

United States of America

Q169

Criminal law sanctions with regard to the infringement of intellectual property rights

1. Introduction

Violators of intellectual property rights have long been subject to criminal prosecution in the United States. The State of New York enacted penal sanctions against trademark counterfeiting in 1847, and 39 other states followed suit by 1899. Copyright infringement has been a federal crime since 1909.

Today, most criminal prosecutions in the intellectual property field are based on the Trademark Counterfeiting Act of 1984, the Copyright Act of 1976, The Piracy and Counterfeiting Amendments Act of 1982 and the Economic Espionage Act of 1996. The U.S. Congress, the judiciary and federal prosecutors appreciate that the proliferation of counterfeit goods and services is not merely a threat to private interests. Counterfeiting threatens public health, welfare and safety, and has a negative impact on the national economy as a whole.

2. Substantive Law

The groups are invited to present the legal system currently in force in their countries from the point of view of the implementation of the penal sanctions of the intellectual property rights.

2.1 *More particularly, the groups are invited to indicate if the provisions of article 61 of the TRIPS Treaty were introduced into their national legislation with regard to the trademarks and to the copyright.*

U.S. legislation is in compliance with the requirements of TRIPS Article 61. These laws were mostly in place when the United States became a party to the treaty, and include, among others, the Trademark Counterfeiting Act of 1984, the Copyright Act of 1976, The Piracy and Counterfeiting Amendments Act of 1982 and the Economic Espionage Act of 1996. These statutes are discussed in detail below.⁽¹⁾

Do the national laws provide penal sanctions in case of the violation of other rights of intellectual property such as patents, models, unfair competition and so on?

The Trademark Counterfeiting Act of 1984, 18 U.S.C. § 2320, penalizes the counterfeiting of registered trademarks and symbols of the United States Olympic Association. 18 U.S.C. §2320(e)(1)(B); 36 U.S.C. § 220706. Colors, scents, sounds, product configurations, packaging, labels and other forms of trade dress fall within the ambit of the Act if registered as trademarks. U.S. law is permissive regarding the registration of non-traditional marks. *Qualitex Co. v. Jacobson Products Co.*, 115 S.Ct. 1300 (1995) (color of dry cleaning press pads); *In re Clarke*, 17 U.S.P.Q.2d 1238 (T.T.A.B. 1990) (scent of sewing thread and embroidery yarn); *In re General Electric Broadcasting Co.*, 199 U.S.P.Q. 560 (T.T.A.B. 1978), (series of bell rings for radio broadcasting services); *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332 (C.C.P.A. 1982) (configuration of container for spray starch, soil and stain removers); *In re City of Anaheim*, 185 U.S.P.Q. 244 (T.T.A.B. 1974) (design of architectural structure for convention and trade show services).

Under the Piracy and Counterfeiting Act, 18 U.S.C. § 2318, it is a crime to traffic in counterfeit labels affixed to or enclosing copyrighted computer programs, motion pictures or other audiovisual works, or copyrighted sound recordings.

Economic espionage and trade secret misappropriation are criminal acts under the Economic

Espionage Act of 1996. 18 U.S.C. §§ 1831-1832. While patent infringement is not a crime, the Patent Act of 1952 makes it a crime to forge letters patent (18 U.S.C. § 497), falsely represent that an article is patented or subject to a pending application, or falsely claim ownership of a patent. 35 U.S.C. § 292.

2.2 *The groups are invited to present the conditions of the penal liability for the acts for infringement of the intellectual property rights.*

To prove criminal trademark counterfeiting (18 U.S.C. § 2320), the prosecutor must show the defendant intentionally trafficked or attempted to traffic in goods or services, knowing that the goods or services bore a counterfeit mark. To qualify as "counterfeit", a mark must be "identical with, or substantially indistinguishable from", the trademark being copied.

