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## The SOPA-TPP Nexus

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# THE SOPA-TPP NEXUS

*Jonathan Band*<sup>1</sup>

## ABSTRACT

The controversy in the United States over the Stop Online Piracy Act (SOPA) has profound implications for the Trans-Pacific Partnership (TPP) agreement. The SOPA debate underscores the importance of striking the proper balance in intellectual property laws to promote creativity and innovation. It demonstrates that over-protection can stifle free expression and the effective operation of the Internet as a medium of communication and commerce not only within a jurisdiction, but also extraterritorially. Additionally, the debate reveals the ability of the Internet community to mobilize quickly to defeat policies that it believes threaten its existence. TPP negotiators should understand the SOPA experience to avoid repeating its mistakes.

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## I. INTRODUCTION

The controversy in the United States over the Stop Online Piracy Act (SOPA) has profound implications for the Trans-Pacific Partnership (TPP) agreement. The SOPA debate underscores the importance of striking the proper balance in intellectual property laws to promote creativity and innovation. It demonstrates that over-protection can stifle free expression and the effective operation of the Internet as a medium of communication and commerce not only within a jurisdiction, but also extraterritorially. Additionally, the debate reveals the ability of the Internet community to mobilize quickly to defeat policies that it believes threaten its existence. TPP negotiators should understand the SOPA experience to avoid repeating its mistakes.

## II. THE SOPA AND PIPA CONTROVERSY

### A. SOPA and PIPA's Provisions

SOPA, in the U.S. House of Representatives,<sup>2</sup> and its companion legislation in the U.S. Senate, the PROTECT IP Act or PIPA,<sup>3</sup> attempt to address the perceived problem of non-U.S. websites engaged in infringing activity. Because these so-called “rogue” websites have domain names registered outside of the U.S. (e.g., “.uk” rather than “.com”) and are hosted on servers outside of the United States, they are beyond the jurisdiction of U.S. courts and the existing enforcement mechanisms under U.S. law. (SOPA and PIPA are part of a broader enforcement strategy, including the federal government’s seizure of hundreds of domain names registered in the United States and criminal prosecutions against the operators of Megaupload). Although the bills have technical differences, their basic approach is the same.<sup>4</sup> They would require intermediaries subject to U.S. jurisdiction to block access to the foreign websites, or to prevent the flow of revenue to these sites. They address three kinds of infringing activity: copyright infringement, counterfeiting, and circumvention of technological protection measures. They do not concern patent infringement or trademark infringement that does not constitute counterfeiting.

More specifically, SOPA and PIPA would authorize an *in rem* lawsuit in U.S. court against a domain name associated with a site dedicated to infringing activity.<sup>5</sup> If the court found that the website met the statutory

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<sup>2</sup> Stop Online Piracy Act, H.R. 3268, 112th Cong. (2011). The lead sponsors were House Judiciary Committee Chairman Lamar Smith (R-TX) and Ranking Member John Conyers (D-MI).

<sup>3</sup> PROTECT IP Act, S. 968, 112th Cong. (2011). PROTECT IP is the acronym of Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property. The lead sponsors were Senate Judiciary Committee Chairman Pat Leahy (D-VT) and Ranking Member Chuck Grassley (R-IA).

<sup>4</sup> Both bills are based on a bill introduced in the Senate in 2010 – The Combating Online Counterfeits and Infringement Act (COICA), S. 3804, 111th Cong. (2010).

<sup>5</sup> S. 968, §§ 3(a)(2), 4(a)(2); H.R. 3261, §§ 102(b)(2), 103(b)(2). Unless otherwise indicated, citations are to the manager’s amendments of both bills. The “manager’s amendment” of a bill is the version the committee chairman presents to the committee for vote at a “markup,” which is when the committee votes on the bill and possible amendments. Senate Judiciary Committee Pat Leahy issued the manager’s amendment of PIPA on May 26, 2011; House Judiciary Committee Chairman Lamar Smith released the manager’s amendment of SOPA on December 12, 2011. PIPA uses the term “Internet site dedicated to infringing activities.” S. 968, § 2(7). SOPA in Section 102 uses the term “foreign infringing site,” § 102(a), and in Section 103 uses “Internet site dedicated to theft of U.S. property.” § 103(a)(1). These are defined terms. Both SOPA and PIPA authorize actions by the U.S. Attorney General and private rightsholders.

standard, the court would issue an order which would be served on four categories of intermediaries:<sup>6</sup>

- **Internet service providers** would be required to prevent the domain name from resolving to an Internet protocol address. In other words, when a user typed the domain name of the non-U.S. site into his browser, the service provider would not connect the user to the non-U.S. website.<sup>7</sup>
- **Search engines** (*e.g.*, Google, Bing, or other sites that direct users to other online locations) would be required to disable links to the non-U.S. site.<sup>8</sup>
- **Payment systems** (*e.g.*, Visa or MasterCard) would be required not to process payment transactions between customers with U.S. accounts and the account used by the operator of the non-U.S. site.<sup>9</sup>
- **Internet advertising networks** (*e.g.*, Google AdWords or AdSense) would not be able to place advertisements on the non-U.S. site or have sponsored links to the non-U.S. site.<sup>10</sup>

If the intermediaries did not comply with an order, they would be subject to an enforcement proceeding.<sup>11</sup>

#### *B. Criticisms of SOPA and PIPA*

When introduced, SOPA and PIPA received support from the U.S. Chamber of Commerce, the entertainment industry, pharmaceutical companies, luxury goods manufacturers, and some unions.<sup>12</sup> At the same time, SOPA and PIPA provoked sharp criticisms from Internet companies, venture capitalists, and public interest groups, which believed that the bills would undermine the legal and technical infrastructure of the Internet. These groups raised the following concerns with the legislation:

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<sup>6</sup> In actions brought by private rightsholders, the order can be served on only two categories of intermediaries: payments systems and advertising networks.

<sup>7</sup> S. 968, § 3(d)(2)(A); H.R. 3261, § 102(c)(2)(A).

<sup>8</sup> S. 968, § 3(d)(2)(D); H.R. 3261, § 102(c)(2)(B).

<sup>9</sup> S. 968, §§ 3(d)(2)(B), 4(d)(2)(A); H.R. 3261, §§ 102(c)(2)(C), 103(c)(2)(A).

<sup>10</sup> S. 968, §§ 3(d)(2)(C), 4(d)(2)(B); H.R. 3261, §§ 102(c)(2)(D), 103(c)(2)(B).

<sup>11</sup> S. 968, §§ 3(e), 4(e); H.R. 3261, §§ 102(c)(3), 103(c)(3).

<sup>12</sup> For a summary of various views on SOAP and PIPA, see BRIAN T. YEH, CONG. RESEARCH SERV., R42112, ONLINE COPYRIGHT INFRINGEMENT AND COUNTERFEITING: LEGISLATION IN THE 112TH CONGRESS (2012).

1. **Legitimate websites.** Although the bills' sponsors said that they were targeting the "worst of the worst" foreign websites, the bills as introduced applied to both U.S. and non-U.S. websites.<sup>13</sup> Moreover, a small amount of infringing content within a large website conceivably could trigger a remedy that would apply to the entire website.<sup>14</sup> And compliance with the Digital Millennium Copyright Act's notice-and takedown procedures would not provide a safe harbor.<sup>15</sup> Thus, websites that host user generated content, including cloud-computing sites, could be affected.
2. **The actions by intermediaries.** All four types of actions required by intermediaries raised concerns.
  - All four required actions, because they were targeted at websites rather than specific content within websites, were blunt instruments that could lead to the termination of service to websites providing lawful as well as unlawful content.
  - The domain name and search engine blocking remedies were particularly controversial. Both approaches are used by governments that restrict free expression.<sup>16</sup> Thus, U.S. endorsement of these

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<sup>13</sup> As the bills moved through the legislative process, some – but certainly not all – of the problems identified by critics were addressed. For example, the "manager's amendment" of SOPA was narrowed to apply only to non-U.S. websites. The changes made (or proposed) during the course of the legislative process make it difficult accurately to describe the problems with the legislation after the fact because different versions of the legislation contained different problems.

<sup>14</sup> SOPA as introduced provided that an "Internet site is dedicated to theft of U.S. property if ... it is an Internet site, *or a portion thereof*, that is a U.S. directed site ...." H.R. 3261 § 103(a)(1)(A) (as introduced) (emphasis added). In the manager's amendment, the clause "or a portion thereof" was removed from the definition of an Internet site "dedicated to theft of U.S. property." However, the definition of Internet site was amended to include the following sentence: "Except where otherwise provided in this title, the term 'Internet site' may include a specifically identified portion of such site." H.R. 3261 § 101(16) (manager's amendment). Additionally, SOPA as introduced contained this definition of Internet site dedicated to theft of U.S. property: "[T]he operator of the U.S.-directed site ... is taking, or has taken, deliberate actions to avoid confirming a high probability of the use of the U.S.-directed site to carry out acts that constitute a violation of section 501 or 1201 of title 17, United States Code ...." H.R. 3261 § 103(a)(1)(B)(ii)(I) (as introduced). There is a high probability that any site that allows users to post content contains some infringing content. Accordingly, if the operator of such a site does not monitor it to remove infringing content, the site would fall within the definition of a site "dedicated to theft of U.S. property."

<sup>15</sup> The DMCA's safe harbors, 17 U.S.C. § 512 (2006), provide a limitation on damages and other remedies. They are not an exception from liability for infringement. Accordingly, a website could comply with the DMCA's notice-and-takedown regime, and thus be exempt from copyright damages, but still be a website dedicated to infringing activity under SOPA and PIPA and subject to the remedies they provide.

