



U.S. Department of Justice

Office of Legislative Affairs

Washington, D.C. 20530

March 23, 2004

The Honorable Lamar S. Smith
Chairman
Subcommittee on Courts, the Internet,
and Intellectual Property
Committee on the Judiciary
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This letter responds to your letter of February 25, 2004. In part, your letter requested the views of the Department of Justice on H.R. 3632, the "Anti-counterfeiting Amendments of 2003." While H.R. 3632 appears intended to address what may be perceived as loopholes in current law, we believe that, for the most part, the conduct targeted by H.R. 3632 might be adequately addressed already under Federal law. We also are concerned that some of the amendments proposed in H.R. 3632, while attempting to facilitate enforcement efforts, actually may be counterproductive.

H.R. 3632 would amend 18 U.S.C. § 2318 to prohibit, among other things, not only trafficking in counterfeit labels and packaging for movies and software, but also trafficking in *genuine* labels, packaging, and other items associated with movies, software, and music, where such trafficking is unauthorized by the owner of the copyright in the underlying work. H.R. 3632 is similar in some respects to legislation proposed over the past two years that also would have amended 18 U.S.C. § 2318 to prohibit trafficking in genuine labels under certain circumstances. While we view H.R. 3632 as an improvement over some of the earlier proposals we have reviewed, the bill raises a number of concerns.

H.R. 3632 would have four primary effects. First, and most notably, the bill would expand the definition of "counterfeit label" to include not only the current definition (a label that "appears genuine, but is not"), but also *genuine* certificates, licensing documents, registration

cards, or similar labeling components, where such items were distributed without the copy or phonorecord they originally were intended to accompany and without the authorization of the copyright holder. A related provision of the bill would clarify that software labels altered to falsify the license terms for the product (e.g., "academic" changed to "retail," or "1-user" to "100-user" licenses) are also "counterfeit" for purposes of section 2318. All of these provisions would apply to physical labeling components and could be interpreted to cover digital or electronic "labels," "documentation," or "packaging" as well.

Second, in addition to modifying the definition of "counterfeit label," H.R. 3632 would expand the existing list of counterfeit items prohibited under section 2318 to include not only counterfeit "documentation or packaging" for computer software but also counterfeit "documentation and packaging" for music and motion pictures. Third, H.R. 3632 would expand the seizure provisions of section 2318 to allow seizure and impounding not only of the actual offending labels, packaging, or documentation, but also of equipment and other items used in producing them. Finally, H.R. 3632 would add to section 2318 a civil cause of action providing for injunctive relief, recovery of actual or statutory damages, and treble damages for repeat offenders.

1. Defining "counterfeit labels" to include "genuine" items

We recognize that currently there exists a market for genuine software packaging, licensing documents, certificates of authenticity, and similar documents. As government and industry have become more effective in combating the counterfeiting of software and other copyrighted materials and as industry has implemented more effective anti-counterfeiting technology, some intellectual property criminals have turned from attempting to produce convincing counterfeit packaging to simply stealing (or obtaining through fraud or other illicit means) genuine versions of labels, documentation, and packaging to facilitate their trade in counterfeit software. These items are being sold illicitly through the Internet and in other black market transactions.

However, the expanded definition of "counterfeit label" in H.R. 3632 has the potential to raise new problems that may complicate intellectual property enforcement in other areas. For example, defining the term "counterfeit label" to include items that would not be considered "counterfeit" – either under the definitions of "counterfeit" used elsewhere in Federal law or as that term is commonly used – is likely to sow confusion among investigators, prosecutors, the courts, and the public, as to what constitutes a "counterfeit" label or product.

Further, while we recognize that trade in genuine labels, documentation, and packaging to aid counterfeiting is a serious problem, we believe that in general, existing law already provides adequate means to address this conduct. For example, where such conduct is committed in support of software (or movie or music) counterfeiting, trafficking in genuine labeling components may be prosecuted as attempting to violate, aiding and abetting in violating, or

conspiring to violate existing anti-counterfeiting statutes (such as 18 U.S.C. § 2318, relating to trafficking in counterfeit labels, or 18 U.S.C. § 2320, relating to trafficking in counterfeit goods), or aiding and abetting or conspiring to commit criminal copyright infringement (18 U.S.C. § 2319). Where genuine labeling components are obtained through theft or fraud, other Federal criminal statutes may be implicated, such as 18 U.S.C. § 2314 (interstate transportation of stolen property), 18 U.S.C. § 1951 (interference with interstate commerce), and 18 U.S.C. §§ 1341 and 1343 (the mail and wire fraud statutes). Such conduct also could be prosecuted under a variety of State statutes.

There likely will be situations in which a person or organization is engaging in trafficking in genuine labeling components in a manner that, in fact, facilitates counterfeiting, and yet prosecution under existing statutes would be impossible or extremely difficult. For example, a person acting solely as a "middleman" or broker for software labels, documentation, and packaging would not appear to be in violation of existing Federal statutes, provided that the person had not engaged in theft or fraud in obtaining the labeling components, had not engaged in or knowingly assisted in assembling or distributing counterfeits, and did not have knowledge either that the labeling components the person was purchasing were obtained by theft or fraud or that the persons to whom he was selling the labeling components would use them for counterfeiting. However, we believe that the number of instances in which prosecution is not possible is relatively low.

