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Victoria Espinel  
U.S. Intellectual Property Enforcement Coordinator  
Office of Management and Budget  
725 17th Street, NW  
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**Subject: Development of the Joint Strategic Plan on Intellectual Property Enforcement; Request of the U.S. Intellectual Property Enforcement Coordinator for Public Comments.**

Dear Coordinator Espinel:

The Consumer Electronics Association (“CEA”) is pleased to submit these comments in response to IPEC’s request for public input and participation in shaping the Administration’s intellectual property enforcement strategy. CEA is the principal U.S. trade association of the consumer electronics and information technologies industries, with more than 2,000 member companies. CEA believes that the Administration’s priorities should be shaped by our national objectives in restoring and maintaining a robust economy. This entails:

- Encouraging innovation. The Constitution clearly directs that patent and copyright laws should serve rather than stifle innovation. This has not been reflected in legislative, administrative, and international negotiation priorities.
- Accurate labeling of goods and services. Counterfeits destroy lives and property. Misuse of copyrights and trademarks stifles competition and penalizes consumers.
- A level litigation playing field. The overhang of copyright statutory damages leads to the assertion of non-existent proprietary rights so as to suppress innovation and competition, destroy legitimate companies, and deter entry.

- Balanced international measures. The Administration needs to do more to protect innovators from unfair impositions by foreign governments and to bring transparency into multilateral negotiations.

## I. Strategy Recommendations

IPEC needs to establish clear priorities. Resources should be directed to assisting the national and international economies in recovering from recession and crisis. Encouraging rather than stifling innovation should be the top priority. The Administration's priorities should be:

- To return the focus of patent law to rewarding innovators.
- To address the copyright law's disincentives to innovate.
- To protect trademarks nationally from counterfeits, and internationally from abuse.
- Pursue international goals and enforcement priorities consonant with U.S. law's protection of innovation, user rights, and consumer safety, while enabling and promoting free international trade and commerce.

In these economic times, Administration priorities should be directed toward fixing *systemic* problems that suppress competition and threaten lives and property. Manifestly, this should be a higher priority than continuing to stretch the boundaries of criminal copyright enforcement, in ways that have lessened respect for U.S. law and its administrative interpretation.

**Patent trolls.** The patent system is fundamental to innovation. But core investment should be in products, not patents. Where patents become the product, innovation suffers. For large companies, resources are drained from actual research and development. For small entrants, the "thicket" of patents can present a hopeless barrier to even assessing the prospect of entry.

The recent explosion of lawsuits brought by non-practicing entities, better known as 'patent trolls,' is a tax on technology and an anchor on our ability to compete internationally. Every dollar companies spend fighting baseless lawsuits is a dollar not spent on creating jobs and developing new products. As Gary Shapiro of CEA recently observed in *Forbes*:

The patent laws allow "trolls" – faux companies that exist simply to sue other companies – to buy unused and otherwise worthless patents and extort payments from companies creating products and employing Americans. The patent laws are so unclear that a manufacturer never knows with total certainty whether he is inadvertently violating a patent. Even a successful defense of a patent lawsuit costs upwards of a million dollars, so

cash settlements to avoid the nuisance factor are significant. Meanwhile, these lawsuits increase consumer costs for useful products and stifle the creation of any new innovation or product. How did it become a good thing for businesses to be created simply to file lawsuits?<sup>1</sup>

CEA urges support for the bipartisan SHIELD Act (*Saving High-tech Innovators from Egregious Legal Disputes*), [H.R. 6245](#).<sup>2</sup> As summarized by sponsor Peter DeFazio (D-OR): “The SHIELD Act will put the financial burden on so-called “patent trolls” that buy patents solely to sue the American tech startups that created the products. \*\*\* Patent trolls don’t create new technology and they don’t create American jobs. ... They pad their pockets by buying patents on products they didn’t create and then suing the innovators who did the hard work and created the product. These egregious lawsuits hurt American innovation and small technology start ups, and they cost jobs.”<sup>3</sup> Sponsor Jason Chaffetz (R-UT) observes that “a single lawsuit, which may easily cost over \$1 million if it goes to trial, can spell the end of a tech start-up and the jobs that it could have created. ... This bill combats the problem of patent trolls by moving to a ‘loser pays’ system for software and hardware patent litigation.”<sup>4</sup>

Administration resources should be devoted to a system-wide assessment, that includes the subject matter and scope of patents under PTO interpretation of existing law; whether subject matter should be narrowed legislatively; the leverage and potential for abuse available to “patent trolls;” and the role of the International Trade Commission in the context of disputes among domestic entities. These core patent issues are far more important to the U.S. economy than are marginal copyright disputes that can be addressed by civil processes.