The elements of criminal copyright infringement (17 U.S.C. § 506) are (1) ownership of a valid copyright, (2) infringement of the copyright, (3) willfulness, and either (4) infringement for the purpose of financial gain, or (5) reproduction or distribution of one or more copies worth \$1,000 or more during a 180-day period. To prove infringement, the prosecutor must present direct evidence of copying, or demonstrate that the defendant had access to the infringed work, and created a work substantially similar thereto.

To prove criminal trafficking in counterfeit labels (18 U.S.C. § 2318), the government must show that (1) the defendant acted knowingly, (2) the defendant affixed a label to a phonorecord, a copy of a computer program, the documentation or packaging for a computer program, or a copy of a motion picture or other audiovisual work, (3) the labels were counterfeit, (4) the matter is within the jurisdiction of the federal courts (e.g. the genuine label is the subject of a copyright registration, or the defendant's acts took place in interstate or international commerce).

The elements of criminal economic espionage (18 U.S.C. § 1831) are (1) the defendant stole, or without authorization of the owner obtained, destroyed or conveyed information, (2) the defendant knew or believed the information was a trade secret, (3) the information was in fact a trade secret, and (4) the defendant intended to benefit a foreign government, instrumentality or agent.

To prove criminal trade secret theft (18 U.S.C. § 1832), the prosecutor must show that (1) the defendant stole, or without authorization of the owner obtained, destroyed or conveyed information, (2) the defendant knew or believed the information was a trade secret, (3) the information was in fact a trade secret, (4) the theft was intended for the benefit of a party other than the owner of the trade secret, (5) the defendant intended to injure the trade secret owner, and (6) the trade secret related to a product to be placed in interstate commerce.

And in particular, does this penal liability require a special intentional element?

The Trademark Counterfeiting Act (18 U.S.C. § 2320) penalizes only intentional counterfeiting. However, only an intent to commit the criminal act is required; the defendant need not intend to violate the law. *U.S. v. Baker*, 807 F.2d 427, 430 (5th Cir. 1986). Further, intent may be inferred from circumstantial evidence. But see *U.S. v. Sultan*, 115 F.3d 321, 330 (5th Cir. 1997) (conviction vacated where "the government's case against Sultan goes beyond making reasonable inferences").

The Copyright Act requires proof that the defendant's acts were willful. 17 U.S.C. § 506(a). Evidence of reproduction or distribution of a copyrighted work is not, by itself, proof of willfulness. *Id.* Moreover, the defendant must know that his or her acts are prohibited by law. *U.S. v. Cross*, 816 F.2d 297, 300 (7th Cir. 1987). Nonetheless, knowledge and willfulness may be demonstrated by circumstantial evidence. *U.S. v. Manzer*, 69 F.3d 222, 227 (8th Cir. 1995) (willfulness inferred where the plaintiff's work bore a copyright notice).

The label counterfeiting statute, 18 U.S.C. § 2318, requires that the defendant acted "knowingly". The statute does not require that the defendant acted "intentionally". A defendant acts "knowingly" if he or

she acts intentionally and voluntarily, and not because of ignorance, mistake, accident or carelessness.

The economic espionage statute requires that the defendant intends or knows that the theft of a trade secret will benefit a foreign government, agent or instrumentality. 18 U.S.C. § 1831.

In order to establish criminal trade secret infringement, the government must show that the defendant had an "intent to convert a trade secret". 18 U.S.C. § 1832(a).

In cases involving the forgery of letters patent, the prosecutor need not demonstrate intent. When the defendant is accused of publishing forged letters patent, however, it must be shown that the defendant knew the letters patent to be forged, counterfeit or altered. 18 U.S.C. § 497. The false marking of a patented item is criminal only if the defendant intends to counterfeit or imitate the patent marking, or intends to deceive the public. 35 U.S.C. § 292(a).

Who has the burden of proof of this intentional element?

Under each of the statutes discussed above, the government has the burden of proving the elements of the crime, including willfulness or intent, beyond a reasonable doubt.⁽²⁾

Is this special intentional element supposed or must it be proven positively?

Willfulness and intent must be proven by the prosecutor. As noted above, however, proof may take the form of circumstantial evidence.

