

# New IP Law Creating Cabinet-Level IP Enforcement Coordinator Signals Enhanced Focus on Combating Counterfeit Goods

By Raymond A. Kurz and Lewis E. Leibowitz

Three weeks before the November elections, President Bush signed into law the Prioritizing Resources and Organization for Intellectual Property Act of 2008 (PROIPA), Public Law 110-403. The new law aims to improve federal enforcement of intellectual property (IP) rights (IPR) by enhancing the priority and influence of IP enforcement and increasing penalties for violating US copyright and trademark rights. The new law appropriates \$275 million over the next five years for enforcement programs and its implementation is expected to require a total of \$429 million over the 2009-2013 period.<sup>1</sup> Perhaps most notably, the new law requires President Obama to appoint to his cabinet an IP Czar, formally titled the Intellectual Property Enforcement Coordinator (IPEC), to advise the president and to coordinate federal programs and policy designed to combat IP piracy.

While promoted by industry groups such as the Recording Industry of America Association (RIAA) and the Motion Picture Association of America (MPAA) as a potent legislative weapon for counteracting the effect of media content counterfeiting in particular, PROIPA has appreciably wider scope. The new law suggests a new broad-fronted federal effort in combating intellectual property piracy.

PROIPA promises a sober refocusing of IPR enforcement programs, currently dispersed among several federal agencies. A large part of the new law provides tools for better coordination between agencies, targeting inefficiencies and duplication of functions. PROIPA also has significant measures aimed at cross-border enforcement, and it provides stiff new penalties for those who traffic in counterfeit goods capable of causing serious bodily harm. While the new law was apparently

aimed more directly at traffickers in counterfeit pharmaceuticals, food items, toys, and machine parts, all of which threaten confidence in the supply chain and represent a threat to the consumer, PROIPA will significantly enhance anti-counterfeiting efforts across the full spectrum of goods.

## Overview

PROIPA has five basic aims:

1. Enhance civil enforcement in counterfeiting cases (Title I);
2. Enhance the enforcement of criminal IP law (Title II);
3. Improve coordination and planning among government agencies involved in IPR enforcement (Title III);
4. Expand Department of Justice (DOJ) programs targeting piracy (Title IV); and
5. Provide for a comprehensive Government Accountability Office (GAO) audit of federal government initiatives on counterfeiting and piracy (Title V).

The new law has two broad features. In Titles I and II, it implements significant amendments to existing federal laws under sections of Title 15 of the US Code (Trademark Act of 1946 (Lanham Act) as amended),<sup>2</sup> Title 17 (Copyright Act of 1976 as amended),<sup>3</sup> and Title 18 (the criminal code) relating to property theft.<sup>4</sup> These new amendments seek chiefly to enhance statutory remedies in civil trademark and copyright infringement actions; to render a more uniform statutory approach to forfeiture and destruction of infringing goods in both civil and criminal cases; to require convicted infringers to pay restitution to right holders; and to provide for the seizure and impoundment of documents and other evidence in pending actions under the copyright law.

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In its second aspect, Titles III-V, the new law has several measures designed to improve the implementation and coordination of federal law enforcement efforts against IP piracy and counterfeiting. One component of this appropriates \$275 million for DOJ specifically for IP law enforcement. Another creates the IPEC, the new IP Czar, occupying a cabinet-level position within the Executive Office of the President. Title V requires the Comptroller General of the United States to report to Congress within two years of the enactment of PROIPA regarding the efficacy of the federal government's combined efforts in combating IP offenses. The bill therefore appears to be a serious attempt at re-marshalling federal action on piracy and counterfeiting and to require accountability and prompt reporting on results.

## **Changes to Existing Civil and Criminal Intellectual Property Laws**

The amendments to the civil measures in IP law will collectively serve to increase the potential liability of counterfeiters and pirates. These changes include: easing certain registration requirements for making a copyright infringement claim;<sup>5</sup> a new provision to allow courts to impound copies of any articles claimed to have been made in violation of US copyright law, including molds and plates used for making the articles, as well as records and documentation relating to those articles;<sup>6</sup> the creation of a statutory presumption of treble damages for cases involving the intentional use of a counterfeit mark;<sup>7</sup> doubling of the statutory damages in trademark infringement cases;<sup>8</sup> and the prohibition of exportation of goods bearing infringing marks.<sup>9</sup>

Several provisions of PROIPA are specifically directed to protect Americans from being injured by the importation of counterfeit goods. Title 18 as amended by PROIPA now provides for a sentence up to life imprisonment for knowingly or recklessly causing or attempting to cause serious bodily injury from intentionally using counterfeit marks.<sup>10</sup> Also, Title 18 now provides for a maximum sentence of 20 years (up from 10 years) in prison for conduct that causes serious bodily injury.<sup>11</sup>