Similarly, we are concerned that expanding section 2318's prohibitions to include genuine labels and packaging may result in unintended consequences, including criminalizing various types of conduct that are unrelated to counterfeiting or piracy. For example, existing copyright law generally allows a consumer to resell a used software package, including a lawfully-made "backup" copy of the software itself and all of the accompanying (genuine) labels, documentation, and packaging, provided that the consumer does not retain a copy of the software and transfers all rights. H.R. 3632 would appear to criminalize such sales in cases where the original media disc has been lost or damaged, and thus is not transferred. The civil remedy provisions of H.R. 3632 appear to allow copyright holders to seek statutory damages against consumers who engage in this type of resale of used software. These types of consequences arise largely because section 2318 does not provide for the wide range of defenses and limitations available under copyright law, such as "fair use," "first sale," or more specific provisions allowing certain types of copying by libraries, educational institutions, and consumers. *See, e.g.* 17 U.S.C. §§ 107, 108, 109 and 117.

In order to avoid possibly unfortunate and unintended consequences arising from the bill, we suggest that, if the bill continues to retain provisions prohibiting trafficking in genuine labeling components and similar products, that rather than defining these items as "counterfeit," the bill be changed to identify genuine-but-illicit labeling components by some other name. We also suggest that if section 2318 is amended to prohibit trafficking in genuine labeling

components and to allow civil remedies for violations, that it also incorporate some of the defenses available to users and consumers pursuant to existing copyright law under title 17.

With regard to the related provision of H.R. 3632 that would define “counterfeit label” to include software labels or licensing documents that have been altered or falsified to change the licensing terms, we believe that such altered labeling components already constitute “counterfeits” under existing law, but the relevant language of H.R. 3632 may serve to clarify this issue.

2. Addressing digital rights management systems and other “electronic labels”

While it appears that H.R. 3632 is not intended to address electronic or digital labeling components (as opposed to tangible, physical items), the language of the bill is not entirely clear on this issue. Indeed, in its testimony in support of the bill, the Motion Picture Association of America (“MPAA”) suggested that it interpreted the bill’s language to include digital labeling components and urged that the bill be modified to include electronic or digital labeling components expressly as well as physical, tangible ones.

We recognize that the regulation of digital rights management (“DRM”) systems and similar electronic or digital labeling components is a critical issue, as an increasing share of copyrighted works is created and distributed in digital form. We also believe that, in general, legislation should remain as “technology-neutral” as possible. Nevertheless, there are significant qualitative differences between physical objects, such as labels or packaging, and their electronic or digital counterparts – differences that are reflected in the differing manner in which the two classes of items are abused or exploited by pirates and counterfeiters. These differences make it difficult to regulate digital authentication features under a generic legal regime designed to address physical items such as labels and packaging. Therefore, we recommend limiting the bill to physical, tangible labeling components, and not expanding it to cover digital or electronic authentication features without thorough consideration of the issue and its consequences.

3. “Documentation and packaging” for movies and music

H.R. 3632 would expand section 2318's existing prohibitions on trafficking in counterfeit “documentation and packaging” to include not only documentation and packaging for computer software, but also documentation and packaging for motion pictures and sound recordings. This change would protect software, movies, and music in a more uniform manner.

Section 2318 currently prohibits trafficking in counterfeit labels for motion pictures and sound recordings, and trafficking in counterfeit “documentation and packaging” for motion pictures and sound recordings does not appear to be a significant problem for the time being. However, it is possible that as audiovisual works and sound recordings become more technologically complex, and their manufacturers implement the same types of sophisticated

anti-counterfeiting measures already being used in the software industry, illicit trafficking in "documentation and packaging" for movies and music will become a more serious problem. Therefore, we support this provision of H.R. 3632.

4. Expanded seizure provisions

We support the expanded seizure provisions included in H.R. 3632, allowing seizure and impounding not only of counterfeit labels, documentation, and packaging, but also of equipment involved in the production of such counterfeit items. These provisions would provide law enforcement with another effective tool to prevent and deter future counterfeiting and piracy. Moreover, the provisions appear to be consistent with seizure provisions in other areas of intellectual property law.

5. Civil remedy provisions

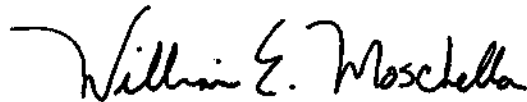
H.R. 3632 would add civil remedy provisions to existing 18 U.S.C. § 2318. We recommend that careful consideration be given to the inclusion of civil remedy provisions in section 2318. As a technical or stylistic matter, we generally prefer to avoid including civil remedy provisions within title 18. We recommend including them separately elsewhere in the Code, *e.g.*, in title 17 or title 47.

As a matter of substance, adding civil remedy provisions would allow for more vigorous enforcement of intellectual property rights, allowing copyright holders to pursue civil judgments against those who facilitate counterfeiting. However, adding civil remedy provisions to existing law is likely to mean that a significant portion of cases brought under section 2318 would be initiated by private parties rather than the Department of Justice. Therefore, we believe it is especially important that these provisions be drafted clearly, concisely, and narrowly, and that the language clarify that the various exceptions or defenses to violations under title 17 apply to civil 2318 actions. For example, as we noted above, copyright law provides various limitations on the rights of copyright holders that allow the resale or transfer of copies (the "first sale" doctrine codified at 17 U.S.C. § 109), and certain types of copying by libraries (section 108) and the public (under the "fair use" doctrine, section 107). As also noted above, section 2318 does not provide these types of defenses or limitations on the rights of copyright holders, so it is possible that H.R. 3632 would allow copyright holders effectively to prohibit some conduct by the public that is currently allowed under existing copyright law.

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Thank you for the opportunity to present our views. The Office of Management and Budget has advised us that from the perspective of the Administration's program, there is no objection to submission of this letter.

Sincerely,

A handwritten signature in black ink that reads "William E. Moschella". The signature is written in a cursive style with a large, sweeping initial "W".

William E. Moschella
Assistant Attorney General

cc: The Honorable Howard L. Berman
Ranking Minority Member