2.3 *The groups must also indicate if there are differences between the acts of infringement of an intellectual property right from the point of view of the civil and penal liability.*

To establish trademark counterfeiting in either a civil or criminal case, the plaintiff or prosecutor must show that the counterfeit mark is "identical with, or substantially indistinguishable from" the legitimate mark.⁽³⁾ However, there are significant differences between civil and criminal counterfeiting actions. Only intentional acts of counterfeiting are subject to criminal sanctions. In civil cases, proof of intent entitles the plaintiff to enhanced monetary relief, but is not required to establish liability. Criminal sanctions apply only to the counterfeiting of registered trademarks. In a few civil cases, courts have granted relief in cases involving the counterfeiting of unregistered trademarks or trade dress. *Pepe (U.K.) Ltd. v. Ocean View Factory Outlet Corp.*, 770 F.Supp. 754, 759-80 (D.P.R. 1991).

In a civil action for copyright infringement, the plaintiff must show that it owns a valid copyright, and that the copyrighted work has been copied. Usually there is no direct evidence of copying, and the plaintiff must show, by way of circumstantial evidence, that the defendant had access to the copyrighted work, and the works are "substantially similar". The prosecutor in a criminal case must also show in addition to the above elements, (1) willful copyright infringement, (2) for purposes of commercial advantage or private financial gain, and (3) reproduction or distribution of one or more copies with a retail value of more than \$1,000 over a 180-day period.

Civil plaintiffs and criminal prosecutors must prove the same elements to establish false use of a patent marking. 18 U.S.C. § 292.

While the Economic Espionage Act does not provide for civil actions by private parties, state statutes and the common law provide civil remedies against trade secret misappropriation. The elements, and the definition of "trade secret" (18 U.S.C. § 1839(3)) are largely the same in both civil and criminal actions. There is no civil counterpart to the crime of "economic espionage" set forth in 18 U.S.C. § 1831. Similarly, the label counterfeiting statute (18 U.S.C. § 2318) and the patent forgery statute (18 U.S.C. § 497) have no civil counterparts.

The groups must indicate if the civil and penal liability are, in fact, likely to be engaged for the same

acts of counterfeiting.

As a matter of law, an act of criminal copyright infringement gives rise to civil liability. Similarly, an act of trademark counterfeiting constitutes both a civil and a criminal offense.

The U.S. Department of Justice filed 32 criminal copyright actions and 64 trademark counterfeiting actions in fiscal year 2000.(4) During the twelve month period preceding September 30, 2000, private plaintiffs filed 2,263 copyright infringement actions and 2,925 trademark infringement actions.(5) Given the different elements of proof in civil and criminal cases, it is impossible to determine the percentage of civil actions that might also have been prosecuted as criminal cases. Nonetheless, the percentage is almost certainly small.

Are the terms of limitation of these acts identical from the point of view of the civil liability and the point of view of the penal liability?

There is a five-year limitation on almost all non-capital federal crimes, including trademark counterfeiting. 18 U.S.C. § 3282. There is no statutory limitation on the filing of civil trademark counterfeiting actions, although undue delay may disentitle the plaintiff to certain types of relief. Under the Copyright Act, there is a three-year limitation on civil actions, and a five-year limitation on criminal actions.

- 2.4 *The groups must also indicate if their national laws provide the penal liability against a legal moral person for acts of counterfeiting.*

The legislation discussed above is applicable to both natural and legal persons. As discussed in Section 2.6 below, the penalties may vary depending on whether the defendant is a legal or natural person.

- 2.5 *Does the penal Court which rules on the penal liability for an act of counterfeiting have the capacity to rule on the question of the validity of an intellectual property right or is this appreciation only the concern of a civil jurisdiction?*

Federal courts in the United States have jurisdiction over both civil and criminal cases. The Court in a criminal case *must* determine that the victim owns a valid intellectual property right.

If the penal judge does not have the capacity to appreciate the validity of an intellectual property right and in particular to pronounce the revocation of it, is it possible for the defendant to the criminal proceedings in counterfeiting to ask a stay of proceedings in order to seize the civil judge, or the patent office, of the appreciation of the validity of the right which is opposed to him?

