

## SECTION-BY-SECTION ANALYSIS

### Section 1

Section 1 provides that the short title of the legislation is the Intellectual Property Protection Act of 2005.

### Section 2

Section 2 amends section 411 of title 17. That section provides that, with certain exceptions not applicable here, “[n]o action for infringement of the copyright in any United States work shall be instituted until registration of the copyright claim has been made.” To clarify that this rule applies only to civil infringement actions and not to criminal prosecutions, section 2 amends section 411 to explicitly limit the registration prerequisite to civil actions.

A copyrightable work’s copyright “subsists from [the work’s] creation.” 17 U.S.C. § 302(a). The copyright exists, even if the work is not registered. Registration is largely a formality, albeit a formality with significant procedural consequences. See 17 U.S.C. §§ 410(a)-(b) (requiring Register of Copyrights to determine whether work is copyrightable before registering the work), 410(c) (making a certificate of registration in most cases prima facie evidence that the work’s copyright is valid), 411 (conditioning certain suits upon registration), 412 (conditioning certain remedies upon registration). Although this formality has — and should have — certain consequences in civil cases, in criminal cases it should not. Prosecutors do not control whether or when a copyrighted work is registered. Because prosecutors work for the public good, they should be able to institute an infringement prosecution even if the copyright has not yet been registered. This is especially true now that a typical criminal prosecution for copyright piracy over the Internet commonly involves hundreds, if not thousands, of copyrighted works. The burden of checking whether each work was registered would substantially slow down investigations and hinder the government’s ability to prosecute these violations, especially infringement of works owned by small businesses that have not had the time or resources to register.

Because this provision is a clarification, it works no change on existing practice of how and when prosecutors prove the existence of a copyright in an infringement case, and does not affect any pending cases. The Department of Justice will, however, continue to advise federal prosecutors that the recommended course in most cases is to prosecute with a copyright registration in hand, both as a matter of public policy and as matter of practicality at trial, see 17 U.S.C. § 410(c).

### Section 3

Section 3(a) addresses the absence of a provision in copyright law that exists under the Lanham Act. The Lanham Act provides that under appropriate circumstances, a court may issue an ex parte order for the seizure of not only counterfeit goods and marks and the means of making them, but also of “records documenting the manufacture, sale, or receipt of things

involved in such violation.” 15 U.S.C. § 1116(d)(1)(A). However, the Copyright Act does not contain a parallel provision permitting the seizure of records or evidence, even though the risk exists in copyright cases as much as in trademark cases that such evidence will be destroyed.

Many potential infringers of trademarks and copyrights are unscrupulous operators who know full well that their actions are illegal. If they become aware that legal action is being taken against them, many will disappear or hide or destroy their infringing goods and the evidence of their infringement.

Accordingly, Congress recognized the need in certain circumstances for right holders to be able to institute legal actions ex parte. 15 U.S.C. § 1116(d) trademark actions; Fed. R. Civ. P. 65(f) (copyright actions). The legislative history of the Lanham Act’s ex parte provision explains that its purpose is to provide victims of trademark counterfeiting a means of ensuring court jurisdiction in counterfeiting cases to thwart the practice of destroying or transferring counterfeit merchandise when court action approaches, while ensuring ample procedural protections for persons against whom such orders are issued. 130 Cong. Rec. H12076 (Oct. 10, 1984). Although copyright owners may institute ex parte actions under Fed. R. Civ. P. 65(f), the Copyright Act does not specifically provide for the seizure of evidence as the Lanham Act does. However, some copyright pirates are just as likely to destroy evidence as trademark counterfeiters, and in fact, it is not uncommon for copyright pirates to also be engaged in trademark counterfeiting.

#### Section 4

Section 4(a) creates a new federal offense of attempting to infringe a copyright. The completed crime is currently defined in section 506(a) of title 17. Section 4(a) makes no change to the elements of the offense of copyright infringement. It does, however, criminalize any attempts to commit this offense.