**Punitive and Disproportionate Statutory Damages.** Like the patent law, the Copyright Act is meant to promote the progress of science and the useful arts. A trend which should cause alarm, and should be a priority for IPEC, is the combination of (1) the assertion of rights to which an entity is not entitled,<sup>5</sup> (2) the availability of statutory damages making it too risky to fight even a dubious claim, and (3) the specter of indirect liability for products or services, which can elevate damage claims to levels unendurable by even the largest companies.<sup>6</sup>

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<sup>1</sup>Gary Shapiro, *Legal Slime Chokes Best Companies*, Forbes, Aug. 1, 2012,

<http://www.forbes.com/sites/garyshapiro/2012/08/01/legal-slime-chokes-best-companies/>.

<sup>2</sup> “[I]n an action disputing the validity or alleging the infringement of a computer hardware or software patent, upon making a determination that the party alleging the infringement of the patent did not have a reasonable likelihood of succeeding, the court may award the recovery of full costs to the prevailing party, including reasonable attorney’s fees, other than the United States.”

<sup>3</sup> Press Release, DeFazio Introduces SHIELD Act to protect American Innovation, Jobs, Aug. 1, 2012, [http://www.defazio.house.gov/index.php?option=com\\_content&view=article&id=792%3Adefazio-introduces-shield-act-to-protect-american-innovation-jobs](http://www.defazio.house.gov/index.php?option=com_content&view=article&id=792%3Adefazio-introduces-shield-act-to-protect-american-innovation-jobs).

<sup>4</sup> David Meyer, *U.S. representatives take on patent trolls with SHIELD Act*, CNet, Aug. 2, 2012, [http://news.cnet.com/8301-13578\\_3-57485900-38/u.s-representatives-take-on-patent-trolls-with-shield-act/](http://news.cnet.com/8301-13578_3-57485900-38/u.s-representatives-take-on-patent-trolls-with-shield-act/).

<sup>5</sup> Examples are collected and discussed by Prof. Jason Mazzone in *COPYFRAUD AND OTHER ABUSES OF INTELLECTUAL PROPERTY LAW* (2011).

<sup>6</sup> See generally Michael A. Carrier, *Copyright and Innovation: The Untold Story* (July 3, 2012), <http://ssrn.com/abstract=2099876>.

“The United States *is an outlier in the global copyright community* in giving plaintiffs in copyright cases the ability to elect, at any time before final judgment, to receive an award of statutory damages, which can be granted in any amount between \$750 and \$150,000 per infringed work.”<sup>7</sup> The results in cases of direct infringement have been, in the eyes of trial judges powerless to alter them, disproportionate to any harm found.<sup>8</sup> But there is a geometric impact on the economy and on innovation from the *combined effects of secondary liability, presumed willfulness, and personal liability of investors and executives.*

The *Sony Betamax* case<sup>9</sup> exposed an innovator of a product, whose functions are now considered commonplace and essential to daily life, to potentially ruinous statutory damages through the application of “secondary liability” to the distribution of an article of commerce. In the Internet age, the *multiplication* of the number of devices or services distributed by the number of works arguably infringed has produced gargantuan numbers. Whether or not the serious, pleaded statutory damage claims actually have exceeded the U.S. gross national product or are “merely” in billions of dollars,<sup>10</sup> the overhang of statutory damages is of documented significance to entrepreneurs, venture capitalists and boards of directors who must decide whether to launch a product.<sup>11</sup>

The risk inherent in statutory damages is amplified by legal uncertainty:

- Cases involving new services and devices and fair use defenses tend to be “gray areas” in which the “proper” outcome is arguable even to scholars.
- The degree to which willfulness and culpable intent are *presumed* is still developing as a matter of law.<sup>12</sup>
- Judicial concepts of “induced” infringement import knowledge standards that are still developing.
- The trend of seeking to hold entrepreneurs and investors personally liable amplifies all other risks and uncertainties.

