

October 25, 2010

## Letter to the European Parliament regarding ACTA

Negotiations on ACTA were formally announced on October 23, 2007. Now, three years later, the European Parliament is being asked to endorse an agreement that was officially published in near final form on October 6, 2010.<sup>1</sup> This letter addresses our concerns about the current text, and asks the Parliament to consider actions that would address its shortcomings.

Overall, and in many important areas, the October 2010 version of the ACTA text is a significant improvement over the only other public version, the one published on April 16, 2010. In the October 2010 text, a number of important safeguards have been added in areas such as privacy, public health, and in clarifying the objectives and purposes of the agreement. The border measures and the Internet provisions have been significantly improved by removing patents from the border measures, narrowing the scope and more carefully addressing the importance of safeguards and balance in the text. We also note improvements in the civil litigation provisions on injunctions. This said, there are outstanding issues that are important, and which may undermine the credibility, usefulness and durability of the agreement.

### **Damages for Patents**

The early public justification for ACTA was to address a concern over trade in counterfeits and copyright piracy. The extension of the agreement to a much broader definition of all types of “intellectual property” referenced in Part II of the WTO TRIPS agreement emerged as an objective of the European Union, Japan, Switzerland and at one point, the United States, during the early negotiations. However, as the concrete provisions of the ACTA text have become better known, the problems of lumping all types of intellectual property together into a single set of obligations have also become more obvious.

Some of these issues have been resolved by language to exclude patents from the border provisions, or to limit some obligations to “at least” copyright and related rights or trademarks. However, there remain unintended consequences of the broad scope.

For example, to the extent that pharmaceutical test data is referenced in Part II of the TRIPS, some might argue that that ACTA has created a new obligation to provide for damages, injunctions, and orders to destroy goods that infringe upon this “intellectual property right.”

The ACTA provisions on damages and injunctions are particularly problematic for patent law, for the following reasons. First, the damages section of the ACTA reads as though it was written by lobbyists for the entertainment and copyright industries, particularly as regards to requiring courts to consider “any legitimate measure of value submitted by the right holder,” including “the value of the infringed good or service, measured by . . . the suggested retail price.” Wholly apart from the inappropriateness of the “suggested retail price” as a global

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<sup>1</sup> The text is dated October 2, 2010, but was related to the public on October 6, 2010.

norm for copyright, it is even more problematic for patent damages. As one judge recently noted at a conference at Fordham University, the ACTA text seems to suggest the courts be required to consider use of the entire market value rule for patents (EMVR). Patent experts increasingly see the EMVR as a deeply defective approach to patent damages, and call for “more rigorous, empirical approaches” that “provide adequately detailed evidence of consumer-driven demand,” as well as a realistic analysis of the importance of a particular patented invention in a product that may contain dozens, hundreds or even thousands of inventions, not to mention significant investments and outlays entirely unrelated to the patented invention.

The ACTA provisions on damages are inappropriate as a general standard, and even more so for certain special cases.

For a variety of reasons, flexibilities in intellectual property rules are sometimes implemented as limits on remedies, rather than exceptions to patent rights. For example, in the United States, damages for patent infringement are limited by statute to zero in cases involving performance of medical or surgical procedures by a medical professional.

In new U.S. legislation concerning regulatory pathways for generic biologic drugs, damages are limited by statute in some cases to a reasonable royalty. When patents are not disclosed timely to potential competitors, the damages are limited to zero. These limitations on remedies are an incentive to motivate patent holders to make useful disclosures of patent landscapes. Some biologic drugs are quite expensive to manufacture, and mechanisms for timely disclosure of patents facilitate needed investments in generic products, and enable more competition for products for the treatment of cancer and other severe illnesses. ACTA should not be a barrier to these policies, but in the current draft, it will be. ACTA requires, without limitation, that a court have the authority to grant damages for infringement.

Some experts believe that in the future policy makers should introduce similar limitations on remedies for undisclosed patents in cases involving standards.<sup>2</sup>

Even though European members states have not implemented such policies, the Parliament may consider if the foreclosure of the policy options is wise.

### **In-Transit Goods and the ACTA civil enforcement provisions**

In the October 2010 draft, ACTA border measures do not apply to patent infringement, and there is welcome flexibility regarding parallel trade and in-transit goods. But if patents are included in the civil enforcement provisions of ACTA, there will still be an obligation to make patent injunctions and damages available in court actions brought against in-transit goods. This has important negative risks and consequences for access to medicines in developing countries, in those cases where medicines are off-patent in the countries where

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2 We note that at the most recent meeting of the World Intellectual Property Organization (WIPO) Standing Committee on the Law of Patents (SCP), the European Commission made the following intervention: “the question of “Industrial Property Rights and Competition” is one of the challenges identified (as point 3.4.) in the European Commission’s document, “An industrial property rights strategy for Europe”, published in July 2008. Within the framework of this strategy the Commission also intends to make an assessment of the interplay between intellectual property rights and standards, particularly in information and communications technologies.” The EU and its Member States believe that the continuation of debates on these matters will be helpful.

they are manufactured and used, but on-patent in country of transit.<sup>3</sup> It simply is not good enough to provide exceptions for in-transit goods in the section on special border measures if the section on civil enforcement requires Parties to give courts the authority to enforce private actions seeking injunctions, damages and orders for the destruction of goods.

### **ACTA provisions on damage and Orphan Copyrighted Works**

The provisions in ACTA for damages are particularly aggressive in terms of infringement of copyrighted and related rights works. EU officials argue that the damages provisions are plausibly consistent with EU legal norms, despite the introduction of the possibility of using the suggested retail price as a measure of the value of the infringed good. Even if this is true, the ACTA norms for damages may present an unwelcome barrier to creating new EU norms to expand access to works for which the owners of copyrighted works cannot be identified or located.