<sup>16</sup> Mike Masnick, *The List Of Internet Censoring Countries The MPAA Thinks Provide*

methods to block access to content that the U.S. government considers illegal (*i.e.*, IP infringing) would legitimate other countries' use of these methods to block access to content they consider illegal (*e.g.*, criticism of the government). Indeed, a letter from Members of the EU Parliament stated that “blocking of websites, by DNS or otherwise, severely undermines America’s credibility in the global information society.”<sup>17</sup>

- Domain name blocking also has the potential of introducing cybersecurity vulnerabilities. Court-mandated domain name blocking requires service providers to return authenticated and unencrypted responses to domain name queries in contravention of emerging cybersecurity protocols. Moreover, as users attempted to circumvent the domain name blocking, they would use foreign domain name service providers that did not comply with U.S. government cybersecurity standards.
- Because both bills allow private rights of action, the volume of cases could be very large, and the intermediaries would need to take action with regard to many sites, at great expense. Intermediaries may decide that simplifying their compliance obligations by eliminating certain services or categories of users will reduce their costs.

3. **Technology Mandates.** The bills allow intermediaries to be second-guessed as to whether they took sufficient action to meet their obligations in response to orders.<sup>18</sup> This would invite courts to determine what measures were “technically feasible and commercially reasonable,” and mandate additional technological measures by the intermediaries.
4. **Due Process.** Under SOPA as introduced, advertising networks and payment systems would be required to

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A *Good Example For The US*, TECHDIRT (Dec. 19, 2011, 11:43 AM), <http://www.techdirt.com/articles/20111219/02551217124/list-internet-censoring-countries-mpaa-thinks-provide-good-example-us.shtml>.

<sup>17</sup> Glyn Moody, *EU Politicians Send Letter To US Congress Warning Of 'Extraterritorial Effects' Of SOPA And PIPA*, TECHDIRT (Jan. 19, 2012, 2:01 PM), <http://www.techdirt.com/articles/20120118/12353017458/eu-politicians-send-letter-to-us-congress-warning-extraterritorial-effects-sopa-pipa.shtml>.

<sup>18</sup> The Attorney General or private rightsholders could ask a court to enforce an order against an intermediary if the Attorney General or the rightsholder believed that the intermediary was not complying with its obligations. S. 968 §§ 3(e), 4(e); H.R. 3261, §§ 102(c)(3), 103(c)(3).

terminate service to websites within five days of receiving an allegation of infringement from a rightsholder, without any judicial determination of wrongdoing.<sup>19</sup> SOPA and PIPA include a “vigilante” provision that provides a safe harbor for intermediaries that terminate service to websites in response to rightsholder allegations.<sup>20</sup> However, no mechanism is provided for the website operator or its users to challenge the termination of service.

The basic structure of both bills also raises serious jurisdictional questions. The bills authorize an *in rem* proceeding against property (a website or a domain) that is outside the United States but is accessible by U.S. users. This is a legal fiction (suing property rather than a person) built on a legal fiction (the assertion of jurisdiction over a person because that person has minimum contacts with a jurisdiction).

5. **Privacy.** All the problems identified above, taken together, would provide Internet companies with a strong incentive to monitor user activity so as to prevent the possibility of service termination.
6. **Extraterritorial Application of U.S. Law.** SOPA and PIPA would impose U.S. IP standards on non-U.S. websites. As the Members of the EU Parliament stated, “[c]onsidering the world wide character of the internet, European companies will be forced to adhere to US standards to prevent DNS blocking.”<sup>21</sup> To be sure, the non-U.S. website in theory would have the ability to defend itself in the *in rem* proceeding, but few website operators would be willing to bear the expense of litigation in the United States.

The domain name blocking and the payment system termination presumably would largely prevent just U.S. users from reaching the non-U.S. site, and thus would have limited impact on the website with respect to the rest of the world. However, the search engine blocking and the advertising network termination could affect the website’s accessibility outside of the United States. A U.S. search engine would be required to remove links to the non-U.S. website, which could mean that a non-U.S. user of the search engine would not be directed to that site – even if the user was in the same country as the website! Similarly, a U.S. Internet advertising

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<sup>19</sup> H.R. 3261 § 103(b) (as introduced).

<sup>20</sup> S. 968 § 5; H.R. 3261 § 105.

<sup>21</sup> Moody, *supra* note 17.

network would be required to stop placing advertisements on the website – even advertisements that have nothing to do with the United States. Since the world’s largest search engines and Internet advertising networks are based in the United States, the bills could result in a dramatic reduction in non-U.S. traffic and revenue to non-U.S. sites.

Significantly, these sites could well be legal in their host country. Because of the different copyright term limits, some works that are still in copyright in the U.S. are in the public domain outside of the U.S. For example, F. Scott Fitzgerald’s *The Great Gatsby* remains in the copyright in the United States although it has entered the public domain in Australia. An Australian site that hosted *The Great Gatsby* and similar works could be subject to SOPA and PIPA even though it was perfectly lawful in Australia.<sup>22</sup> And SOPA and PIPA could prevent non-U.S. traffic and advertising revenue to the site.

Similarly, a non-U.S. website (including the website of a bricks-and-mortar retailer) might have a license to distribute content outside the United States. The website, however, would be subject to SOPA or PIPA because the content was viewable in the United States, where the website operator did not have a license. SOPA and PIPA would interfere with non-U.S. traffic and advertising revenue to the site.

### III. THE CURRENT STATUS OF SOPA AND PIPA

After introduction, both bills gained many co-sponsors and began to move rapidly through Congress, notwithstanding the concerns raised by many Internet companies and users.<sup>23</sup> A variety of factors then converged

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<sup>22</sup> See Eric Hellman, *Foreign Libraries Will Be Infringing Sites Under SOPA*, GO TO HELLMAN (Jan. 3, 2012, 12:18 PM), <http://go-to-hellman.blogspot.com/2012/01/foreign-libraries-will-be-infringing.html>.

<sup>23</sup> S. 968 was introduced on May 12, 2011, and was reported out of the Senate Judiciary Committee just two weeks later, on May 26, 2011. The Senate Judiciary Committee held hearings on the issue of rogue websites prior to the introduction of the S. 968, but not on the specific language of the legislation after its introduction. See S. Rep. No. 112-39 (2011) for a detailed discussion of the legislation and related hearings. The legislation soon had 40 co-sponsors. Senator Ron Wyden placed a “hold” on the bill, and Senate Majority Leader Harry Reid scheduled a cloture vote (a procedural vote to overturn the hold, which requires a 60 vote super-majority) for the week of January 23, 2012. H.R. 3261 was introduced on October 26, 2011, and was the subject of a hearing on November 16, 2011. The unbalanced nature of the slate of witnesses – five in favor of the legislation and only one (a Google representative) against – fueled opposition to SOPA. The House

in mid-January to halt this progress. Two factors are particularly noteworthy.

#### A. *The White House Statement*

First, on January 14, 2012, the White House issued a statement expressing concerns with certain provisions in the legislation.<sup>24</sup> While stating that “online piracy by foreign websites is a serious problem that requires a serious legislative response,” the White House stressed that “we will not support legislation that reduces freedom of expression, increases cybersecurity risk, or undermines the dynamic, innovative global Internet.” The statement added:

**Any effort to combat online piracy must guard against the risk of online censorship of lawful activity and must not inhibit innovation by our dynamic businesses large and small.**<sup>25</sup> Across the globe, the openness of the Internet is increasingly central to innovation in business, government, and society and it must be protected. To minimize this risk, new legislation must be narrowly targeted only at sites beyond the reach of current U.S. law, cover activity clearly prohibited under existing U.S. laws, and be effectively tailored, with strong due process and focused on criminal activity. Any provision covering Internet intermediaries such as online advertising networks, payment processors, or search engines must be transparent and designed to prevent overly broad private rights of action that could encourage unjustified litigation that could discourage startup businesses and innovative firms from

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Judiciary Committee began marking up the bill on December 15, 2011, and continued on December 16. Although the Committee rejected most amendments by a 2-1 margin, the large number of amendments (almost 60), combined with the heated debate over them, forced Chairman Smith to adjourn the mark-up until the middle of January, 2012. At the markup, many Congressmen admitted ignorance concerning how the Internet operated, yet rejected calls to hold additional hearings on how the legislation could affect cybersecurity and the operation of the Internet.

<sup>24</sup> Victoria Espinel, Aneesh Chopra, & Howard Schmidt, *Official White House Response to Stop the E-PARASITE Act: Combating Online Piracy while Protecting an Open and Innovative Internet*, WE THE PEOPLE (Jan. 14, 2012), <https://www.whitehouse.gov/petition-tool/response/combating-online-piracy-while-protecting-open-and-innovative-internet>. The statement was signed by Victoria Espinel, Intellectual Property Enforcement Coordinator at Office of Management and Budget; Aneesh Chopra, the U.S. Chief Technology Officer and Assistant to the President and Associate Director for Technology at the Office of Science and Technology Policy; and Howard Schmidt, Special Assistant to the President and Cybersecurity Coordinator for National Security Staff.

<sup>25</sup> Emphasis in the original text.

growing.

The statement then addressed the domain name issue:

**We must avoid creating new cybersecurity risks or disrupting the underlying architecture of the Internet.**<sup>26</sup>

Proposed laws must not tamper with the technical architecture of the Internet through manipulation of the Domain Name System (DNS), a foundation of Internet security. Our analysis of the DNS filtering provisions in some proposed legislation suggests that they pose a real risk to cybersecurity and yet leave contraband goods and services accessible online. We must avoid legislation that drives users to dangerous, unreliable DNS servers and puts next-generation security policies, such as the deployment of DNSSEC, at risk.

In closing, the White House stated:

We should all be committed to working with all interested constituencies to develop new legal tools to protect global intellectual property rights without jeopardizing the openness of the Internet.... Moving forward, we will continue to work with Congress on a bipartisan basis on legislation that provides new tools needed in the global fight against piracy and counterfeiting, while vigorously defending an open Internet based on the values of free expression, privacy, security and innovation.<sup>27</sup>

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<sup>26</sup> Emphasis in the original text.

<sup>27</sup> The White House statement echoes themes previously articulated by President Obama. When visiting China in 2009, President Obama said that access to information was a universal right. He added,

I am a big believer in technology and I'm a big believer in openness when it comes to the free flow of information. I think that the more freely information flows, the stronger the society becomes, because then citizens of countries around the world can hold their own governments accountable. They can begin to think for themselves. That generates new ideas. It encourages creativity. And so I've always been a strong supporter of open Internet use .... I can tell you that in the United States, the fact that we have ... unrestricted Internet access is a source of strength, and I think [it] should be encouraged.

