement procedures in the digital environment") requires every ACTA signatory to confirm that it provides civil remedies "in cases of third party liability for copyright and related rights infringement." Footnote 1 then defines third party liability as "liability for any person who authorizes for a direct financial benefit, induces through or by conduct directed to promoting infringement, or knowingly and materially aids, any act of copyright or related rights infringement by another."

No multilateral IP agreement has such a requirement concerning third party liability, and many countries do not even have third party liability principles in their laws. Thus, including third party liability in ACTA represents a major change in the framework of international IP law, and goes far beyond the enforcement focus of ACTA.

Additionally, the definition of third party liability in footnote 1 does not accurately reflect U.S. law.

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<sup>1</sup> United States of America, Statement on Copyright Exceptions and Limitation for Persons with Print Disabilities, World Intellectual Property Organization, Standing Committee on Copyright and Related Rights, 19<sup>th</sup> Session (Dec. 15, 2009) at 5.

- The first clause of the definition refers to liability for any person who “authorizes” infringement “for a direct financial benefit.” Presumably this language is intended to parallel the historic court-created standard for vicarious infringement that imposes liability on a person who “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.” *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9<sup>th</sup> Cir. 2001). However, it is far from clear that “authorizes” in footnote 1 has the same meaning as “the right and ability to supervise...” in the historic standard. Moreover, the Supreme Court in *MGM v. Grokster*, 125 S. Ct. 2764 (2005), reformulated the historic standard: a person “infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.” In other words, the first clause of the definition in footnote 1 attempts to paraphrase an evolving judicially created standard for vicarious liability.
- The second clause of the definition in footnote 1 refers to liability for a person who “induces” infringement “by or through conduct directed at promoting infringement,” while the third clause addresses a person who “knowingly and materially aids” an act of infringement. The second clause appears to paraphrase the inducement standard articulated by the Supreme Court in *Grokster*, while the third clause seems directed towards the historic test for contributory infringement. There are numerous problems with these two clauses of footnote 1. First, they suggest that inducement is a different test from contributory infringement; that is, they imply that there are three theories for third party infringement under copyright – vicarious liability, inducement, and contributory infringement. However, *Grokster* makes clear that inducement is not separate and distinct from contributory infringement.
- Furthermore, *Grokster* provides a definition for contributory infringement different from the second and third clauses of the footnote 1 definition, as well as the traditional definition of contributory infringement. Traditionally, a contributory infringer is “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another...” *Napster*, 239 F.3d at 1019. But *Grokster* states that “one infringes contributorily by intentionally inducing or encouraging direct infringement.” *Grokster* thus could be interpreted as replacing the traditional knowledge standard with an intent standard. Lower courts have had great difficulty applying *Grokster* because they are uncertain whether it is just restates the traditional test or announces a new standard.
- In short, the footnote 1 definition of third party liability places ACTA in the midst of a doctrinal quagmire. The contours of third party liability in U.S. copyright law are highly contentious, complex, and volatile. Indeed, prior to the *Grokster* decision, Congress tried unsuccessfully to codify an inducement standard. See *So What Does Inducement Mean?*, <http://www.policybandwidth.com/doc/inducement.pdf>. A paraphrase of this

entire area in one sentence will be inaccurate and will be used to influence courts' imposition of third party liability in future cases.

Finally, Section 2 lacks the balance present in U.S. third party liability law. Section 2 makes third party liability mandatory. In contrast, exceptions to such third party liability are only permissive: “the application of third party liability *may* include consideration of exceptions or limitations....” Sec. 2, n. 1 (emphasis supplied). Section 2 also lacks balance by implicitly referring to *Grokster*'s holding on inducement without also referencing *Grokster*'s affirmation of the “capable of substantial noninfringing use” standard in *Sony v. Universal*, 464 U.S. 417 (1984). To be sure, the two concurring opinions in *Grokster* offered different interpretations of *Sony*. But the unanimous *Grokster* Court agreed that under *Sony*, the act of designing and distributing a technology capable of a substantial noninfringing use, by itself, could not trigger contributory infringement liability.

Exporting a broad third party liability regime overseas, without also exporting specific limiting principles such as the *Sony* test and mandatory exceptions, will increase the liability exposure of U.S. Internet companies, and nonprofit service providers such as libraries and universities, for activity that is lawful in the U.S.<sup>2</sup>

### **Section 512 Safe Harbors**

Section 3 is intended to track the safe harbors for Internet service providers established in Section 512 of the Digital Millennium Copyright Act. But it is far from clear that the proposed language requires countries to provide anything that merits the term “safe harbor.” Whereas the Section 512 protections state clearly that qualifying entities are “not liable for monetary relief,” the proposed ACTA language merely calls for unspecified “limitations on the scope of liability.” Virtually any limitation – for example, an exemption from attorneys' fees or a 5% reduction in damages -- would satisfy the language. In short, nothing in Section 3 requires countries to provide actual “safety” to service providers.