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<sup>7</sup> Pamela Samuelson and Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 Wm. & Mary L. Rev. 439, 441 (2009), <http://ssrn.com/abstract=1375604> (emphasis supplied).

<sup>8</sup> *Id.* at 443 and n. 14.

<sup>9</sup> 464 U.S. 417 (1984).

<sup>10</sup> See, e.g., Mike Masnick, *No, The RIAA Is Not Asking For \$72 Trillion From Limewire (Bad Reporters, Bad)*, TechDirt, May 24, 2012, <http://www.techdirt.com/articles/20120524/16265119070/no-riaa-is-not-asking-72-trillion-limewire-bad-reporters-bad.shtml>.

<sup>11</sup> See, e.g., Carrier at 52-59.

<sup>12</sup> See Timothy R. Holbrook, Symposium Review, *The Intent Element of Induced Infringement*, 22 Santa Clara Computer & High Tech. L.J. 399 (2006), <http://digitalcommons.law.scu.edu/chtlj/vol22/iss3/2>.

**Copyright abuse.** Whether through claims made on the public domain,<sup>13</sup> manipulation of the DMCA “takedown” process,<sup>14</sup> or the leveraging of non-substantive copyright claims to restrict commerce in goods,<sup>15</sup> the abuse of copyright has a serious potential impact on commerce. Because copyright litigation itself is often leveraged on behalf of the claimant, these abuses often go unchallenged and unchecked.

An egregious example is the abuse of copyright in order to frustrate the First Sale doctrine, established by the Supreme Court in 1909 and codified at 17 U.S.C. 106(3). As is the case with patented goods, the rights over distribution are “exhausted” by the first sale. But litigants are establishing beachheads to cut off the legitimate rights of first purchasers:

- Some have succeeded in establishing that a conventional sales transaction should be regarded as a “lease,” thus circumventing Section 106(3).<sup>16</sup>
- Some have abused copyright law in order to claim that the statute’s “lawfully made” language operates to exclude foreign-manufactured goods, thus establishing a broad and unintended exception to the exhaustion doctrine.<sup>17</sup>

In 1985, after the Supreme Court established the right to distribute VCRs as a lawful product, proprietors sought a legislative exception to First Sale, so as to gain complete control over the burgeoning movie rental industry. After an epic legislative battle,<sup>18</sup> the Senate Judiciary Committee declined to consider such legislation. Yet, lawsuits to circumvent first sale protections may erase the exhaustion doctrine from our law for substantial portions of the programming *and* the devices that are distributed in commerce.

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<sup>13</sup> See Mazzone, *id.*, at 1 – 25.

<sup>14</sup> See, e.g., Michael Piatek, Tadayoshi Kohno and Arvind Krishnamurthy, *Challenges and Directions for Monitoring P2P File Sharing Networks – or – Why My Printer Received a DMCA Takedown Notice*, [http://dmca.cs.washington.edu/dmca\\_hotsec08.pdf](http://dmca.cs.washington.edu/dmca_hotsec08.pdf), July 28, 2008.

<sup>15</sup> See, e.g., *Omega S.A. v. Costco Warehouse Corp.*, No. CV 04-05443-TJH (E.D. Cal. Nov. 9, 2011) (Finding copyright abuse to insert and leverage copyrighted text to control distribution of a physical product not otherwise subject to the copyright claim); *Lexmark International, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 549 (6th Cir. 2004) (“Nowhere in its deliberations over the DMCA did Congress express an interest in creating liability for the circumvention of technological measures designed to prevent consumers from using consumer goods while leaving the copyrightable content of a work unprotected.”)