With copyright and related rights now extending to millions of orphaned books, photographs, pamphlets, audio recordings, video, broadcasts and other protected works, and rapidly improving tools for computer translations of works into different languages, there is growing interest in making digital versions of such works widely available. The European Commission will be examining a variety of methods to address the orphan works issue, including extended “opt-out” licensing approaches, which generally involve making payments to use works for which owners cannot be found, and approaches that involve limitations on remedies for infringement of such works. Under the Berne Convention, there is greater flexibility in fashioning solutions based upon limitations on remedies than on compulsory licensing of works, particularly if the solution involves free uses of works where owners are never found.<sup>4</sup>

The provisions in ACTA will make it much more difficult to address the orphan works problem, by closing off one promising avenue for policy intervention.<sup>5</sup>

### **Exceptions to ACTA standards for remedies to infringement**

In the October 2010 text, ACTA includes some general safeguards, which are welcome, and the specific obligations to provide remedies for infringement provide some limited room for exceptions. There are, however, no general provisions that allow a Party to ignore the specific obligations in ACTA. Thus, Parties that are out of compliance with a particular obligation, or which are considering new departures from the ACTA obligations – such as to address access to orphaned copyrighted works, for example, or to provide exceptions to

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3 The need for special treatments of goods in transit was recognized by the European Federation of Pharmaceutical Industries and Associations (EFPIA). See March 13, 2009 statement on in-transit seizures of medicines:

“EFPIA recognizes the right of Member States to stop products that they suspect may be counterfeit from entering the supply chain. On occasions this will require the temporary detention of some products for the purposes of verification and testing. Where the product is not counterfeit and it is ascertained that no intellectual property rights apply at either country of origin or destination, the customs authorities should allow the product to be released, irrespective of the intellectual property status of the product in the EU.”

4 Or for works where compulsory licenses are not available in the Berne.

5 This issue is examined in more detail here: Access to Orphan Works, and ACTA provisions on damages, October 20, 2010. <http://www.keionline.org/node/980>

remedies for civil infringement for in-transit medicines, are faced with a dilemma. Do they forgo changes in domestic laws that solve problems, or do they ignore ACTA obligations?

This is not a hypothetical situation. The United States adopted new limits on remedies for infringement of patents on biologic medicines in the Affordable Care Act, which passed on March 23, 2010, and is likely to consider new legislation on orphaned copyrighted works, based upon a bill that passed the US Senate in the 110<sup>th</sup> Congress. The United States is also considering patent reform legislation, that would give judicial authorities the right to limit methodologies for patent damages that could be considered in litigation. The United States also has several other areas where there are limits on remedies for the infringement of patents, copyrights and trademarks, all of which are inconsistent with the precise language of the various ACTA articles on injunctions, damages and other remedies.<sup>6</sup>

The USTR is now telling legislators, other federal agencies, industry lobby groups and NGOs that ACTA is in fact not really that binding, and that language in ACTA Article 1.2 provides a general loophole for pretty much everything:

*"Each Party shall be free to determine the appropriate method of implementing the provisions of this Agreement within its own legal system and practice."*

While it is difficult to imagine that the USTR really thinks Article 1.2 of ACTA allows such wide latitude to ignore the specific obligations of the TRIPS,<sup>7</sup> it does suggest a different possibility – that the United States does not really consider the ACTA to have any binding effect on the United States, and that it will be used primarily to set standards for developing countries, through bilateral pressure.

### **Transparency and the ACTA Committee**

The entire process for negotiating ACTA was appalling in terms of the secrecy and exclusion of civil society. KEI has asked negotiators to include language in Chapter 5 requiring the ACTA committee to operate in an "open, transparent and inclusive manner." There should be some assurance this will happen.

### **Concluding Comments**

The White House wants ACTA signed before the November 2, 2010 Congressional elections, on the theory that it will provide some evidence the Obama Administration is taking steps to protect US jobs. While it is doubtful that voters will be influenced much by such an announcement, the deadline is pushing the negotiating Parties to rush the final text, and sign the document without resolving important outstanding issues. Among those important issues are the treatment of patents in the final text, analysis of the impact of the proposed standards for damages, and a common understanding of the flexibility to have exceptions to the obligations in ACTA.

Exploiting the United States' weak negotiating position or often weak analysis of its own

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6 See: Areas where the Oct 2, 2010 ACTA text is inconsistent with U.S. Law , October 14, 2010 , <http://www.keionline.org/node/970>

7 See: USTR's implausible claim that ACTA Article 1.2 is an all purpose loophole, and the ramifications if true, October 22, 2010, <http://www.keionline.org/node/990>

legal system may lead to a pyrrhic victory for the European Union. If the United States signs ACTA, and then ignores important obligations in the agreement, it may be unrealistic to expect other trading partners to take ACTA seriously, at least in the short run. And, the European Union also risks signing an agreement that is against its own longer term interests, because exceptions to remedies are often useful for public policy makers, and not really a cause of counterfeiting or losses in comparative advantage.

If the leading IPR enforcement issue is the lack of respect for laws that already exist, signing an agreement that will not be honored by the largest national economy is not necessarily a good thing.

For this reason, it may be useful to insist that the Commission clarify the mechanisms that enable the flexibility for Parties to adopt legitimate exceptions to the obligations of the agreement. This could be done in connection with an obligation to report those exceptions to the new ACTA Committee, which would address the issues raised by exceptions, if there is a need, at a later date.

Sincerely,

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