Not applicable. See Section 2.5 above.

- 2.6 *The groups must also indicate which are precisely the sanctions envisaged by their penal legislation for acts of infringement of intellectual property rights.*

Under the Trademark Counterfeiting Act, a natural person may be fined up to \$2,000,000, imprisoned for up to 10 years, or both. A legal person may be fined up to \$5,000,000. A repeat offender may be fined up to \$5,000,000 and/or imprisoned for up to 20 years in the case of a natural person, or fined up to \$15,000,000 in the case of a legal person. 18 U.S.C. § 2320(a).

The defendant in a criminal copyright infringement action may be fined up to \$250,000 and/or imprisoned for 5 years for a first offense, and be fined up to \$250,000 and/or imprisoned for 10 years for a subsequent offense. 18 U.S.C. §§ 2319(b) and 3571(b), United States Sentencing Guideline § 2H3.2.

A person convicted of false patent marking may be fined up to \$500 per offense. 35 U.S.C. § 292(a).

The commercial theft of a trade secret may result in 10 years' imprisonment and a \$250,000 fine, in the case of a natural person, or a \$5,000,000 fine, in the case of a legal person. United States Sentencing Guideline § 2B1.1.

A natural person convicted of economic espionage may be fined up to \$500,000 and imprisoned for up to 15 years, and a legal person convicted of the same crime may be fined up to \$10,000,000. United States Sentencing Guideline § 2B1.1.

A person convicted of trafficking in counterfeit labels may be fined up to \$250,000 and imprisoned for up to 5 years.

A person convicted of forging letters patent may be imprisoned for up to 10 years.

Are the courts which impose penal sanctions also qualified to allocate damages in repair of the damage undergone by the victims of the acts of counterfeiting or is this question only the concern of the civil courts?

Under the Mandatory Victims Restitution Act of 1996, courts are required to make restitution to the victim of the offense "in addition to or in lieu of, any other penalty authorized by law. . ." 18 U.S.C. § 3663A(a)(1). The Act applies to crimes involving "an offense against property. . . including any offense committed by fraud or deceit". Intellectual property crimes are "offenses against property". *U.S. v. Cho*, 136 F.3d 982, 983 (5th Cir. 1998) (restitution award upheld in trademark counterfeiting case); *U.S. v. Bohai Trading Co.*, 45 F.3d 577 (1st Cir. 1995) (same); *U.S. v. Manzer*, 69 F.3d 222 (8th Cir. 1995) (restitution award of \$2.7 million upheld in case involving criminal copyright infringement and unauthorized decryption of cable television broadcasts).

- 2.7 *The groups are finally invited to give all practical information which they consider useful for the understanding of their legal system and in particular the information concerning the person vested with the right to initiate a penal procedure, the burden of proof of the infringement, the possibility for parties to settle the proceedings by an agreement, etc.*

Federal prosecutors (United States Attorneys) may file criminal actions. The prosecutor must prove a violation of the law beyond a reasonable doubt.⁽⁶⁾ Many cases are resolved through plea bargaining. For example, 41 of the 103 defendants charged with trademark counterfeiting in fiscal year 2000 pleaded guilty.⁽⁷⁾ Criminal cases in the United States are tried by jury, unless the defendant waives his or her right to a jury trial. The judges who preside over such trials do not specialize in intellectual property law.

The Computer Crime and Intellectual Property Section of the United States Department of Justice, Criminal Division has recently revised a handbook entitled "Prosecuting Intellectual Property Crimes". This manual contains a wealth of useful material, and is available online at www.usdoj.gov/criminal/cybercrime/ipmanual/html.

And the groups are invited to provide, if they exist, for the statistical data concerning the resorts to penal procedures (times of procedure, costs, a number of the litigation in country etc).