<sup>16</sup> See *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010). (“Vernor, eBay, and the American Library Association (ALA) have presented policy arguments against our decision. Vernor contends that our decision (1) does not vindicate the law’s aversion to restraints on alienation of personal property; (2) may force everyone purchasing copyrighted property to trace the chain of title to ensure that a first sale occurred; and (3) ignores the economic realities of the relevant transactions, in which the copyright owner permanently released software copies into the stream of commerce without expectation of return in exchange for upfront payment of the full software price. eBay contends that a broad view of the first sale doctrine is necessary to facilitate the creation of secondary markets for copyrighted works, which contributes to the public good by (1) giving consumers additional opportunities to purchase and sell copyrighted works, often at below-retail prices; (2) allowing consumers to obtain copies of works after a copyright owner has ceased distribution; and (3) allowing the proliferation of businesses.”)

<sup>17</sup> See *id.* n. 15 and *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011).

<sup>18</sup> See James Lardner, FAST FORWARD: HOLLYWOOD, THE JAPANESE, AND THE VCR WARS (1987).

Under these circumstances, IPEC's resources, as a neutral advocate of the proper balance of innovation and reward, should be directed to study and resolution of these brakes on innovation. Whether through proposed legislation, inputs to the Solicitor General, or published reports, IPEC should be addressing these systemic issues.

## II. International Negotiations

Open markets are necessary to spur innovation. For this reason, CEA has long been a champion of free trade agreements. Unfortunately, these agreements are becoming increasingly controversial – not because of debates over trade, but because of the inclusion of extreme IP language at the behest of US proprietary interests. This extreme language is extraneous to the trade agreements. Its inclusion – and the resulting pushback by our trading partners – is threatening to disrupt our free trade agenda.

The online outpouring of concern over and objections to the SOPA and PIPA legislation sharpened the national and international focus on the process by which policy proposals are developed, and the adequacy of their study and public review. Even prior to the consideration of SOPA and PIPA in 2011 and 2012, there was criticism over the development of the ACTA agreement *through a process whereby even interested members of Congress were shut out of active review*. While, ultimately, CEA and other interested U.S. parties were able to review and usefully comment on ACTA language and were given a fair hearing by USTR, post-PIPA public scrutiny has resounded negatively on ACTA's consideration in Europe and elsewhere.

The development of a Trans-Pacific Partnership (TPP) treaty seems to be following a similar course and is clouding important free trade objectives. As with ACTA, there are concerns that provisions would provide for encroachment on existing rights under U.S. law.<sup>19</sup> As with ACTA, members of Congress have complained that their own access has been insufficient, and have felt obliged to leak IP-related text in order to enable public discussion.<sup>20</sup> With the next round scheduled for Leesburg in the greater Washington area, USTR is providing opportunities for stakeholder contact with negotiators.<sup>21</sup> It is vital that this opening and invitation be a first step toward a more open, transparent, and inclusive process.

As reported through leaked communications and text, the U.S. delegation has tabled potentially significant language with respect to limitations and exceptions. According to a joint letter signed by prominent IP scholars (released the day before leaked text became available):

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<sup>19</sup> See, e.g., Carolina Rossini, *New Leaked TPP Text Puts Fair Use at Risk*, Electronic Frontier Foundation, Aug. 3, 2012, <https://www.eff.org/deeplinks/2012/08/new-leaked-tpp-puts-fair-use-risk>.

<sup>20</sup> Zach Carter, *Trans-Pacific Partnership Talks: Senators Demand Access To Controversial Documents After Leak*, Huffington Post, June 25, 2012, [http://www.huffingtonpost.com/2012/06/25/trans-pacific-partnership-documents-sherrod-brown-jeff-merkley-ron-wyden-robert-menendez\\_n\\_1624956.html](http://www.huffingtonpost.com/2012/06/25/trans-pacific-partnership-documents-sherrod-brown-jeff-merkley-ron-wyden-robert-menendez_n_1624956.html).

<sup>21</sup> See <http://www.ustr.gov/tpp/>.