Section 4(a) is needed because, as with other criminal intellectual property laws, such as the criminal counterfeit goods and services statute, 18 U.S.C. § 2320, an attempt to violate the criminal copyright statute should be counted an offense whether it is successful or not. It is a general tenet of the criminal law that those who attempt to commit a crime but do not complete it are as morally culpable as those who succeed in doing so.

Although two federal criminal laws generally punish the aiding-and-abetting or conspiracy to violate any federal crime, 18 U.S.C. §§ 2, 371, no general law does the same for attempts. Consequently, the problem must be fixed by specifically amending the criminal copyright statutes. Section 4(a) therefore amends §§ 506(a)(1)(A) and (B) of title 17 to include attempts. Section 506(a)(1)(C) would not be so amended because that clause includes a number of elements that would make an attempt difficult to prove or investigate.

A final amendment for the purpose of criminalizing copyright attempts is included in section 13, which is discussed below. It amends Section 2319 of title 18, which sets forth the

penalty for violations of 17 U.S.C. §§ 506(a)(1)(A) and (B), to clarify that the penalties that apply when the offense “consists of” reproduction or distribution, also apply when reproduction or distribution is intended but not completed.

Section 4(b) amends the forfeiture provisions of section 506(b). Large-scale piracy of copyrighted works relies on the use of various materials and tools to produce and distribute such works. Although it is important that law enforcement officials be able to seize counterfeit items and pirated works themselves, effective anti-piracy efforts can be significantly enhanced by allowing for the seizure and forfeiture of the materials and tools being used to engage in large-scale piracy.

Current forfeiture laws in the intellectual property area lack uniformity. The items subject to civil forfeiture vary among different statutes. The procedures for criminal forfeiture also lack uniformity. While the underlying intellectual property laws for which criminal penalties are provided, such as those governing trademark, copyright, and trade secrets, vary in the types of interests they are designed to protect, such distinctions are already reflected in their differing scopes and their standards for criminal liability. Moreover, all the criminal intellectual property provisions in U.S. law are designed to serve the common goals of fostering and protecting creativity, innovation, the integrity of commercial transactions and markets, and public health and safety. Where intellectual property violations rise to the level of criminal offenses, a consistent, uniform set of standards governing the seizure and forfeiture of contraband, facilitating equipment, and proceeds for each variety of intellectual property crime will enhance law enforcement efforts, as well as reduce confusion and reinforce protections for innocent third parties and the public.

Section 4(b) subjects to forfeiture any copies of phonorecords manufactured, reproduced, distributed, sold or otherwise used, intended for use, or possessed with intent to use in violation of section 506(a). It also subjects to forfeiture any property that constitutes or is derived from any proceeds obtained directly or indirectly as a result of federal copyright infringement offenses. Finally, it subjects to forfeiture any property used or intended to be used in any manner or part to commit or facilitate the commission of a federal copyright infringement offense, including any plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which the infringed copies or phonorecords may be reproduced, and any electronic, mechanical, or other devices for manufacturing, reproducing, or assembling such copies or phonorecords.

The procedures for civil forfeiture outlined in chapter 46 of title 18 apply to seizures or civil forfeitures under section 506. At the conclusion of the forfeiture proceeding, the court is required to issue an order to destroy or otherwise dispose of any forfeited infringing copies or phonorecords, as well as any property used to commit (in any manner or part) or facilitate commission of the offense, including any plates, molds, matrices, masters, tapes, and film negatives by means of which unauthorized copies or phonorecords may be made.

The procedures for criminal forfeiture under this section have also been harmonized to

conform with the forfeiture provisions of other statutes. Forfeiture of property covered by this section, as well as any seizure and distribution of the property and any related judicial or administrative proceeding, is to be governed by the procedures set forth in section 413 of the Comprehensive Drug Abuse Prevention and Control Act of 1970 (21 U.S.C. § 853), other than subsection (d) of that section (specific to certain drug-related cases). The procedures for forfeiture proceedings referenced at 21 U.S.C. § 853(j) therefore apply to criminal forfeiture proceedings under this section. The court also must impose as part of a sentence under section 506 that the person forfeit to the United States (1) any infringing copies or phonorecords manufactured, reproduced, distributed, sold, or otherwise used, intended for use, or possessed with intent to use in violation of section 506(a); (2) any property constituting or derived from any proceeds obtained directly or indirectly, as a result of the offense; and (3) any property used, or intended to be used, in any manner or part, to commit or facilitate the commission of a violation of section 506(a), including any plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which the infringing copies or phonorecords may be reproduced, and any electronic, mechanical, or other devices for manufacturing, reproducing, or assembling such copies or phonorecords.