Additionally, Section 3 lacks the penalties contained in Section 512(f) of the DMCA for making misrepresentations in a takedown notice. Some abuse of the DMCA takedown process occurs in the U.S. notwithstanding the existence of these penalties. If the

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<sup>2</sup> Section 2 requires ACTA signatories to confirm that they provide civil remedies “in cases of third party liability for copyright and related rights infringement.” We would strongly oppose extension of this obligation to third party liability for trademark infringement. Although third party liability in the U.S. trademark context has to date been less dynamic than in the copyright context, it too is a creation of the courts, not Congress. Executive branch “codification” of judicial holdings in international agreements trespasses on the prerogatives of both Congress and the courts. Moreover, requiring countries to adopt third party liability for trademark infringement, without also requiring adoption of a U.S.-style exhaustion principle, could subject U.S. companies to increased liability for trade in legitimate grey market goods.

takedown process is widely established abroad without any penalties for misrepresentation, similar abuses will increase exponentially, to the detriment of free expression.

Section 3 also differs from the DMCA with respect to the conditions for eligibility for the limitation on liability. Section 3(b)(I) requires the service provider to implement “a policy to address the unauthorized storage or transmission of materials protected by copyright....” By contrast, Section 512(i)(A) of the DMCA imposes a narrower requirement that the service provider to implement “a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers....” Section 3(b)(I) thus invites other countries to impose on service providers more onerous requirements for eligibility than the DMCA, thereby harming U.S. Internet companies operating overseas.

### **Anticircumvention**

Sections 4 and 5 of proposed Internet chapter are intended to export Section 1201 of the DMCA. Here, too, the proposal lacks the balance found in U.S. law. Section 1201 contains seven exceptions for: nonprofit libraries, archives, and educational institutions (§ 1201(d)); law enforcement, intelligence, and other government activities (§ 1201(e)); interoperability (§ 1201(f)); encryption research (§ 1201(g)); protection of minors (§ 1201(h)); protection of privacy (§ 1201(i)); and security testing (§ 1201(j)). Additionally, Section 1201(a)(1)(C) established a rule-making procedure under which the Librarian of Congress can grant exemptions to Section 1201(a)(1)’s prohibitions.

In contrast, Section 5 of the proposed chapter simply provides that each country “*may* adopt exceptions and limitations to measures implementing subparagraph (4) so long as they do not significantly impair the adequacy of legal protection of those measures or the effectiveness of legal remedies for violations of those measures.” (Emphasis supplied.) Once again, the chapter makes prohibitions mandatory, but exceptions only permissive. Thus, activities permitted in the U.S. may be illegal abroad, thereby inhibiting the ability of U.S. technology companies to operate overseas.

Additionally, rightsholders in the U.S. could assert that the existing Section 1201 exceptions “significantly impair the adequacy of legal protection” or “the effectiveness of legal remedies” against the circumvention of effective technological measures. The exceptions for interoperability, encryption research, and security testing are particularly important for innovation and the functioning of the information economy. The law enforcement and intelligence exception is critical to our national security. ACTA must not jeopardize these essential activities.

### **The Title of the Chapter**

The Internet chapter is entitled “Enforcement procedures in the digital environment.” But nothing in the chapter concerns either “enforcement” or “procedure.” Rather, the chapter defines substantive legal obligations. Under the chapter, ACTA parties must impose liability on third parties. Likewise, they must prohibit the circumvention of effective technological measures. At the same time, they must limit the liability of online

service providers. Referring to these substantive measures as “enforcement procedures” obscures their true nature, as does the name of the entire agreement. ACTA has little to do with trade, and is not limited to anti-counterfeiting.

### **Process**

In addition to the Internet chapter, joint Japan-U.S. proposals for provisions addressing civil enforcement and border measures have been leaked, as have several European Union memos about the negotiations. Given the volume of these leaks, there is no legitimate basis for the continued secrecy of the negotiations and the drafts circulated among the many participating countries. Openness and transparency will ensure the forging of an agreement that does not unfairly prejudice any stakeholders.

### **Conclusion**

In sum, the current draft of the Internet chapter could harm the domestic and overseas operations of U.S. Internet and other information technology companies. These companies are the fastest growing sector of the economy, employing millions of Americans, generating hundreds of billions of dollars of revenue, and finding solutions to the problems of climate change, rising healthcare costs, education reform, and the recession. Additionally, U.S. libraries and educational institutions provide Internet services, which inevitably have a foreign nexus. And U.S. consumers access content hosted on servers overseas. ACTA must not be allowed to undermine these activities.

Computer & Communications Industry Association  
Consumer Electronics Association  
Home Recording Rights Coalition  
Library Copyright Alliance  
NetCoalition  
Public Knowledge

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