The U.S. proposal may have broader effects in ongoing and future international negotiations. The provision signals openness on the part the United States to accepting expansions of mandatory limitations and exceptions in international intellectual property law – a key focus of the “development agenda” in the World Intellectual Property Organization (WIPO). This shift in policy may aid the negotiations of binding treaties on limitations and exceptions for the blind, for libraries, and for educational institutions at WIPO, as well for the inclusion of mandatory limitations and exceptions in other instruments.<sup>22</sup>

It should be a priority for IPEC to encourage an examination of the process by which IP provisions with far-reaching consequences, nationally and internationally, are folded into wide-ranging treaty discussions whose congressional consideration would in the best case be under a “fast-track,” all-or-nothing circumstance. With respect to international negotiations, IPEC should promote Administration policies that:

- (1) are separate from and do not hamper the liberalization of trade,
- (2) take into account all U.S. interests in innovation and economic growth,
- (3) are transparent to and allow early and meaningful input from interested members of Congress and the public.

### III. Threat Assessment

#### A. Counterfeits and International Priorities

Physical counterfeiting and online infringement raise fundamentally different issues with different challenges. The former involves sales of physical goods under commercial circumstances involving agreed payment; the latter involves digital goods often offered free of charge. Policy should contemplate that, while each circumstance is challenging and important, combating unlawful behavior must involve different approaches and strategies.

Counterfeit electronics present serious economic and safety problems for government and private users alike. Counterfeits harm the profitability and reputation of legitimate electronics manufacturers, suppliers, distributors and retailers who drive U.S. economic growth, as well as the public at large. Counterfeit electronics can include devices made by unauthorized manufacturers as copies of legitimate products, or defective products from legitimate manufacturers that are sold by third parties rather than destroyed. Counterfeiting also occurs at the component level, when bogus components, or used or defective components re-sold as new, are incorporated into products.

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<sup>22</sup> Statement of Professors Peter Jaszi, Michael Carroll and Sean Flynn, <http://infojustice.org/wp-content/uploads/2012/08/PIJIP-Statement-08022012.pdf>. (Aug. 2, 2012; leaked text was posted on Aug. 3)

Counterfeit electronics pose special risks to end users. Beyond the obvious risk that a counterfeit product will fail to operate as expected, break down quickly, or not function at all, counterfeit electronics and parts can overheat, create a fire hazard, or release toxic substances such as lead. Counterfeit electronics can even contain malware, such as computer viruses, that can infect other devices and computer equipment. It should be an international priority for the U.S. government, and for IPEC, to promote cooperation to locate and eliminate counterfeits. Cooperation in this arena should be a part of future free trade agreements. Such activity should receive a higher priority than seizing web sites<sup>23</sup> or filing “grey area” criminal cases that would be dubious<sup>24</sup> even if filed civilly.

## B. Assaults On The Public Domain and Fair Use

As Mazzone discusses, and Carrier notes in his survey of those involved in music industry litigation, reliance on U.S. law’s protection for fair use can be risky, given its case-by-case development and the powerful threat of statutory damages. Thus, proprietors continue to threaten even the clearest assertions,<sup>25</sup> and entrepreneurs shy away from relying on this protection.<sup>26</sup> It has long been observed that government, industry, and academia, when educating the public about the significance of copyright, either ignore or give insufficient weight to the public domain and to fair use.<sup>27</sup> Part of achieving a fairer legal context in the U.S., and a consistent system abroad, is a balanced educational system that takes note of business and consumer *rights* with respect to both the public domain and the fair use of copyrighted material.

## C. Legal Process That Harms Investment

As a result of the systemic deficiencies discussed above, companies with valid legal positions have been sued out of existence or have had to endure repeated and costly court battles. A commonly discussed example is that of Veoh, which fatally exhausted its resources and talent in successfully defending its business model.<sup>28</sup> Companies that survived

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<sup>23</sup> The pointless seizure and denial of due process to a site often supported by record labels is a well-known example. See, e.g., Mike Masnick, *Breaking News: Feds Falsely Censor Popular Blog For Over A Year, Deny All Due Process, Hide All Details*, TechDirt, Dec. 8, 2011, <http://www.techdirt.com/articles/20111208/08225217010/breaking-news-feds-falsely-censor-popular-blog-over-year-deny-all-due-process-hide-all-details.shtml>.

<sup>24</sup> See Jennifer Granick, *MegaUpload: A Lot Less Guilty Than You Think*, Stanford Law School Center for Internet and Society, Jan. 26, 2012, <http://cyberlaw.stanford.edu/node/6795>.