Although the current section 506(b) allows for civil forfeiture only of property “used in the manufacture of such infringing copies or phonorecords,” section 4(b) also allows for forfeiture of “property . . . intended to be used” in the commission of the offense. For example, where law enforcement officials raided a facility engaged in production of counterfeit CDs and DVDs, this change allows civil forfeiture of not only counterfeit discs that had already been produced, and the equipment used to produce them, but also such items as blank media or polycarbonate intended for use in producing additional discs. This change also makes the enumerated types of property subject to civil forfeiture consistent with those subject to criminal forfeiture, as well as consistent with civil forfeiture provisions elsewhere in Federal law.

Section 4(b) provides for restitution as well as forfeiture. When a person is convicted of an offense under section 506, the court, pursuant to sections 3556, 3663A, and 3664 of title 18, United States Code, shall order the person to pay restitution to the copyright owner and any other victim of the offense as an offense against property referred to in section 3663A(c)(1)(A)(ii). Section 4(b) adds “restitution” to the captions in the subsection that governs restitution as well as forfeiture and destruction to better reflect that restitution is a concept separate from forfeiture.

Sections 506 and 509 have been consolidated, and therefore, section 4(c) repeals existing section 509. As rewritten, section 506 now provides for both civil and criminal forfeiture of all of the types of property that are currently made civilly forfeitable under section 509, although in some instances, the amended section 506(b) refers to such property in broader, more general terms, rather than more specific enumerated lists of items. For example, while existing section 509 provides for the forfeiture of certain types of property “intended for use, or possessed with intent to use in violation of subsection 506(a),” section 506(b) as amended covers all of these same types of property, and others as well, by referring to “any property used, or intended for use [in committing the offense].”

## Section 5

Section 5 amends 17 U.S.C. § 602 to clarify how the importation and exportation of copyrighted goods affect the distribution right and related criminal remedies. The distribution right currently involves a disposition of copyrighted works “to the public” by various means. 17 U.S.C. § 106(3). In some situations, the importation or exportation of infringing works falls under this definition because the transaction involves the importation or exportation from one party to the public. But when the importation or exportation is not done to the public, as when the transaction involves shipment from one party to itself across the border, the distribution right might not be affected. Section 5 therefore clarifies that the importation or exportation of pirated copyrighted works is subject to both the civil and criminal remedies in sections 501 and 506 of title 17. The bill extends the current safe harbor that would not constitute infringement if engaged in with respect to importation to identical situations involving export. The bill does not change the rule in current 17 U.S.C. § 602(a) that provides only civil remedies against the importation of noninfringing copyrighted works that were acquired outside the country. Nor does it affect the criminal remedies against smuggling pirated works into the United States or a foreign country under sections 545 and 546 of title 18.

Counterfeit and stolen intellectual property should not be permitted to flow into or out of the United States. Given the central role that international distribution plays in intellectual property crimes and the importance of not contributing in any way to intellectual property violations in other countries, the shipping of infringing products across the nation’s borders should be expressly prohibited. Further, because intellectual property is the largest category of exported materials from the United States, overseas purchasers should have confidence that they are receiving legitimate materials, and copyright owners should not lose export sales to copyright infringers, no matter the country in which they operate.