Additionally, in an attempt to assist with investigations involving pirated DVDs and CDs, PROIPA amends 18 U.S.C. § 2319A(c), permitting artistic performers to notify US Customs and Border Protection (CBP) of imports or exports of infringing DVDs and CDs.<sup>12</sup> There is no indication as to what CBP must do upon notification, but the bill does require the Department of Homeland Security (DHS) to promulgate regulations to implement this section. Finally, PROIPA also adds 18 U.S.C. § 2323, enhancing provision for

forfeiture and destruction of infringing goods and providing for restitution to be paid by offenders to right holders.<sup>13</sup>

## **Enforcement, Coordination, and Oversight**

Federal administrative responsibility for criminal enforcement of IPR falls primarily within DOJ's Criminal Division. PROIPA mandates significant appropriations for existing IPR enforcement programs within DOJ. The Criminal Division and its 93 US Attorneys have broad federal criminal enforcement responsibilities, including programs targeting organized crime, racketeering, fraud, narcotics, child exploitation, and gang violence. The Computer Crime and Intellectual Property Section represents only one of the Criminal Division's 16 enforcement sections included within its \$149 million dollar budget.<sup>14</sup>

Seen in light of DOJ's current appropriations, PROIPA represents a marked new financial commitment to IP enforcement. The PROIPA earmarks \$55 million for each of the next five years to DOJ for IP enforcement programs. Specifically, the DOJ is authorized to allocate \$25 million for each of fiscal years 2009 through 2013 in the form of federal matching funds to state and local governments for combating counterfeiting. The bill also requires the appointment of additional FBI agents and authorizes \$30 million (again for each of fiscal years 2009 through 2013) to be used jointly by the FBI and DOJ in federal action against intellectual property crime.

The creation of IPEC, the new IP Czar, shifts administrative functions from the Department of Commerce (DOC), where a similar office currently resides, to the White House.<sup>15</sup> The current enforcement coordinator within DOC was created in 1999.<sup>16</sup> This office, known as the National Intellectual Property Law Enforcement Coordination Council (NIPLECC), is an interagency group responsible for coordinating domestic and international intellectual property enforcement activities.

The new cabinet-level IPEC will absorb these functions and NIPLECC will be dissolved.<sup>17</sup> In its place, PROIPA creates an Advisory Committee chaired by the IPEC. While similar to NIPLECC, this new committee will reflect a broader section of US government agencies responsible for policing IP.<sup>18</sup> Almost every conceivable agency involved in IP enforcement directly, or in border enforcement or supply chain integrity more generally, will have a seat at the table.

IPEC will inherit the coordination and reporting functions of NIPLECC, and the Advisory Committee will assume primary responsibility for development of a joint

strategic plan for IP enforcement. The joint strategic plan is to be aimed at identifying structural weaknesses and flaws in federal government programs designed to combat counterfeiting, develop effective interagency information sharing tools, and new strategies for enhancing protection of IPR abroad.

The IP Czar is therefore positioned to leverage significant resources to reduce piracy and counterfeiting. Title V of the new law holds both the IPEC and IPR enforcement more generally, subject to formal GAO oversight. The bill therefore appears to be a very significant initiative in harmonizing and focusing federal action on piracy and counterfeiting.

### **International Trade Impacts of PROIPA**

The expectation of significant new border scrutiny, the emphasis on cross-border enforcement, and the higher political office to be occupied by the IPEC are significant. US trading partners, and importers and exporters more generally, should note that trade flows of certain goods could be affected.

The new law leaves intact the International Trade Commission's (ITC's) ability to investigate and issue exclusion orders against infringing goods under § 337 of the Tariff Act of 1930, and it would expand the definition of an act of copyright infringement under 17 U.S.C. § 602 to include the export of unauthorized CDs and DVDs of protected works. Section 602 as currently written applies only to offending imports. Section 105 of PROIPA makes it explicit that unauthorized export of covered works is an act of copyright infringement.

Perhaps more fundamentally, PROIPA is one of a number of new laws passed or currently before Congress that concerns consumer safety and supply chain integrity. Congress's intent in PROIPA appears to be to markedly clamp down on the influx of counterfeit goods (and in particular counterfeit pharmaceuticals, manufacturing parts, toys, and food items) being shipped into this country as legitimate, name-branded products. Additional administrative complexity at the border seems inevitable. Under the direction of the IPEC, the joint strategic plan is required to include an analysis of the threat posed to public health and safety by counterfeiting and must include specific programs to enhance efforts being made by foreign governments. Obama made border enforcement, and particularly the health, safety, and national security aspects of trade, part of his campaign. Moreover, given that counterfeiting is estimated to cost US businesses \$200 billion to \$250 billion in lost sales each year, in view of the current economic crisis, PROIPA may form a significant feature of Obama's agenda, particularly when, in light of a tightening

budgetary landscape, larger programs not related to stimulus may need to be set aside.