President Barack Obama, Remarks at Town Hall Meeting with Future Chinese Leaders, Museum of Science and Technology, Shanghai, China (Nov. 16, 2009), *available at* <http://www.whitehouse.gov/the-press-office/remarks-president-barack-obama-town-hall-meeting-with-future-chinese-leaders>. Furthermore, in a speech to the United Nations, President Obama said: "We will promote new tools of communication, so people are empowered to connect with one another – and, in repressive societies, to do so with security. We will support a free and open Internet, so individuals have the information to make up their own minds." President Barack Obama, Remarks by the President to the United Nations General Assembly (Sept. 23, 2010), *available at*

The White House statement validated the concerns of the Internet companies, which had been dismissed by many members of Congress.

### *B. The Online Protest*

The second major factor was an online protest on January 18, 2012, organized by entities with an Internet presence. The English language site of Wikipedia, the online encyclopedia, blocked its content and referred users to information about SOPA and PIPA, and how to contact their Congressional representatives. Google blacked out its logo, and Facebook, Twitter, and Amazon placed prominent notices on their home pages concerning the legislation. All told, over 115,000 websites participated in the protest, with 50,000 blacking out all or part of the site. Almost 1 billion people were blocked in some manner from websites. Users quickly responded. Over 10 million signed petitions protesting the legislation. Four million emails were sent to representatives, and over eight million phone-calls were made or attempted.<sup>28</sup>

The online protest was widely reported in the traditional media, and all four Republican Presidential candidates condemned the bills during the South Carolina primary debate on Thursday, January 19.<sup>29</sup> The co-sponsors

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<http://www.whitehouse.gov/the-press-office/2010/09/23/remarks-president-united-nations-general-assembly>; *see also* Secretary Hillary Clinton, Remarks on Internet Freedom, The Newseum, Washington, D.C. (Jan. 21, 2010), *available at* <http://www.state.gov/secretary/rm/2010/01/135519.htm>.

<sup>28</sup> *See* Fight for the Future, *The January 18 Blackout/Strike in Numbers and Screenshots*, SOPASTRIKE.COM, <http://www.sopastrike.com/numbers> (last visited Feb. 23, 2012).

<sup>29</sup> Speaker Newt Gingrich said: “Well, you’re asking a conservative about the economic interests of Hollywood and I’m weighing, I’m weighing it. I’m not rushing in, I’m trying to think of all the many fond left-wing people who we’re so eager to protect. On the other hand, you have virtually everybody who’s technologically advanced including, you know, Google, and YouTube, and Facebook and all the folks who say this is going to—totally going to mess up the Internet. And the bill in its current form is written really badly and leads to a range of censorship that is totally unacceptable. Well, I favor freedom .... If a company finds that it has genuinely been infringed upon, it has the right to sue. But the idea that we’re going to preemptively have the government start censoring the Internet on behalf of giant corporations, economic interests strikes me as exactly the wrong thing to do.” Governor Mitt Romney stated, “I think [Gingrich] got it just about right. The truth of the matter is that the law as written is far too intrusive, far too expansive, far too threatening to freedom of speech and movement of info across the Internet. It would have a potentially depressing impact on one of the fastest growing industries in America, which is the Internet and all those industries connected to it .... [A] very broad law which gives the government the power to start stepping in to the internet and saying who can pass what to whom, I think that’s a mistake, and so I’d say no. I’m standing for freedom.” Congressman Ron Paul said: “I was the first Republican to sign on with a host of Democrats to oppose this law and we have worked, we have had a concerted effort and I

of the legislation began to withdraw their support. On Friday, January 20, Senate Majority Leader Harry Reid pulled PIPA off of the Senate calendar, and House Judiciary Committee Chairman Lamar Smith, SOPA’s lead sponsor, stated that “it is clear that we need to revisit the approach on how best to address the problem” of foreign infringing websites.<sup>30</sup>

### C. *The OPEN Act*

Meanwhile, Senator Ron Wyden and Congressman Darryl Issa introduced an alternative bill to SOPA and PIPA: the Online Protection and Enforcement of Digital Trade (OPEN) Act.<sup>31</sup> Like SOPA and PIPA, the OPEN Act would require intermediaries to terminate services to non-U.S. Internet sites dedicated to infringing activity. The OPEN Act, however, contains several critical differences from the other bills.

- The OPEN Act does not provide a private right of action in federal court to IP owners.
- The OPEN Act requires action only by two kinds of intermediaries – payment systems and advertising networks.<sup>32</sup>
- The OPEN Act provides for a proceeding by the International Trade Commission (ITC) rather than litigation by the Attorney General in federal court.<sup>33</sup>
- The OPEN Act’s definition of an Internet site dedicating to infringing activity is narrower than in PIPA or SOPA.<sup>34</sup>

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feel like we’re making achievement there. This bill is not going to pass, but watch out for the next one. And I am pleased that the attitude is sort of mellowed up here, because the Republicans unfortunately have been on the wrong side of this issue. And this is a good example on why it’s good to have somebody that can look at civil liberties, and work with coalitions, and bring people together. Freedom and the Constitution bring factions together.” Senator Rick Santorum said: “I don’t support this law and I agree with everybody up here that it goes too far...” Hunter Walker, *Republican Candidates Weigh in on SOPA*, POLITICKER (Jan. 19, 2012, 10:10 PM), <http://www.politicker.com/2012/01/19/republican-candidates-weigh-in-on-sopa/>.

<sup>30</sup> Lamar Smith, Statement on Senate Delay of Vote on PROTECT IP Act (Jan. 20, 2012), available at <http://judiciary.house.gov/news/01202012.html>

<sup>31</sup> Online Protection and Enforcement of Digital Trade Act, S. 2029, 112th Congress (2011). Senator Wyden (D-OR), joined by Senators Moran and Cantwell, introduced the OPEN Act on December 17, 2011. Congressman Issa (R-CA) introduced the House version, H.R. 3782, on January 18, 2012. Prior to introducing the bills, the sponsors posted drafts on the Internet for public comment. *OPEN: Online Protection & Enforcement of Digital Trade Act*, KEEP THE WEB OPEN, <http://keepthewebopen.com/> (last visited Feb. 23, 2012).

<sup>32</sup> S. 2029 § 337A(g).

<sup>33</sup> S. 2029 § 337A.

<sup>34</sup> S. 2029 § 337A(a)(8). An Internet site dedicated to infringing activity is defined in part as an Internet site that “has only limited purpose or use than engaging in infringing

Internet companies supported this legislative alternative. Associations representing the rightsholders opposed it, arguing that it would not provide effective relief because its standards were too hard to meet and the ITC could not act swiftly enough.

#### *D. The Megaupload Indictment*

January 19, 2012 – the day after the online protest – saw another event that raised questions concerning the need for SOPA and PIPA: the federal indictment of Megaupload and its owner, Kim Dotcom, for criminal copyright infringement, racketeering, and money-laundering. Megaupload is an online storage site that IP owners had repeatedly cited as the sort of “rogue” foreign website necessitating enforcement tools such as SOPA and PIPA. Megaupload was incorporated in Hong Kong and Kim Dotcom lived in New Zealand. Nonetheless, Dotcom and three Megaupload employees were arrested in New Zealand by New Zealand law enforcement authorities, which executed provisional arrest warrants requested by the United States. The U.S. Department of Justice is now seeking to extradite Dotcom and his employees to the United States for trial. The U.S. government also seized servers in the U.S. that hosted Megaupload content, as well as the Megaupload.com domain name, which is registered in the United States. The press release issued by the U.S. Department of Justice indicated that U.S. law enforcement authorities had received assistance from: the New Zealand Police, the Organised and Financial Crime Agency of New Zealand (OFCANZ), the Crown Law Office of New Zealand, and the Office of the Solicitor General for New Zealand; Hong Kong Customs and the Hong Kong Department of Justice; the Netherlands Police Agency and the Public Prosecutor’s Office for Serious Fraud and Environmental Crime in Rotterdam; London’s Metropolitan Police Service; Germany’s Bundeskriminalamt and the German Public Prosecutors; the Royal Canadian Mounted Police-Greater Toronto Area (GTA) Federal Enforcement Section and the Integrated Technological Crime Unit; and the Canadian Department of Justice’s International Assistance Group. Authorities in Australia and the Philippines also provided assistance.<sup>35</sup> The level of cooperation by these non-U.S. law enforcement agencies in the

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activity and whose owner or operator primarily uses the site ... to willfully ... infringe a copyright ....” *Id.*

<sup>35</sup> Press Release, Dep’t of Justice, Justice Department Charges Leaders of Megaupload with Widespread Online Copyright Infringement (Jan. 19, 2012), *available at* <http://www.justice.gov/opa/pr/2012/January/12-crm-074.html>.

apprehension of a website operator living outside the United States suggests that the additional remedies provided by SOPA and PIPA may be unnecessary.

#### *E. ACTA Protests*

Inspired by the success of the online protests against SOPA and PIPA, Internet users in Europe began agitating against the Anti-Counterfeiting Trade Agreement (ACTA). Many of the countries participating in the “plurilateral” negotiations, including the United States and Japan, had signed ACTA in October 2011. The European Union and 22 of its 27 member states signed the agreement in late January 2012. But the agreement still needs to be approved by the European Parliament, as well as the parliaments of the individual Member States. In response to online and physical protests in early February 2012 across the Continent, the parliaments of several Member States, including Bulgaria, the Czech Republic, Germany, Latvia, Netherlands, Slovakia, and Poland, announced deferral of consideration of ACTA until after the debate on the agreement in the European Parliament, scheduled for June. The protesters objected *inter alia* to the secrecy in which ACTA was negotiated, as well as its requirement of criminal penalties for copyright infringement on a commercial scale. The protests and the member state parliament actions prompted the European Commission on February 22, 2012, to refer ACTA to the European Court of Justice to determine whether it violated any fundamental EU rights.