## Section 6

Section 6 amends 17 U.S.C. § 1101, which prohibits trafficking in unauthorized sound recordings or music videos of live performances. Specifically, section 6 amends that statute’s definition of “trafficking” in section 1101(b). Under current section 1101(b), “‘traffic in’ means [to] transport, transfer, or otherwise dispose of, to another, as consideration for anything of value, or make or obtain control of with intent to transport, transfer, or dispose of.” Under this definition, trafficking occurs if the defendant transported, transferred, or otherwise disposed of unauthorized recordings or videos to another for consideration. Also under this definition, trafficking occurs if the defendant made or obtained control of unauthorized recordings or videos on his own, so long as he took these actions with the intent to transport, transfer, or otherwise dispose of them to another for consideration. This definition raises a few issues.

### Consideration

First, the “consideration” element has been interpreted in the narrow contractual sense of a bargained-for exchange. Under this interpretation of the consideration element, a whole host

of business-related activity that should be illegal is not. For example, when construing an almost identical definition of trafficking, at least one criminal court held that there was no “consideration” when the defendant gave away contraband because he had no agreement to get something of value from the recipient in return, even though the defendant might have expected the transfer of goods to ultimately increase his business. See United States v. Habegger, 370 F.3d 441 (4<sup>th</sup> Cir. 2004). If the infringing item is provided for free, even doing so for business purposes such as higher sales or advertising revenue is legal. A website could offer an infringing item to attract customers who would order other products or increase the website’s advertising revenue because of the larger number of hits on the website. A bricks-and-mortar store could similarly try to increase sales by offering infringing samples or freebies. For this reason, it was determined that the element of “consideration” should be replaced with an element that encompasses a broader scope of business-related conduct that should be illegal.

Against this background, section 6 amends the definition of trafficking by replacing the concept of consideration with that of commercial advantage or private financial gain. Commercial advantage and private financial gain are terms that have been used for years within the copyright code. See, e.g., 17 U.S.C. § 101 (defining financial gain); 17 U.S.C. § 506(a)(1)(A) (criminalizing willful copyright infringement “for purposes of commercial advantage or private financial gain”); 18 U.S.C. § 2319 (increasing certain criminal penalties for crimes done for commercial advantage or private financial gain); cf. United States Sentencing Guideline § 2B5.3(b)(3) (adjusting criminal intellectual property defendant’s offense level depending on whether he acted for commercial advantage or private financial gain). In fact, Section 6 defines the term “financial gain,” as used in section 6, consistently with that term’s definition in 17 U.S.C. § 101.

The term encompasses most types of profit-related conduct. See 4 Nimmer on Copyright § 15.01[A][2] (discussing legislative history to copyright statute that equates commercial advantage and private financial gain to profit-oriented conduct). An act is done for commercial purposes or private financial gain if the defendant intended to profit: whether he actually made a profit or not is irrelevant. See 17 U.S.C. § 101 (including “receipt, or expectation of receipt, of anything of value” within statutory definition of “financial gain”); United States v. Cross, 816 F.2d 297, 301 (7<sup>th</sup> Cir. 1987) (“A conviction under 17 U.S.C. § 506(a) does not require that a defendant actually realize either a commercial advantage or private financial gain. It is only necessary that the activity be for the purpose of financial gain or benefit.”). Earlier copyright decisions, in which the operative question was whether the defendant acted for profit, are also on point. See Cross, 816 F.2d at 301 (citing United States v. Moore, 604 F.2d 1228, 1235 (9<sup>th</sup> Cir. 1979), a case interpreting earlier copyright law that depended on distribution “for profit” to explain commercial advantage and private financial gain); Moore, 604 F.2d at 1235 (“[T]he defendants argue that there was no proof that the tape was distributed for profit (as required by [an earlier version of the copyright act]) because the tape was not sold for money. Under [the statute limiting prosecution to infringement done for profit], it is irrelevant whether there was an exchange for value so long as there existed the hope of some pecuniary gain.”); Herbert v. Shanley Co., 242 U.S. 591, 594-95, 37 S. Ct. 232, 233 (1917) (Holmes, J.) (holding that under the copyright statute the performance of a copyrighted work at a hotel or restaurant was for