<sup>25</sup> See Mazzone at 26-50.

<sup>26</sup> See Carrier at 48-50.

<sup>27</sup> Statements such as this one, by USTR on July 3, should be part of officially endorsed education materials *domestically*, as well as internationally: “An important part of the copyright ecosystem is the limitations or exceptions placed on the exercise of exclusive rights in certain circumstances. In the United States, for example, consumers and business rely on a range of exceptions and limitations, such as fair use, in their businesses and daily lives. Further, under the U.S. Digital Millennium Copyright Act (DMCA), the United States provides safe harbors limiting copyright liability, which help to ensure that legitimate providers of cloud computing, user-generated content sites, and a host of other Internet-related services who act responsibly can thrive online.” <http://www.ustr.gov/about-us/press-office/blog/2012/>.

<sup>28</sup> See, e.g., Mike Masnick, *Veoh Still Perfectly Legal But Also Still Dead Due To Bogus Copyright Lawsuit*, <http://www.techdirt.com/articles/20111220/11021717143/veoh-still-perfectly-legal-also-still-dead-due-to-bogus-copyright-lawsuit.shtml>, Dec. 20, 2011. A company that could not even fund an initial day in court was



long enough to gain the wherewithal to withstand prolonged litigation have endured years of it in vindicating their fair use rights and their right to rely on DMCA notice-and takedown procedures.<sup>29</sup> Not many companies, and certainly not many startups, can endure five years of costly litigation, as have Amazon and Google, in validating the right to provide search engine results as an intermediary.

A valuable contribution by IPEC would be to focus on the role of *willfulness, intent, and personal volition* in cases in which secondary liability, personal responsibility of executives or investors, or criminal liability are claimed. Such allegations have the most serious potential consequences for entrepreneurs, innovators, and citizens. It was broadly noted, in response to the SOPA and PIPA bills, that despite the purported responsiveness of drafters to tech industry and public interest criticism, the definitions continued to include language so broad as to sweep in incidental conduct that only “facilitated” offenses – yet the remedy sections presumed the most *culpable*<sup>30</sup> intent. This has become a generic problem in copyright, and some patent,<sup>31</sup> litigation.

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CEA appreciates this opportunity to provide its views and stands ready to participate in any IPEC process with respect to IPEC’s strategic direction.

Respectfully submitted,



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DVR pioneer Replay TV, sued out of existence in 2001. Its business model ultimately was adopted by competitors, some of which are now entirely owned by copyright proprietors.

<sup>29</sup> For example, even though most of Youtube’s business practices were upheld by the Second Circuit Court of Appeals, some observers saw defeat in the requirement for additional fact-finding on an issue, even though “[t]he opinion bristles with hostility towards most of Viacom’s central arguments.” Eric Goldman, *Second Circuit Ruling in Viacom v. YouTube Is a Bummer for Google and the UGC Community*, [http://blog.ericgoldman.org/archives/2012/04/second\\_circuit\\_3.htm](http://blog.ericgoldman.org/archives/2012/04/second_circuit_3.htm), Apr. 5, 2012.

<sup>30</sup> “The inducement rule ... premises liability on purposeful, culpable expression and conduct . . . .” *MGM v. Grokster*, 545 U.S. 913, 939-40 (2005). “But what amounts to ‘clear expression’ or ‘other affirmative steps’? What kind of evidence suggests ‘purposeful, culpable expression and conduct’? \*\*\* As many have pointed out, the kind of evidence highlighted by the Court could conceivably condemn popular devices such as the iPod.” Jennifer Jenkins, *Technology Producers Can Be Liable For Intentionally Inducing Copyright Infringement*, <http://web.law.duke.edu/publiclaw/supremecourtonline/commentary/mgmvgro>.

<sup>31</sup> See, e.g., *Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. \_\_\_, 131 S. Ct. 2060 (2011) “Given the long history of willful blindness and its wide acceptance in the Federal Judiciary, we can see no reason why the doctrine should not apply in civil lawsuits for induced patent infringement under 35 U. S. C. §271(b).” (footnote omitted)