### IV. SOPA AND U.S. TPP DRAFT COMPARED

In March 2011, the U.S. proposal for the TPP Internet chapter was leaked to the press. On its surface, the U.S proposal does not appear to contain provisions similar to those in SOPA or PIPA. Nonetheless, the U.S. proposal reflects the same flawed perspective as SOPA and PIPA.

#### *A. Infringement as an Existential Threat*

The premise of the U.S. proposal is that infringement is a serious problem that must be addressed in detail in the TPP.<sup>36</sup> Likewise, the

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<sup>36</sup> 28 Senators urged President Obama to include in TPP “the highest standards of protection for intellectual property ...”: “[W]hile our copyright industries are one of our most vibrant export sectors, they are under attack from rampant and massive online piracy. These industries are irreparably harmed when technological protection measures are circumvented or when pirated content is streamed over the internet. Similarly, our

sponsors of SOPA and PIPA fervently believe that counterfeiting and copyright infringement has a grave adverse impact on innovation and job growth in the U.S. that requires sweeping new remedies.

Yet, there is no scientifically rigorous quantification of the scope of the infringement problem and its impact on the U.S. economy or the economies of the other TPP partners.<sup>37</sup> House Judiciary Committee Chairman Lamar Smith declared in a January 20 opinion column on CNN.com that “[i]llegal counterfeiting and piracy costs the U.S. economy \$100 billion and thousands of jobs every year.” PolitiFact declared this statement to be “false.”<sup>38</sup> Julian Sanchez, a fellow at the Cato Institute, challenged the statistics upon which SOPA and PIPA’s sponsors justified the legislation.<sup>39</sup> The U.S. Government Accountability Office back in 2010 asserted that the industry figures relied upon by policymakers had little foundation.<sup>40</sup>

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trademark holders lose jobs, revenue, and consumer trust when fakes are appended with counterfeit labels. A strong TPP agreement can prevent these and similar harms.” Press Release, Hatch, Cantwell Lead Bipartisan Group of Senators In Calling on President to Maintain Strong IP Rights in Trans-Pacific Partnership Trade Agreement (May 17, 2011), available at <http://finance.senate.gov/newsroom/ranking/release/?id=9bcacbf4-3041-49ad-b4cd-6cd9bbad55a4>.

<sup>37</sup> For a detailed discussion of the fallacies underlying the position that infringement causes serious harm to the U.S. economy, see Response of NetCoalition and the Computer & Communications Industry Association to the Notice of Inquiry on Copyright Policy, Creativity, and Innovation in the Internet Economy, No. 10090448-0448-01 (Dec. 10, 2010), available at <http://www.policybandwidth.com/briefs/nc-cciadocnoifinal.pdf>.

<sup>38</sup> Lamar Smith says online piracy and counterfeiting costs the U.S. economy \$100 billion a year, POLITIFACT (Feb. 6, 2012), <http://www.politifact.com/texas/statements/2012/feb/06/lamar-smith/lamar-smith-says-online-piracy-and-counterfeiting/>.

<sup>39</sup> Julian Sanchez, *How Copyright Industries Con Congress*, CATO @ LIBERTY (Jan. 3, 2012, 3:07 PM), <http://www.cato-at-liberty.org/how-copyright-industries-con-congress/>; Julian Sanchez, *SOPA, Internet Regulation, and the Economics of Piracy*, ARS TECHNICA (Jan. 18, 2012, 1:39 PM), <http://arstechnica.com/tech-policy/news/2012/01/internet-regulation-and-the-economics-of-piracy.ars>.

<sup>40</sup> See U.S. Gov’t Accountability Office, GAO-10-423, INTELLECTUAL PROPERTY: OBSERVATION ON EFFORTS TO QUANTIFY THE ECONOMIC EFFECTS OF COUNTERFEIT AND PIRATED GOODS; THE IMPACT OF INNOVATION AND THE ROLE OF IP RIGHTS ON U.S. PRODUCTIVITY, COMPETITIVENESS, JOBS, WAGES AND EXPORTS, 1 (2010). The GAO asserted that the lack of data is the primary challenge for quantifying the impact of infringement. The GAO report quoted a 2008 OECD study that found that “available information on the scope and magnitude of counterfeiting and piracy provides only a crude indication of how widespread they may be ....” Id. at 16. The OECD study further stated that “data have not been systematically collected or evaluated and, in many cases, assessments ‘rely excessively on fragmentary and anecdotal information; where data are lacking, unsubstantiated opinions are often treated as facts.’” Id. The GAO observed that the U.S. government has relied upon rightsholder statistics on infringement, but “industry associations do not always disclose their proprietary data sources and methods, making it difficult to verify their estimates.” Id.

The GAO report stated that in the absence of real data on infringement, methods for calculating estimates of economic losses involve assumptions that have a significant impact on the resulting estimate. Two key assumptions are the rate at which a consumer is willing to switch from an infringing good to a genuine product (substitution rate); and value of the

Nevertheless, certain members of Congress in the context of SOPA and PIPA, and USTR in the context of TPP, forge ahead on the assumption that infringement generally is a dire threat to innovation and prosperity, and that creative activity is in a state of crisis.<sup>41</sup>

But careful analysis of hard data reveals the opposite to be the case. A recent study by business and trend analysis company Floor64 found that “[b]y any measure, it appears that we are living in a true Renaissance era for content. More money is being spent overall. Households are spending more on entertainment. And a lot more works are being created.”<sup>42</sup> Similarly, the Congressional Research Service (CRS) issued a report on December 9, 2011, concerning the financial condition of the U.S. motion picture industry.<sup>43</sup> The report finds that the U.S. motion picture industry is in very good health, which belies industry claims that online infringement is causing it economic devastation.

The report makes the following findings:

- The motion picture and sound recording industry’s value-added share of GDP (0.4%) did not change between 1995 and 2009. (This suggests that infringement has not harmed these industries relative to the U.S. economy as a whole.)
- Gross revenues for the motion picture and sound recording industries grew from \$52.8 billion in 1995 to \$104.4 billion in 2009.

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infringing good. The GAO suggested that assuming a one-to-one substitution rate at the manufacturer’s suggest retail price could lead to a dramatic overstatement of economic loss. The GAO noted that some copyright industry studies made precisely this problematic assumption. *Id.* at 21. In other instances, the studies failed altogether to reveal their assumptions. *Id.* The GAO stated that “[u]nless the assumptions about substitution rates and valuations of counterfeit goods are transparently explained, experts observed that it is difficult, if not impossible, to assess the reasonableness of the resulting estimate.” *Id.* at 18.

The GAO report concluded that “it is difficult, if not impossible, to quantify the net effect of counterfeiting and piracy on the economy as a whole.” *Id.* at 16. Furthermore, the “net effect” of infringement on the economy “cannot be determined with any certainty.” *Id.* at 28.

<sup>41</sup> See also *Stop Online Piracy Act: Hearing on H.R. 3261 Before the H. Comm. On the Judiciary*, 112th Cong. 2-3 (2011) (statement of Maria A. Pallante, Register of Copyrights) (“Internet piracy not only usurps the copyright value chain for any one work, it also threatens the rule of copyright law in the 21<sup>st</sup> century;” tools such as those in SOPA “are essential to stopping the economic devastation caused by rogue websites.”).

<sup>42</sup> MICHAEL MASNICK & MICHAEL HO, FLOOR64, THE SKY IS RISING (2012), available at <http://www.ccianet.org/CCIA/files/ccLibraryFiles/Filename/000000000586/TheSkyIsRising7-130.pdf>.

<sup>43</sup> Mike Masnick, *Congressional Research Service Shows Hollywood Is Thriving*, TECHDIRT (Dec. 12, 2011, 12:12 PM), <http://www.techdirt.com/articles/20111212/02244817037/congressional-research-service-shows-hollywood-is-thriving.shtml>.

- U.S. box office revenues for the U.S. and Canada rose from \$5.3 billion in 1995 to \$10.6 billion in 2010.
- Worldwide box office receipts have been growing faster than U.S. domestic receipts. (This suggests that the problem of foreign infringement is overstated.)
- According to the Census Bureau, the after-tax profit of the industry increased from \$496 million for the second quarter of 2010 to \$891 million for the second quarter of 2011.
- According to the Commerce Department's Bureau of Economic Analysis, corporate profits after taxes for the U.S. motion picture and sound recording industry grew from -\$2.7 billion in 1998 to \$937 million in 2008.
- CEO pay has increased significantly over the past 15 years: Walt Disney Company – \$10 million in 1994 to \$29.6 million in 2010; and Time Warner – \$5 million in 1994 to \$26.3 million in 2010. Other industry CEOs also received generous compensation in 2010: News Corp. – \$33.3 million; Viacom – \$84.5 million; and NBC Universal – \$21.4 million.<sup>44</sup>

In sum, the CRS reports that the financial condition of the U.S. motion picture industry is very solid. This, in turn, suggests that industry complaints about the harm caused by counterfeiting and copyright infringement are overstated. While Internet-based infringement may cause

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<sup>44</sup> See Francis Bea, *Study Suggests U.S. Box Office Not Affected by BitTorrent*, DIGITAL TRENDS (Feb. 11, 2012), <http://www.digitaltrends.com/international/study-suggests-u-s-box-office-not-affected-by-bittorrent/> (stating that a study by researchers from Wellesley College and the University of Missouri found that U.S. box office sales are not affected by BitTorrent pirating. The study also revealed that movie studios hold the power to curb piracy by decreasing international box office release windows); Timothy B. Lee, *Swiss Government: File Sharing No Big Deal, Some Downloading Still OK*, ARS TECHNICA (Dec. 5, 2011, 1:50 PM), <http://arstechnica.com/tech-policy/news/2011/12/swiss-government-file-sharing-no-big-deal-some-downloading-still-ok.ars>. A report written by the Swiss Federal Council, pursuant to a request by the Swiss legislature, concluded that file-sharing does not have a negative impact on Swiss culture. Because consumers spend a constant share of their disposable income of entertainment, money they save buying CDs and DVDs are instead spent on concerts, movies, and merchandising. The Hargreaves Review in the U.K. stated that a detailed survey of U.K. and international data concerning online copyright infringement “finds that very little of it is supported by transparent research criteria. Meanwhile sales and profitability levels in most creative business sectors appear to be holding up reasonably well. We conclude that many creative businesses are experiencing turbulence from digital copyright infringement, but that at the level of the whole economy, measurable impacts are not as stark as is sometimes suggested.” IAN HARGREAVES, DIGITAL OPPORTUNITY: A REVIEW OF INTELLECTUAL PROPERTY AND GROWTH 47 (2011), available at <http://www.ipo.gov.uk/ipreview-finalreport.pdf>. The Government Response to the Hargreaves Review agreed that “too many past decisions on IP have been supported by poor evidence, or indeed poorly supported by evidence. This is true at an international level as well as domestically.” THE GOVERNMENT RESPONSE TO THE HARGREAVES REVIEW OF INTELLECTUAL PROPERTY AND GROWTH 3 (2011), available at <http://ipo.gov.uk/ipresponse-full.pdf>.