profit, even if customers did not pay specifically for the performance, because “[w]hether it pays or not, the purpose of employing it is profit, and that is enough”). Furthermore, a defendant’s infringement can be done for profit even if he charges nothing for the infringing copies. Thus, in Herbert v. Shanley Co., Justice Holmes held that “the performance of a copyrighted musical composition in a restaurant or hotel without charge for admission to hear it infringes the exclusive right of the owner of the copyright to perform the work publicly for profit.” 242 U.S. at 593-94, 37 S. Ct. at 233. In fact, a business that merely plays background music to relax its employees so that they will be efficient is likewise infringing for profit. See Twentieth Century Music Production v. Aiken, 356 F. Supp. 271, 275 (W.D. Pa. 1973), rev’d on other grounds, 500 F.2d 127 (3d Cir. 1974), aff’d 422 U.S. 151, 157, 95 S. Ct. 2040, 2044 (1975) (assuming that restaurant owner acted for profit). Furthermore, “[f]inancial benefit exists where the availability of infringing material acts as a draw for customers,” even when the infringing material is offered for free. See A&M Records v. Napster, 239 F.3d 1004, 1023 (9th Cir. 2001) (internal quotation marks and citation omitted), aff’g in pertinent part 114 F. Supp. 2d 896, 921 (N.D. Cal. 2000) (noting that Napster anticipated deriving revenues from users by offering copyrighted music for free). Similarly, a radio station acts for profit when, without permission, it broadcasts a copyrighted work for free in order to get, maintain, and increase advertising revenue. See Associated Music Publishers v. Debs Memorial Radio Fund, 141 F.2d 852 (2d Cir. 1944).

For these reasons, “commercial advantage or private financial gain” will have broader application than the concept of consideration, and therefore is more appropriate in today’s sophisticated world of commerce.

#### Possession with intent to traffic

Second, the current definition of “trafficking” does not include possession with intent to transport, transfer, or otherwise dispose of to another for business-related purposes. At first glance, possession of contraband appears coextensive with making or obtaining control of contraband. But there is a subtle yet important distinction. In certain circumstances, one encounters a defendant who possesses large quantities of contraband, but who has no records indicating when he made the contraband or obtained it. In such cases, the plaintiff cannot satisfy the current definition of trafficking, because he cannot show when the defendant made or obtained control of the contraband. At the very least, this can cause a problem with satisfying the statute of limitations. If the plaintiff cannot prove when the defendant made or obtained control of the contraband, a fortiori the plaintiff cannot prove that these events occurred within the relevant statute of limitations. If, however, the plaintiff need only show that the defendant possessed the contraband, then the plaintiff can establish that action occurred on the date the wrong was uncovered. For this reason, the definition of trafficking is being amended to include possession with intent to traffic.

#### Importing and exporting

The third issue raised by the current definition is the desire to clarify, as in section 5 above, that the importation and exportation of infringing goods is illegal. While this change may

not be strictly necessary, it is being proposed as part of the Administration’s overall effort to clarify that the importation and exportation of infringing intellectual property is illegal.

### Operation of new definition

The new definition of trafficking makes it illegal, for purposes of commercial advantage or private financial gain, to transport, transfer or otherwise dispose of the subject goods to another. The new definition also makes it illegal to make, import, export, obtain control of, or possess the subject goods by one’s self, if one did so with the intent to transport, transfer, or otherwise dispose of the subject goods to another for purposes of commercial advantage or private financial gain.

### Section 7

Section 7 amends the anti-circumvention provisions of the Digital Millennium Copyright Act, 17 U.S.C. § 1201(a)(2), (b), in accord with the same principles outlined with respect to import and export, as provided in section 5, and with respect to the definition of “traffic” described in the discussion of section 6. The change is modest and in the nature of a clarification.

The definition of traffic is consistent with that described and discussed in section 6, with one exception: it does not include the element of acting “for purposes of commercial advantage or private financial gain.” This omission is deliberate, because the Digital Millennium Copyright Act currently does not premise liability upon the intent to realize commercial advantage or private financial gain, except in criminal cases that already include the element of commercial advantage or private financial gain. See 17 U.S.C. § 1204(a).