Similarly, the creation of a cabinet-level position will inevitably generate new dynamics. The creation of a high-profile office subject to Senate confirmation may have the effect of becoming a crucible in which the new President could assert new directions in US policy on IPR both domestically and abroad. The IPEC is independently charged with significant international responsibilities in consulting and negotiating with foreign officials and is likely to play some kind of ambassadorial function in implementing US IPR policies overseas. These roles have previously been shared among the US Trade Representative (USTR), the FBI, DOJ, DOC, and CBP. PROIPA does not expressly modify the role of the USTR in negotiating trade agreements or in representing the United States before the World Trade Organization (WTO), but the USTR and the other listed agencies must now report to the IPEC on matters of IP enforcement, and the IPEC will report to the President and to Congress.<sup>19</sup>

The USTR, through its negotiating positions in bilateral and multilateral trade talks, has consistently pressed for more stringent measures in protection and enforcement of IPR with US trading partners beyond those that were agreed to by WTO Members under the Trade Related Aspects of Intellectual Property Rights Agreement (TRIPS). Indeed, in its bilateral free-trade agreements, the United States has consistently sought and obtained inclusion of these TRIPS-plus measures.<sup>20</sup> Additionally, the USTR has been negotiating a new multilateral Anti-Counterfeiting Trade Agreement (ACTA) intended to leverage further US trade advantages in IP.

### **What Lies Ahead**

The political centerpiece of PROIPA is the creation of the IPEC. Its predecessor, NIPLECC, was broadly supported by industry but has been perceived as being too passive in carrying out its mandate. A cabinet-level position in the White House will certainly increase the political profile of this office, but it is still not clear exactly what enforcement outcomes will flow from this. The creation of a new interagency coordination function, while holding the promise of bringing efficiencies to the translation of policy into outcomes, can sometimes generate new tensions along existing fault lines between agencies. Ultimately, much may depend on the personal forcefulness of the IPEC and the extent to which the new President, facing a tightening budgetary landscape, makes IPR enforcement part of his agenda.

The new law becomes effective immediately. President Obama will appoint the first IPEC. New

spending programs on IP enforcement will be implemented at DOJ in 2009, and CBP will be required to engage in notice-and-comment rulemaking in order to carry into effect PROIPA's border interdiction and notifications measures. How active an administrative response we see beyond this and the precise shape and form of the regulatory approach remain to be seen. Indications are, however, that the federal government is gearing up for serious combat against piracy and counterfeiting. This is a matter that we will continue to monitor very closely over the coming months.

## Notes

1. Congressional Budget Office Cost Estimate, Oct. 1, 2008.
2. 15 U.S.C. §§ 1116, 1117.
3. 17 U.S.C. §§ 411, 503, 506, 509, 602.
4. 18 U.S.C. §§ 2318, 2319, 2320. PROIPA also adds an additional section under Title 18: § 2318.
5. Public Law 110-403, Title I, § 101.
6. *Id.*, Title I, § 102.
7. *Id.*, Title I, § 103.
8. *Id.*, Title I, § 104.
9. *Id.*, Title I, § 105.
10. *Id.*, Title II, § 205.
11. *Id.*
12. *Id.*, Title II, § 203.
13. *Id.*, Title II, § 206.
14. Enacted appropriations in 2008 for all Criminal Division programs was \$149 million. Department of Justice, FY2009 budget and Performance Summary, <http://www.usdoj.gov/jmd/2009summary/>.
15. The DOC and the DOJ both opposed this shifting of power and protested to the Senate Judiciary Committee during passage of the bill.
16. *See* 15 U.S.C. § 1128.
17. PROIPA repeals 15 U.S.C. § 1128.
18. The Committee is to be comprised of Senate-confirmed representatives of: the Office of Management and Budget (OMB); the Federal Bureau of Investigation (FBI); the DOJ's Criminal Division; the United States Patent and Trademark Office; the Office of the United States Trade Representative (USTR); the Department of State; the United States Agency for International Development; the Bureau of International Narcotics Law Enforcement; the Department of Homeland Security; United States Customs and Border Protection (CBP); United States Immigration and Customs Enforcement; the Food and Drug Administration; the Department of Health and Human Services; the Department of Agriculture; the United States Copyright Office; and any other agency that the President deems fit to include.
19. Public Law 110-403, Title III, §§ 303, 304.
20. It can be noted that the WTO's 2001 Doha Ministerial Declaration expressed a more nuanced approach to intellectual property enforcement and one somewhat at odds with US negotiating positions.