some companies some harm, the size of the problem must be properly understood to ensure that that the “solutions” do not cause unnecessary collateral damage.<sup>45</sup>

### *B. The Effectiveness of Legal Measures*

To the extent that there is a problem, SOPA, PIPA, and TPP assume without proof that more laws, and more enforcement of those laws, are the most effective means of reducing online infringement. However, according to a recent study by Joe Karaganis, “we have seen no evidence – *and indeed no claims* – that enforcement efforts to date have had *any* impact on the overall supply of pirated goods.”<sup>46</sup> The seizure of the Megaupload servers and domain name did not reduce infringement because the filesharing traffic simply migrated elsewhere.<sup>47</sup>

This suggests that in the long run, the real solution to the problem of online infringement relies on business models that are attractive to users rather than ever more draconian copyright regulation. Numerous industries have developed business strategies that have had the effect of reducing the demand for infringing products. Software companies, for example, have licensed computer manufacturers to preload software on their computers prior to consumer purchase. Video game companies offer multi-player game platforms accessible only to authorized users. Some entertainment companies license their content for online distribution at low or no cost. These strategies succeed when they are designed and implemented by industry participants with a deep understanding of the relevant products, technology delivery platforms, and consumers.<sup>48</sup>

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<sup>45</sup> It is important to distinguish the distribution of infringing entertainment products or luxury goods from counterfeiting that can harm public health and safety.

<sup>46</sup> JOE KARAGANIS, MEDIA PIRACY IN EMERGING ECONOMIES: PRICE, MARKET STRUCTURE AND CONSUMER BEHAVIOR 7 (2010), *available at* [http://www.wipo.int/edocs/mdocs/enforcement/en/wipo\\_ace\\_6/wipo\\_ace\\_6\\_5.pdf](http://www.wipo.int/edocs/mdocs/enforcement/en/wipo_ace_6/wipo_ace_6_5.pdf).

<sup>47</sup> Mike Masnick, *Evidence Shows that Megaupload Shutdown had No Real Impact on Infringement*, TECHDIRT (Feb. 8, 2012, 12:10 PM), <http://www.techdirt.com/articles/20120208/04122017699/evidence-shows-that-megaupload-shutdown-had-no-real-impact-infringement.shtml> (quoting the analysis by Deepfield Networks that the new traffic flow is “staggering less efficient from a network standpoint, because much of it moved to offshore locations over expensive transatlantic links”).

<sup>48</sup> Certain strategies designed to prevent infringement, such as the use of digital rights management (DRM) technologies, may ultimately harm entertainment companies’ long term interests. The record labels, for example, required Apple’s iTunes service to include DRM in sound recordings it sold. This had little impact on infringement, because users could still upload to the Internet tracks from unprotected CDs. At the same time, the DRM in effected locked consumers into the Apple platform, which ultimately gave Apple enormous leverage over the record labels. The publishing industry appears to be repeating

Studies show that the vast majority of consumers desire legal sources of online content. They turn to infringing content when convenient and affordable legitimate content is not available.<sup>49</sup> Indeed, Justice Breyer in his dissent in *Golan v. Holder* recognized that the high administrative costs for locating hard-to-find owners of copyrighted works “will tempt some potential users to ‘steal’ or ‘pirate’ works rather than do without.”<sup>50</sup>

### C. Absence of Balance

The U.S. IP system is based on a careful balance between creators’ interests in the control of their work and societies’ interest in the access to those works. SOPA, PIPA, and TPP lack this historic balance.

#### 1. Balance in U.S. IP Law.

Quoting Thomas Jefferson, the Supreme Court in *Bonito Boats v. Thunder Craft Boats* recognized that “federal patent law has been about the difficult business ‘of drawing a line between things which are worth to the public the embarrassment of an exclusive patent, and those which are not.’”<sup>51</sup> The Court observed that “[t]he Patent Clause itself reflects a

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the same mistake by requiring DRM in eBooks, thereby locking consumers into platforms, whose vendors can then dominate the publishers. See <http://www.techdirt.com/articles/20120210/01364817725/how-publishers-repeated-same-mistake-as-record-labels-drm-obsession-gave-amazon-dominant-position.shtml>.

<sup>49</sup> Michael D. Smith, CONVERTING PIRATES WITHOUT CANNIBALIZING PURCHASERS: THE IMPACT OF DIGITAL DISTRIBUTION ON PHYSICAL SALES AND INTERNET PIRACY (2010), available at [http://papers.ssrn.com/sol3/Delivery.cfm/SSRN\\_ID1565861\\_code291479.pdf?abstractid=1381827&mirid=1](http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1565861_code291479.pdf?abstractid=1381827&mirid=1). Inexpensive legitimate distribution models are also essential to reducing infringement in the developing world. KARAGANIS, *supra* note 26, at 5 (stating that “the key question for media access and the legalization of media markets . . . has less to do with enforcement than with fostering competition at the low end of media markets – the mass market that has been created through and largely left to piracy”). Karaganis explains that a critical feature of this competition “is neither strong enforcement nor the innovative use of digital distribution, but rather the presence of firms in national markets that actively compete on price and services for local audiences.” *Id.* at 4. Karaganis adds that local firms are much more likely than multinational firms “to aggressively compete for audiences on price and service – the domestic market is their market.” *Id.*

<sup>50</sup> See *Golan v. Holder*, 132 S.Ct. 873, 900 (2012) (Breyer, J., dissenting).

<sup>51</sup> *Bonito Boats, Inc., v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 148 (1989) (quoting 13 Writings of Thomas Jefferson 335 (Memorial ed. 1904)). Justice Breyer explained that Thomas Jefferson . . . initially expressed great uncertainty as to whether the Constitution should authorize the grant of copyrights and patents at all, writing that “the benefit even of limited monopolies is too doubtful” to warrant anything other than their “suppression.” James Madison also thought that “Monopolies . . . are justly classed among the greatest nu[i]sances in Government.” But he argued that “in certain cases” such

balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’”<sup>52</sup> The Supreme Court stated in *Sony v. Universal City Studios* that

Congress has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or inventors in order to give the public appropriate access to their work product .... [T]his task involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society’s competing interest in the free flow of ideas, information, and commerce on the other ....<sup>53</sup>

The Second Circuit recognized that “the copyright law seeks to establish a delicate equilibrium. On the one hand, it affords protection to authors as an incentive to create, and, on the other hand, it must appropriately limit the extent of that protection so as to avoid the effects of monopolistic stagnation.”<sup>54</sup> Likewise, the Fifth Circuit wrote that in the Copyright Act “Congress balanced the competing concerns of providing incentive to authors to create and of fostering competition in such creativity.”<sup>55</sup>

More recently, the Supreme Court has addressed balancing the interests of the entertainment and technology industries. In its 2005 decision in *Metro-Goldwyn-Mayer Studios v. Grokster*, the Supreme Court recognized that the copyright law maintained a “balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of

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as copyright, monopolies should “be granted” (“with caution, and guarded with strictness against abuse”) to serve as “*compensation for a benefit actually gained to the community . . . which the owner might otherwise withhold from public use.*” Jefferson eventually came to agree with Madison, supporting a limited conferral of monopoly rights but only “*as an encouragement to men to pursue ideas which may produce utility.*”

*See Golan*, 132 S.Ct. at 900 (citations omitted, emphasis in the original).

<sup>52</sup> *Id.* at 146. Justice Stevens wrote that “Patents can discourage research by impeding the free exchange of information, for example, by forcing people to avoid the use of potentially patented ideas, by leading them to conduct costly and time-consuming searches of existing or pending patents, by requiring complex licensing arrangements, and by raising the costs of using the patented methods.” *Bilski v. Kappos*, 130 S. Ct. 3218, 3255 (2010) (Stevens, J., concurring) (citations and internal quotations omitted).

<sup>53</sup> *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

<sup>54</sup> *Computer Associates Int’l, Inc., v. Altai, Inc.*, 982 F.2d 693, 696 (2d Cir. 1992).

<sup>55</sup> *Kern River Gas Transmission Co. v. Coastal Corp.*, 899 F.2d 1458, 1463 (5th Cir. 1990).

liability for copyright infringement.”<sup>56</sup> The Court noted that “[t]he more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the trade-off.”<sup>57</sup>

Understanding the importance of maintaining balance between the various interests served by the intellectual property laws, the Chief Judge of the U.S. Court of Appeals for the Ninth Circuit, Alex Kozinski, recognized that:

Overprotecting intellectual property is as harmful as underprotecting it. Creativity is impossible without a rich public domain. Nothing today, likely nothing since we tamed fire, is genuinely new: Culture, like science and technology, grows by accretion, each creator building on the works of those who came before. Overprotection stifles the very creative force it’s supposed to nurture.<sup>58</sup>

Chief Judge Kozinski concluded that “[t]his is why intellectual property law is full of careful balances between what’s set aside for the owner and what’s left in the public domain for the rest of us.”<sup>59</sup>

The Supreme Court’s intellectual property cases typically concern substantive rights rather than enforcement procedures. But in *Fogerty v. Fantasy, Inc.*, the Court explained the importance of maintaining a level litigation playing field so that defendants would be encouraged to assert meritorious defenses:

Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the law’s boundaries of copyright law be demarcated as clearly as possible. To that end, defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement .... [A] successful defense of a copyright infringement

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<sup>56</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Gorkster, Ltd.*, 545 U.S. 913, 928 (2005).