Because the new definition of traffic would include importation as a type of trafficking, section 7 also deletes the word “import” from the list of verbs that precede “traffic” in 17 U.S.C. § 1201(a)(2) and (b)(1) to avoid redundancies.

### Section 8

Section 8 creates new forfeiture and destruction and restitution provisions for the offenses contained in the Digital Millennium Copyright Act. This provision has been harmonized with the other forfeiture and restitution provisions contained in the bill, as described in section 4(b). Although a violation of the Digital Millennium Copyright Act does not require an underlying infringement of a copyright as an element of the offense, the restitution provision is tailored to provide for restitution to copyright holders in those cases where the offense conduct does involve violation of a copyright owner’s rights.

### Section 9

Section 9 amends section 1028 of title 18 (which concerns fraud and related activity in

connection with identification documents, authentication features, and information) as described above with respect to import and export in the discussion of section 5, and with respect to the definition of “traffic” as described above with respect to section 6.

### Section 10

Section 10 amends section 1029 of title 18 (which concerns fraud and related activity in connection with access devices) as described above for import and export with respect to section 5, and with respect to the definition of “traffic” as described above with respect to section 6. The one difference between this amendment and the amendment described in section 6 is the omission of the element of commercial advantage and private financial gain. As with the omission of this element in section 7, concerning amendments to the Digital Millennium Copyright Act, this omission is intentional. It is being omitted because the current definition does not include the element of consideration and thus consideration need not be replaced by commercial advantage or private financial gain.

### Section 11

Section 11 amends section 1834 of title 18, forfeiture for violations of the Economic Espionage Act. Section 11 creates a new section 1834(a) that sets forth three categories of property that are subject to forfeiture to the United States: (1) any property that consists of or incorporates any trade secret that is the subject of a violation of the Economic Espionage Act; (2) any property constituting or derived from any proceeds obtained directly or indirectly as a result of a violation of the Economic Espionage Act; and (3) any property used, or intended to be used, in any manner or part, to commit or to facilitate the commission of a violation of the Economic Espionage Act. These changes are designed to harmonize forfeiture law concerning intellectual property offenses. They are outlined in detail in the discussion of section 4(b) of the bill. As with the proposed amendments designed to harmonize other intellectual property forfeiture provisions, the new section 1834(b) makes applicable to any seizure or civil forfeiture arising under new section 1834(a) the procedural provisions of chapter 46, relating to civil forfeiture.

Section 11 also creates a new restitution provision for the Economic Espionage Act, providing for restitution to the owner of the trade secret underlying the offense.

### Section 12

Section 12(a) amends section 2318 of title 18, trafficking in counterfeit labels, illicit labels, or counterfeit documentation or packaging, as described above for import and export with respect to section 5, and with respect to the definition of “traffic” as described above with respect to section 6.

Section 12(b) amends section 2318(d) of title 18 to harmonize the forfeiture provisions applicable to section 2318 offenses with those applicable to other intellectual property offenses, as described with respect to section 4(b). The restitution provision in new subsection 2318(d)(4)

adds, as an explicit reference as a recipient for the award of restitution, the owner of the copyright in the underlying work, such as the copyright owner of the work to which a counterfeit or illicit label was affixed or designed to be affixed.