<sup>57</sup> *Id.*

<sup>58</sup> *White v. Samsung Electronics of America, Inc.*, 989 F.2d 1512, 1513-16 (9th Cir.) (Kozinski, J., dissenting), cert. denied, 113 S. Ct. 2443 (1993). The Ninth Circuit similarly stated: “The copyright holder has a property interest in preventing others from reaping the fruits of his labor, not in preventing the authors and thinkers of the future from making use of, or building upon, his advances. The process of creation is often an incremental one, and advances building on past developments are far more common than radical new concepts.” *New Kids on the Block v. News America Publ’g*, 971 F.2d 302, 307 n.6 (9th Cir. 1992).

<sup>59</sup> *Id.*

action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.<sup>60</sup>

On January 18, 2012, the day of the online protest against SOPA and PIPA, Justice Breyer in his dissenting opinion in *Golan v. Holder* reiterated this theme of the centrality of balance to U.S. IP law. The economic philosophy behind the Copyright Clause

understands copyright's grants of limited monopoly privileges to authors as private benefits that are conferred for a public reason – to elicit new creation. Yet, as the Founders recognized, monopoly is a two-edged sword. On the one hand, it can encourage production of new works. In the absence of copyright protection, anyone might freely copy the products of an author's creative labor, appropriating the benefits without incurring the nonrepeatable costs of creation, thereby deterring authors from exerting themselves in the first place. On the other hand, copyright tends to restrict the dissemination (and use) of works once produced either because the absence of competition translates directly into higher consumer prices or because the need to secure copying permission sometimes imposes administrative costs that make it difficult for potential users of a copyrighted work to find its owner and strike a bargain. Consequently, the original British copyright statute, the Constitution's Framers, and our case law all have recognized copyright's resulting and necessary call for balance.<sup>61</sup>

*Golan* concerned a provision in the Uruguay Round Agreement Act adopted by Congress to comply with the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The *Golan* majority upheld the constitutionality of the provision, which restored copyright protection for works in the public domain. In reaching this conclusion, the majority stressed that the traditional contours of copyright protection contained two important “built-in First Amendment accommodations:” the idea/expression dichotomy and fair use. The Court stated: “First Amendment protections are embodied in the Copyright Act's distinction between copyrightable expression and uncopyrightable facts and ideas, and in the latitude for scholarship and comment safeguarded by the fair use

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<sup>60</sup> *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994).

<sup>61</sup> *See Golan*, 132 S.Ct. at 900.

defense.”<sup>62</sup> In other words, the U.S. copyright law has built-in limitations that ensure balance between the Copyright Clause and the First Amendment.<sup>63</sup>

The importance of balanced intellectual property protection is recognized by the Executive Branch as well as the Judicial Branch. In 2009, for example, the U.S. government affirmed its support for balanced copyright laws at a meeting of the Standing Committee on Copyright and Related Rights of the World Intellectual Property Organization. Justin Hughes, the head of the U.S. delegation, stated:

We recognize that some 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>64</sup>

Moreover, as noted above, the White House statement on SOPA and PIPA underscored the need to balance the objective of protecting intellectual property with “vigorously defending an open Internet based on the values of free expression, privacy, security and innovation.”<sup>65</sup>

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<sup>62</sup> *Id.* at 890 (internal quotations omitted).

<sup>63</sup> It should be noted that U.S. trademark law also contains important limitations, such as fair use and first sale, which promote competition and free expression. Courts also interpret the Lanham Act narrowly so as to prevent the creation of “a species of mutant copyright law that limits the public’s federal right to ‘copy and to use’ expired copyrights.” *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 34 (2003).

<sup>64</sup> Statement, 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, 19th Sess. at 5 (Dec. 15, 2009). According to Rep. Howard Berman, Chairman of the House Committee on Foreign Relations, “[t]he U.S. is a world leader in part because of its robust and balanced protection of intellectual property.” He added that “IP protections must be balanced against the legitimate interests of consumers and other users to best promote economic and social productivity” *Communications & Intellectual Property Policy Briefing*, ROLL CALL, Oct. 22, 2007, at 17.

<sup>65</sup> Other legal systems also recognize the importance of balanced IP regimes. The Hargreaves Review in the U.K. stated that “[b]ecause IPRs grant a form of monopoly, an overly rigid and inflexible IP framework can act as a barrier to innovation. When a firm has acquired exclusive rights over its innovative technology or content, other firms will be able to learn from that technology or see the content, but may be unable to use them for further

## 2. Lack of Balance in SOPA, PIPA, and TPP.

SOPA and TPP would erode the existing balance in U.S. IP law. The remedies they provide would be disproportionate to the harm. Infringing activity on one page within a website could trigger a remedy that would apply to the entire website – even if a third party, and not the website operator, engaged in the infringing activity. Domain name blocking would prevent access to an entire website; payment systems would prevent purchases from the entire website; search engines would disable links to the entire website; and advertising networks would stop placing advertisements on the entire website.

Moreover, SOPA and PIPA would allow the imposition of these remedies on websites that complied with the DMCA’s notice-and-takedown regime, thereby undoing the carefully balanced framework established by that legislation. The Ninth Circuit recently explained that although Congress was aware that Internet services

are capable of being misused to facilitate copyright infringement, it was loath to permit the specter of liability to chill innovation that could also serve substantial socially beneficial functions. Congress decided that “by limiting [service providers’] liability,” it would “ensure[ ] that the efficiency of the Internet will continue to improve and that the variety and quality of services on the Internet will continue to expand.”<sup>66</sup>

The DMCA safe harbors created by Congress include notice-and-takedown procedures that “place the burden of policing copyright infringement – identifying the potentially infringing material and adequately documenting infringement – squarely on the owners of copyright.”<sup>67</sup> By allowing the termination of services to websites, notwithstanding their compliance with the DMCA, SOPA and PIPA would

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innovation unless licensing can be agreed. IPRs can constrain third parties wishing to access or innovate on top of this protected knowledge or content, with potentially serious economic and social costs.” See HARGREAVES, *supra* note 44 at 11. Indeed, the preamble to the WIPO Copyright Treaty recognizes “the need to maintain a balance between the rights of authors and the larger public interest, particularly education, research, and access to information....” World Intellectual Property Organization Copyright Treaty, Preamble, Dec. 20, 1996, S. Treaty Doc. No. 105-17 (1997), 36 I.L.M. 65.

<sup>66</sup> UMG Recordings, Inc. v. Shelter Capital Partners LLC, No. 09-55902, 2011 WL 6357788, at \*4 (9th Cir. Dec. 20, 2011) (citations omitted).

<sup>67</sup> Perfect 10, Inc. v. CCBill LLC, 488 F.3d 1102, 1113 (9th Cir. 2007).

shift the burden of policing copyright infringement onto the website operators. Website operators would need to monitor their users' activities, frustrating the privacy protections built into the DMCA.<sup>68</sup>

The U.S. proposal for the TPP IP chapter lacks the balance found in U.S. IP law. Missing from the proposal are:

- any reference to the two “built-in First Amendment accommodations” identified by the Supreme Court in *Golan* – the idea/expression dichotomy and the fair use doctrine;
- the first sale doctrine, a century-old feature of U.S. copyright law codified at 17 U.S.C. § 109(a);
- the exceptions in 17 U.S.C. §117 for making copies of computer programs or as backups or “as an essential step in the utilization of the computer program in conjunction with a machine”; and
- the specific exceptions for libraries and archives (17 U.S.C. § 108), educational institutions (17 U.S.C. §§ 110(1) and (2)), and the print disabled (17 U.S.C. § 121).<sup>69</sup>

Although the U.S. proposal requires the adoption of a system for pre-established damages “in an amount sufficiently high to constitute a deterrent to future infringements and to compensate fully the right holder for the harm caused by the infringement,” proposed Article 12.4, the statutory damages provision in the Copyright Act allows the judge to reduce statutory damages in cases of innocent infringement.<sup>70</sup> Further, the court can remit statutory damages altogether when the infringer is a nonprofit library, archives, or educational institution that reasonably believed that it engaged in fair use.<sup>71</sup>

The U.S. proposal, therefore, represents a highly selective export of U.S. law. This asymmetric export of the U.S. Copyright Act's enforcement provisions without its balancing exceptions and limitation could inhibit the development of an Internet economy throughout the TPP countries. Balanced copyright is the glue that holds together the Internet. Search engines rely on balanced copyright in order to index the web to help users find information. Internet browsers copy web pages onto users' computers

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<sup>68</sup> The DMCA specifically provides that the applicability of its safe harbors is not conditioned upon “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity...” 17 U.S.C. § 512(m)(1).

<sup>69</sup> Article 4.8 of the U.S. proposal contains a placeholder for a provision on exceptions and limitations.

<sup>70</sup> 17 U.S.C. § 504(c)(2).

<sup>71</sup> *Id.*

so that the users can view them. ISPs make countless copies of millions of email messages every day. The Internet industry is not alone in depending on balanced copyright; industries that rely on various limitations and exceptions to copyright add \$2.4 trillion in value to the U.S. economy and employ more than 17 million Americans.<sup>72</sup>

A TPP agreement that contains strong enforcement provisions but no specific exceptions or limitations could subject Internet companies and users to greater liability, thereby retarding the expansion of the Internet.<sup>73</sup> The U.S. proposal includes safe harbor provisions for Internet service providers based on Section 512 of the DMCA. However, these provisions are no longer sufficient by themselves to protect the new services introduced by Internet and technology companies. Search engines, for example, function by copying millions of World Wide Web pages every few weeks into the memory of computer services, where the search firm can rapidly locate information responsive to search queries. In the absence of a robust principle of fair use, search engines would not be able to provide real time high quality search services.