### Section 13

Section 13 amends the repeat-offender provisions of section 2319 of title 18, criminal infringement of a copyright, in two respects. First, it amends the law governing repeat offenses by changing the statutory offenses that, if repeated, subject the offender to stiffer penalties. Currently, there are three major criminal acts contained within the criminal copyright statute: infringement for commercial advantage or private financial gain, 17 U.S.C. § 506(a)(1)(A); infringement for non-commercial purposes above a certain threshold, 17 U.S.C. § 506(a)(1)(B); and infringement of pre-release works over a publicly-accessible computer network, 17 U.S.C. § 506(a)(1)(C). Under current law, if an offender commits, for example, infringement for commercial advantage or private financial gain (§ 506(a)(1)(A)) and then commits another offense for commercial advantage or private financial gain (§ 506(a)(1)(A)), he is subject to more stringent penalties for the second offense. On the other hand, an offender who, for example, commits infringement for commercial advantage or private financial gain (§ 506(a)(1)(A)) and then commits the offense of copyright infringement for non-commercial purposes above a certain threshold (§ 506(a)(1)(B)) under current law would elude the penalties for repeat offenders. Currently, the repeat-offender penalties would apply only if the subsequent copyright infringement charges were identical to the earlier offense. A prior violation of any other § 506(a) offense would not trigger the repeat penalties, even though each violation was a copyright crime and each was done, by definition, willfully.

Section 13 redresses this disparity by amending section 2319 to impose repeat-offender penalties when the copyright infringer commits any two copyright felonies under 17 U.S.C. § 506(a), regardless of the particular type of offense. This will treat all repeat felony copyright infringers similarly, regardless of the form that their crimes took. It is accomplished by replacing the references to the specific copyright infringement offenses in current subsections (b)(2), (c)(2), and (d)(3) with the general copyright offense set forth in subsection (a), *i.e.*, any felony violation of § 506(a).

The second change made in section 13 criminalizes attempts to commit the underlying offenses. For the reasons set forth in describing subsection 4(a), attempts to commit copyright infringement offenses should be equally as punishable as the completed crime. Section 13 accomplishes this goal by amending section 2319 to clarify that the penalties that apply when the offense “consists of” reproduction or distribution also apply when reproduction or distribution were intended but not completed.

### Section 14

The changes made in section 14(a) are purely technical. Former subsection (c) is now amended and codified in subsection (b)(5).

Section 14(b) harmonizes the forfeiture provisions of section 2319A with those applicable to other intellectual property offenses in the same manner as section 4(b).

### Section 15

Section 15 amends section 2319B(b) to harmonize the forfeiture provisions of section 2319B with those applicable to other intellectual property offenses as described in section 4(b).

### Section 16

Section 16(a) amends section 2320(b) to harmonize the forfeiture provisions of section 2320 with those applicable to other intellectual property offenses as described in section 4(b).

Section 16(b) changes the current section 2320(e)(2) of title 18 (which concerns trafficking in goods and services with counterfeit trademarks and service marks) to include “import” and “export,” as described above with respect to section 5, and the definition of “traffic” as described above with respect to section 6. Amending the definition of trafficking in this statute has the same benefits as are described above in the discussion of section 6. In addition, the amendments to this statute will be helpful because they will clarify that the trademark statute can be used to prosecute “phishing” offenses in which criminals impersonate legitimate, well-known corporations by reproducing their trademarks on fraudulent e-mail messages and websites to convince recipients to divulge personal identifying data such as credit card numbers, account user names, passwords, and social security numbers.

### Section 17

Section 17 amends 18 U.S.C. § 2516 by adding three intellectual property crimes to the predicate offenses for which law enforcement officers may obtain a wire or oral communication for investigation: 18 U.S.C. § 1831, economic espionage to benefit any foreign government, instrumentality, or agent, 18 U.S.C. § 2319, criminal infringement of copyright, and 18 U.S.C. § 2320, trafficking in counterfeit goods or services.

Law enforcement officers should have access to the full range of accepted law enforcement tools when they investigate intellectual property crimes. A federal court may issue an order authorizing the use of a voice intercept, otherwise known as a “wiretap,” in the investigation of many federal crimes, but not for intellectual property crimes. In certain intellectual property crimes, this is unacceptable. Economic espionage to benefit a foreign government, instrumentality, or agent can pose serious consequences to our economic stability and national security. Some trademark crimes involve dangerous counterfeits: counterfeit pharmaceuticals, pesticides, or auto parts that have the potential to cause widespread consumer injuries. The economic impact of criminal copyright infringement cases has increased rapidly in recent years, and such cases increasingly involve sophisticated and organized criminal groups. Section 17 provides for voice intercept authority for offenses that are equivalent in impact to other predicate offenses that already give rise to such authority.