Overseas adoption of a fair use provision—or a functional equivalent to the U.S. fair use framework—is critical to the ability of Internet companies to operate internationally. Most foreign copyright laws lack fair use provisions, and thus expose Internet firms to liability overseas for activities U.S. courts permit.<sup>74</sup> For example, in two cases—the Belgian case

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<sup>72</sup> THOMAS ROGERS & ANDREW SZAMOSSZEGI, FAIR USE IN THE U.S. ECONOMY: THE ECONOMIC CONTRIBUTION OF INDUSTRIES RELYING ON FAIR USE (2011), *available at* <http://www.cciainet.org/CCIA/files/ccLibraryFiles/Filename/000000000085/FairUseStudy-Sep12.pdf>.

<sup>73</sup> See Josh Lerner, *The Impact of Copyright Policy Changes on Venture Capital Investment in Cloud Computing Companies*, INTELL. PROP. WATCH (Nov. 9, 2011, 9:35 PM), <http://www.ip-watch.org/2011/11/09/less-copyright-liability-seen-boosting-cloud-computing-investment/> (describing a recent study which demonstrates that limiting the liability of intermediaries for user conduct correlates positively with increased venture capital investment in cloud computing companies).

<sup>74</sup> Singapore, Hong Kong, Israel, Malaysia, and the Philippines have adopted fair use provisions similar to 17 U.S.C. §107. See JONATHAN BAND & MASANOBU KATO, INTERFACES ON TRIAL 2.0 (2011), *available at* [http://mitpress.mit.edu/books/full\\_pdfs/Interfaces\\_on\\_Trial\\_2.0.pdf](http://mitpress.mit.edu/books/full_pdfs/Interfaces_on_Trial_2.0.pdf). Most Commonwealth countries have fair dealing provisions, but they often are narrower than fair use in that they are restricted to non-commercial uses. However, the Hargreaves Review of Intellectual Property and Growth, commissioned by UK Prime Minister David Cameron, recommended “exploring with our EU partners a new mechanism in copyright law to create a built-in adaptability to future technologies which, by definition, cannot be foreseen in precise detail by today’s policy makers. . . . We strongly commend it to the Government: the alternative, a policy process whereby every beneficial new copying application of digital technology waits years for a bespoke exception, will be a poor second best.” HARGREAVES, *supra* note 44, at 47. See Robert Chesal, *Loosen Up Copyright Law, Says Dutch Government*, RADIO NETHERLANDS WORLDWIDE (Feb. 13, 2012, 10:03 AM), <http://www.rnw.nl/english/node/615152> (quoting the Deputy Justice

*Copiepresse* and the German case *Horn*—courts imposed copyright liability on Google for the operation of its search engine in a manner inconsistent with U.S. law, as established by cases such as *Kelly v. Arriba Soft Corp.*,<sup>75</sup> *Perfect 10 .v Amazon.com*,<sup>76</sup> and *Field v. Google Inc.*<sup>77</sup>

In connection with consideration of the Peru FTA, Senate Judiciary Committee Chairman Pat Leahy endorsed the concept of including fair use in our free trade agreements, saying “[u]nder our laws, many such new technologies and consumer devices rely, at least in part, on fair use and other limitations and exceptions to the copyright laws. Our trade agreements should promote similar fair use concepts, in order not to stifle the ability of industries relying on emerging technologies to flourish.”<sup>78</sup>

An asymmetrical TPP agreement that facilitates strong enforcement without encouraging fair use and other exceptions will have the practical effect of promoting a copyright framework that is inconsistent with U.S. law and harmful to Internet activity everywhere. The TPP should enshrine mandatory limitations to intellectual property rights, including fair use, to provide adequate protection for online services, e-commerce platforms, device manufacturers, content creators,<sup>79</sup> and government agencies.<sup>80</sup>

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Minister of the Netherlands, Fred Teeven, stating that his office is exploring "a more flexible system of copyright exceptions that would also work in a European context").

<sup>75</sup> *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003).

<sup>76</sup> *See Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007).

<sup>77</sup> *Field v. Google Inc.*, 412 F.Supp.2d 1106, 1123 (D. Nev. 2006).

<sup>78</sup> 137 CONG. REC. S14720 (daily ed. Dec. 4, 2007) (statement of Sen. Leahy).

<sup>79</sup> Fair use is important to the content community. According to Sandra Aistars of the Copyright Alliance, “fair use is a doctrine relied upon and championed by artists and creators, large and small on a daily basis as a means of continuing their work, educating their audiences, and offering criticism, reporting and commentary in the most effective fashion. Copyright law is a tapestry of rights and exceptions, and its effective nurturing and implementation relies just as heavily on appropriate evaluation of defenses (such as fair use) as it does on strong enforcement against harmful infringements. No one in the creative community denies that, and artists and creators would be the first to suffer if the fair use doctrine were rolled back....[C]opyright enforcement and fair use are not at odds, nor are creators and technologists. This is a false choice. Copyright, innovation, creativity and technology are interconnected as never before, as the creative sector designs and creates works that drive technological innovation for enjoying the works (and vice versa).” Sandra Aistars, *Criminal Use is Not Fair Use*, COPYRIGHT ALLIANCE (July 12, 2011), <http://blog.copyrightalliance.org/2011/07/criminal-use-is-not-fair-use/>.

<sup>80</sup> *See* Memorandum from Bernard J. Knight Jr., USPTO Gen. Counsel, on USPTO Position on Fair Use Copies of NPL Made in Patent Examination (Jan. 19, 2012), *available at* [http://www.uspto.gov/about/offices/ogc/USPTOPositiononFairUse\\_of\\_CopiesofNPL\\_MadeinPatentExamination.pdf](http://www.uspto.gov/about/offices/ogc/USPTOPositiononFairUse_of_CopiesofNPL_MadeinPatentExamination.pdf); *see also* Memorandum from Randolph Moss, Acting Assistant Att’y Gen. U.S. Dep’t of Justice, to Andrew J. Pincus, Gen. Counsel, U.S. Dep’t of Commerce (Apr. 30, 1999) (discussing whether Government Reproduction of Copyrighted Materials Invariably is a “Fair Use” under Section 107 of the Copyright Act of 1976), *available at* <http://www.loc.gov/flicc/gc/fairuse.html>.

#### D. Rigidity in SOPA, PIPA, and TPP

Another common feature of SOPA, PIPA, and the U.S. TPP proposal is that they would make IP law more rigid and hence less able to adapt to new technologies. As the Ninth Circuit recently observed, “[w]e must be acutely aware of excessive rigidity when applying the law in the Internet context; emerging technologies require a flexible approach.” *Network Automation v. Advanced Systems Concepts*, 638 F.3d 1137 (9<sup>th</sup> Cir. 2011).

SOPA as introduced in particular would have had an ossifying effect on U.S. IP law. Secondary liability in U.S. copyright and trademark law is entirely judge-made, which has allowed the law to evolve to respond to changing circumstances.<sup>81</sup> The Supreme Court in *MGM v. Grokster* succeeded in fashioning an inducement standard for contributory copyright infringement after Congress failed in a similar effort.<sup>82</sup> SOPA’s definition of an Internet site “dedicated to theft of U.S. property” included a provision that paraphrased language from the *Grokster* opinion, but lacked the opinion’s nuance and explication.<sup>83</sup> Further, this definition paraphrased language from the Supreme Court’s decision in *Global Tech Appliances v. SEB*,<sup>84</sup> concerning willful blindness in a patent infringement case.<sup>85</sup> Here, too, the paraphrase lacked the specific context in which the Supreme Court articulated its rule. This codification of snippets of Supreme Court decisions would have frozen the development of secondary liability principles.

The U.S. TPP proposal likewise could impede the evolution of U.S. IP law.<sup>86</sup> Article 4.1 suggests that all temporary copies qualify as copies for

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<sup>81</sup> Secondary trademark liability principles are newer and more unsettled than secondary copyright liability principles, and thus even less appropriate for codification or exportation.

<sup>82</sup> See Jonathan Band, *So What Does Inducement Mean?*, THE COMPUTER AND INTERNET LAWYER, Nov. 2005.

<sup>83</sup> “[T]he operator of the U.S.-directed site ... operates the U.S.-directed site with the object of promoting, or has promoted, its use to carry out acts that constitute a violation of section 501 or 1201 of title 17, United States Code, as shown by clear expression or other affirmative steps to foster infringement.” H.R. 3261 as introduced, § 103(a)(1)(B)(ii)(II).

<sup>84</sup> 131 S. Ct. 2060 (2011).

<sup>85</sup> “[T]he operator of the U.S.-directed site ... is taking, or has taken, deliberate actions to avoid confirming a high probability of the use of the U.S.-directed site to carry out acts that constitute a violation of section 501 or 1201 of title 17, United States Code....” H.R. 3261 as introduced, § 103(a)(1)(B)(ii)(I). There is a high probability that any site that allows users to post content contains some infringing content. Accordingly, if the operator of such a site does not monitor it to remove infringing content, the site would fall within the definition of a site “dedicated to theft of U.S. property.”

<sup>86</sup> See Public Interest Analysis of the US TPP Proposal for an IP Chapter, <http://infojustice.org/tpp-analysis-december2011>, for a more detailed discussion of inconsistencies between the U.S. proposal and existing U.S. law.

purposes of infringement. This policy is drawn from a controversial 1993 case, *MAI v. Peak*,<sup>87</sup> and appears in U.S. free trade agreements. However, in 2008 the U.S. Court of Appeals for the Second Circuit ruled in *Cartoon Network v. Cablevision* that temporary “buffer” copies of copyrighted works that lasted 1.2 seconds were not sufficiently fixed to constitute copies for purposes of the Copyright Act.<sup>88</sup>

An amicus brief by the advocacy group Copyright Alliance urged the Supreme Court to review the *Cablevision* decision precisely because it was inconsistent with the temporary copy language of the FTAs and thus placed the U.S. in “potential conflict with our trading partners.” The amicus brief, therefore, cited the FTAs as grounds for rejecting improvements in U.S. intellectual property laws.<sup>89</sup>

The U.S. proposal’s provisions relating to technological protection measures also may interfere with the judicial interpretation of 17 U.S.C. § 1201. Courts in the Federal Circuit have found that there must be a nexus between circumvention and infringement for a section 1201 violation to arise.<sup>90</sup> On the other hand, the Ninth Circuit has rejected this interpretation and held that circumvention liability does not require a nexus between circumvention and infringement.<sup>91</sup> Article 4.9 of the U.S. proposal appears to side with the Ninth Circuit in this circuit split.