## Section 18

Section 18 directs the United States Sentencing Commission, within 180 days of the enactment of this legislation, pursuant to its authority under section 994 of title 28 to review and, if appropriate, amend the federal sentencing guidelines and policy statements applicable to persons convicted of offenses under section 1204 of title 17, circumvention of copyright protections, and sections 2318 or 2320 of title 18, trafficking in counterfeit or illicit labels or trafficking in counterfeit goods or services. In carrying out section 18, the United States Sentencing Commission is to determine whether the definition of “infringement amount” set forth in application note of section 2B5.3 of the federal sentencing guidelines is adequate to address situations in which the defendant has been convicted of one of the above offenses but the item in which the defendant trafficked was not an infringing item. For example, it is unclear how to calculate the infringement amount when the item was intended to facilitate infringement, such as a circumvention device, or was intended to facilitate infringement in another good or service, such as a counterfeit label, documentation, or packaging, taking into account cases such as U.S. v. Sung, 87 F.3d 194 (7<sup>th</sup> Cir. 1996).

The current intellectual property sentencing guideline, U.S.S.G. 2B5.3, ties the offense level in part to the defendant’s “infringement amount,” which is usually calculated as the number of counterfeit items multiplied by the retail price per item. While the concept of “infringement amount” is relatively straightforward in copyright cases, it becomes more complicated when the underlying offense either does not require infringement (e.g., in the Digital Millennium Copyright Act, 17 U.S.C. § 1201 et seq.), or when the required “infringement” is trafficking in counterfeit labels separate and apart from the goods to which they might be attached, such as in 18 U.S.C. § 2318 (or 18 U.S.C. § 2320 as amended). In these cases, it is difficult to determine the “infringement amount,” if any. For example, if a person is convicted under section 2318 for trafficking in counterfeit labels designed to be affixed to DVDs, it is unclear whether the appropriate “infringement amount” would be the value of the counterfeit labels or rather the retail value of the DVDs to which the labels were to be affixed.

The question is even more difficult with respect to conspiracy to violate 18 U.S.C. § 2320 by trafficking in counterfeit trademarked labels to attach to counterfeit goods. For example, if a person is convicted under section 2320 for trafficking in counterfeit labels designed to be affixed to clothing, would the infringement amount be the minimal retail value of the labels themselves or the retail value of the clothing to which the labels were to be affixed? If it were the value of the clothing, what if items of clothing of various prices – say \$10 socks and \$1,000 suits – could use the same labels? The value of the labels themselves would probably yield an inappropriately low sentence, while the value of the most expensive clothing would probably yield a disproportionately high sentence. Also, under section 2320 some courts have refused to calculate an “infringement amount” based on the number of counterfeit packages a defendant possessed, as in the Sung case.

Similar problems surface in cases brought under 18 U.S.C. § 2318 (counterfeit and illicit

labels, and counterfeit documentation and packaging) and 17 U.S.C. § 1205 (Digital Millennium Copyright Act).

Section 18 also directs the United States Sentencing Commission to review, and if appropriate, amend the Federal sentencing guidelines to address exportation. Federal Sentencing Guideline Manual Sec. 2B5.3 concerns “Criminal Infringement of Copyright or Trademark.” Under Section 2B5.3(b)(2), if the offense involves the “manufacture, importation or uploading” of infringing items, the offense level is increased by two levels. The Sentencing Guidelines do not specifically provide for an increase in the event exportation is involved, however.

Although the United States is primarily an importer of counterfeit/pirated goods and not an exporter, this measure helps deter U.S. citizens from using the United States as an export platform for criminal activities. The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) does not explicitly require that WTO members impose deterrent measures upon the export of counterfeit or piratical goods. It merely requires that importing states establish border mechanisms to control these imports. However, as the United States asks foreign partners to control their exports of infringing goods, asking the Sentencing Commission to review whether the Sentencing Guidelines should be amended to address these issues may thereby help to raise the bar for future trade agreements.