Similarly, proposed Article 4.2 wades into the controversy concerning the proper interpretation of the first sale doctrine. The first sale doctrine provides that the distribution right in a particular copyright is “exhausted” after that copy is sold. The first sale doctrine applies to copies “lawfully made under this title.” The Second Circuit understands this phrase to mean copies lawfully manufactured in the United States.<sup>92</sup> The Ninth Circuit, in contrast, interprets the phrase as copies lawfully manufactured in the United States or imported into the United States with the copyright owner’s authorization.<sup>93</sup> In the *Costco v. Omega*, the Supreme Court was offered yet another interpretation: copies manufactured with the authorization of the U.S. copyright owner. The Supreme Court did not resolve the issue because it was equally divided.<sup>94</sup> If the Supreme Court ultimately adopts the Second

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<sup>87</sup> 991 F.2d 511 (9th Cir. 1993).

<sup>88</sup> See 536 F.3d 121 (2d Cir. 2008).

<sup>89</sup> The Supreme Court decided not to review the Second Circuit’s decision.

<sup>90</sup> See *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, 381 F.3d 1178 (Fed. Cir. 2004). See also Jonathan Band, *Interfaces on Trial 2.0* (2011) at 100 for a more detailed discussion.

<sup>91</sup> See *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, 629 F.3d 928 (9th Cir. 2010).

<sup>92</sup> See *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011).

<sup>93</sup> See *Parfums Givenchy, Inc., v. Drug Emporium, Inc.*, 38 F.3d 47 (9th Cir. 1991).

<sup>94</sup> Justice Kagan recused herself from the case. 131 S.Ct. 565 (2010). On remand, the

Circuit’s interpretation, Congress may chose to amend section 109(a) because it would encourage the outsourcing of U.S. jobs.<sup>95</sup>

Another area of potential conflict centers on the remedies provisions in proposed Articles 12.2 and 12.4 and the resolution of the orphan works problem. In the 110<sup>th</sup> Congress, the Senate passed legislation that would limit injunctive relief and statutory damages if an infringer made a reasonably diligent search to locate the copyright owner prior to using a work.<sup>96</sup> Articles 12.2 and 12.4 could be read as precluding such a limitation on remedies.<sup>97</sup>

Furthermore, the provisions incorporating the DMCA – proposed Articles 4.9 (technological protection measures), 4.10 (rights management information), and 16.3 (safe harbors for online service providers) -- are very detailed. If Congress at some point chooses to revisit the underlying provisions of the DMCA (17 U.S.C. §§ 1201, 1202, and 512, respectively), stakeholders that prefer the *status quo* will argue that amending these provisions will render the United States non-compliant with TPP.<sup>98</sup>

trial court found that Omega had misused the copyright in its logo by attempting to leverage its control over importation of the logo to control over importation of Omega watches bearing the logo. *Omega v. Costco*, No. 04-05443 (E.D. Cal. 2011), available at <http://www.scribd.com/doc/72920644/Costco-v-Omega-Misuse-Nov-9-2011>.

<sup>95</sup> Both the majority and the dissent in *Kirtsaeng* agreed that the majority’s interpretation could encourage the export of manufacturing jobs. Kirtsaeng had argued that under the majority’s rule, “the copyright holder would have an incentive to ‘outsource’ publication to foreign locations to circumvent the availability of the first sale doctrine as a defense for consumers wishing to re-sell their works in the domestic market. The result might be that American manufacturing would contract along with the protections of the first sale doctrine. Kirtsaeng argues that this could not possibly have been Congress’s intent.” Kirtsaeng, 654 F.3d at 222. The majority responded, “We acknowledge the force of this concern, but it does not affect or alter our interpretation of the Copyright Act.” The majority continued, “If our decision leads to policy consequences that were not foreseen by Congress or which Congress now finds unpalatable, Congress is of course able to correct our judgment.”

The dissent similarly stated that the majority’s interpretation “would provide greater copyright protection to copies manufactured abroad than those manufactured domestically: Once a domestic copy has been sold, no matter where the sale occurred, the copyright holder’s right to control its distribution is exhausted. I do not believe Congress intended to provide an incentive for U.S. copyright holders to manufacture copies of their work abroad.” *Id.* at 227-28 (Murtha, J., dissenting). The dissent further stated, “Indeed such a rule, by differentiating based on place of manufacture, would encourage the manufacturing of copies abroad to the detriment of American workers.” *Id.* at 228, n.2.

<sup>96</sup> See Shawn Bentley Orphan Works Act of 2008, S. 2913, 110th Cong. (2008) (enacted).

<sup>97</sup> See Jane Ginsburg, *Contracts, Orphan Works, and Copyright Norms: What Role for Berne and TRIPs?*, in *WORKING WITHIN THE BOUNDARIES OF INTELLECTUAL PROPERTY* 471 (Rochelle C. Dreyfuss et al. eds., 2010), available at [http://lsr.nellco.org/cgi/viewcontent.cgi?article=1054&context=columbia\\_pllt](http://lsr.nellco.org/cgi/viewcontent.cgi?article=1054&context=columbia_pllt); Krista Cox, *KEI Comments on Inconsistencies Between USTR Proposal for the TPPA and Current US Law*, KNOWLEDGE ECOLOGY INT’L (Aug. 31, 2011, 8:37 AM), <http://keionline.org/node/1216>.

<sup>98</sup> Commendably, the U.S. proposal does not require adoption of secondary liability

When the Senate was considering the U.S.-Peru Trade Promotion Agreement, Senate Judiciary Committee Chairman Pat Leahy stated:

Some aspects of the intellectual property chapter prescribe rules for protection so specifically that Congress will be hampered from making constructive policy changes in the future. The art of drafting the chapter is in raising intellectual property protections to a standard similar to ours, without limiting Congress's ability to make appropriate refinements to the intellectual property law in the future. The flexibility necessary for the proper balance is found in many provisions of the intellectual property chapter, for which I commend the U.S. Trade Representative. Other provisions, however, are too fixed and rigid, and may have the perverse effect of restricting the Congress's ability to make legitimate changes in United States law, while keeping our international commitments.<sup>99</sup>

This sentiment applies with equal force to TPP.

#### V. LESSONS FOR TPP NEGOTIATIONS

The SOPA/PIPA experience in the United States demonstrates three points.

- **IP rules can have a significant impact on legitimate websites.** The Internet democratizes commerce and communications. Platforms such as eBay or YouTube allow individuals and businesses of all sizes to reach large audiences and markets.<sup>100</sup> But IP rules that place too heavy a legal burden on the platforms for user

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principles. As discussed above, secondary liability in the U.S. IP law are judge-made, and thus constantly evolving. Thus, they are particularly ill-suited for "codification" in an international agreement.

<sup>99</sup> See CONG. REC., *supra* note 78.

<sup>100</sup> Justice Stevens in *Reno v. ACLU*, 521 U.S. 844, 850 (1997) wrote that "[t]he Internet is a unique and wholly new medium of worldwide human communication." He observed that "It is no exaggeration to conclude that the content on the Internet is as diverse as human thought." *Id.* at 852. From the user's perspective, the Web is comparable "to both a vast library including millions of readily available and indexed publications and a sprawling mall offering goods and services." *Id.* at 853. From the publishers' point of view, the Web "constitutes a vast platform from which to address and hear from a worldwide audience of millions of readers, viewers, researchers, and buyers. Any person or organization with a computer connected to the Internet can 'publish' information." *Id.*

activities, as do SOPA and PIPA, will constrain the growth of this Twenty-First Century medium of trade and discourse.

- **IP rules can affect international trade.** The Internet does not recognize national boundaries. IP rules in one country can affect the operation of websites in another country. SOPA and PIPA would not only impose liability in the United States on non-U.S. websites that may be legal in their host countries; they also would interfere with the operation of these websites in their host countries. Provisions like SOPA and PIPA would allow countries – and indeed, individual companies – to erect trade barriers without following multilaterally agreed procedures with notice and due process.
- **Internet users care deeply about its vitality.** The overwhelming public opposition to SOPA and PIPA generated by just one day of online protests indicates that the members of the public will take strong and immediate political action to protect this medium which has become a central part of their lives at home, school, and work. The massive online protests in the EU against ACTA indicate that this level of popular engagement is not limited to the United States. IP, at least to the extent it intersects with the Internet, is no longer an issue of only narrow technical interest.

These three points have three implications for the TPP negotiations.

- **TPP must not include provisions like SOPA and PIPA.** Paraphrasing the White House statement, the IP chapter in TPP must guard against the risk of online censorship of lawful activity and must not inhibit innovation by dynamic businesses large and small. Across the globe, the openness of the Internet is increasingly central to innovation in business, government, and society and it must be protected. To minimize this risk, TPP must be narrowly targeted only at activity clearly prohibited under existing laws, and be effectively tailored, with strong due process and focused on criminal activity. Any provision covering Internet intermediaries must be transparent and

designed to prevent overly broad private rights of action that could encourage unjustified litigation that could discourage startup businesses and innovative firms from growing. TPP should protect global intellectual property rights without jeopardizing the openness of the Internet. TPP should provide tools needed in the global fight against piracy and counterfeiting, while vigorously defending an open Internet based on the values of free expression, privacy, security and innovation.<sup>101</sup>

- **TPP should prohibit IP provisions with an extraterritorial impact.** TPP should prohibit countries from adopting IP enforcement provisions, like those in SOPA and PIPA, that would have an extraterritorial impact that diminishes national sovereignty.
- **The transparency surrounding TPP must increase.** If the public feels that the provisions included in TPP jeopardize the openness of the Internet, it will strongly oppose the adoption of TPP. To prevent this from happening, the negotiations concerning the IP chapter must become more transparent. Drafts must be made available online for public comment. The fact that in the past some trade negotiations have had little transparency is irrelevant. The SOPA experience demonstrates that a new era of public engagement in IP policy has begun.

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<sup>101</sup> See *supra* Parts IV.C.2 and IV.D for discussion of how the U.S. TPP proposal departs from these principles.