The following statistical publications are available online:

- a. United States Department of Justice, *Fiscal Year 2000 Performance Report and Fiscal Year 2002 Performance Plan*, <http://www.usdoj.gov/ag/annualreports/pr2000/TableofContents.htm>
- b. Tabular Data regarding selected intellectual property cases, compiled by the Computer Crime and Intellectual Property Section of the U.S. Department of Justice, <http://www.usdoj.gov/criminal/cybercrime/ipcases.htm>

- c. Administrative Office of the U.S. Courts, 2000 Annual Report of the Director,
<http://www.uscourts.gov/judbus2000/contents.html>

2.8 *In addition, the groups are also invited to describe the role of the technical experts in this penal procedure.*

And in particular to indicate if the opinions of the technical experts can be used to show that the validity of a right is not obvious and that this doubt must be taken into account to appreciate the intentional element of the penal offence.

There is no need for expert testimony regarding obviousness, since there are no criminal prohibitions on patent infringement. Expert testimony may be useful for other purposes, for example to demonstrate copying of source code in a case involving computer software copyright infringement.

2.9 *Lastly, the groups are invited to make known their general opinion on the interest of the penal sanctions for the acts of violation of the rights of intellectual property right.*

The Trademark Counterfeiting Act, criminal provisions of the Copyright Act, and the Piracy and Counterfeiting Act are potent weapons against intellectual property crimes. Nonetheless, the resources of the U.S. Department of Justice are limited, and only a small percentage of intellectual property crimes are prosecuted. Consequently, civil remedies against intellectual property violations will remain the primary deterrent to such acts for the foreseeable future.

3. **Proposals for solutions for the future**

On the basis of the evaluation of the existing legal system in their country, the groups are invited to formulate proposals for the future which could form the subject of a harmonization at the international level.

The groups are invited to take position on the advisability of subjecting to penal sanctions the violation of all the intellectual property rights: Should the penal sanctions be extended to all the intellectual property rights, including the patents?

The United States group is not in favor of criminal penalties in patent cases.

3.1 *The groups are invited to formulate observations on the existence of the intentional element as condition required for the application of penal liability to the authors of infringement of intellectual property rights.*

The criminal laws should not apply unless the defendant's acts are willful or intentional.

3.2 *Should this violation be deliberated?*

No.

3.3 *Could the proof of the intentional character result from the nature of the infringement or does it have to be proven positively by the victim of the counterfeiting?*

The burden of proving intent should be on the prosecutor. In appropriate cases, however, criminal intent should be inferred from circumstantial evidence, including the obvious nature of the copying. In many cases, there is no other evidence due to the lack of witnesses, and the absence or deliberate destruction of incriminating documents.

3.4 *Should the Penal Judge have to rule on the validity of an intellectual property right whose*

infringement is reproached within the penal procedure or should he leave the question of the appreciation of the validity of such a right to the concern of the Civil Judge or the patent office, and to postpone consequently to rule in the penal procedure while waiting for the ruling of the proper authority on the validity of the title called upon in the penal authority?

The U.S. group believes that the validity of intellectual property rights should be adjudicated by the judges presiding over criminal proceedings. To defer questions of validity to the patent office or the judge in a civil case would delay proceedings unnecessarily and place undue burdens on the administrative and judicial systems.

- 3.5 *The groups finally have to determine if the victim of counterfeiting must be a master of the criminal proceedings i.e. introduce it and put an end to it, in particular by settlement?*

Criminal laws against trademark counterfeiting, copyright infringement and the like exist primarily to protect the public from goods that are defective, poor in quality, and in many cases unsafe. The interests of the intellectual property owner are secondary. As a consequence, the U.S. group does not recommend that the victim (i.e. the owner of the right) be the master of the proceedings.

- 3.6 *Could the victim of the counterfeiting be able to use, in particular within the framework of the civil procedure, the documents from the penal procedure and in particular the evidence of the alleged counterfeiting?*

Documents and testimony from criminal cases should be admissible in civil proceedings, subject to ordinary evidentiary rules such as those regarding admission of hearsay testimony. In some cases, prosecutors may be required to withhold documents and testimony from civil plaintiffs in order to protect the anonymity of witnesses and informants.

(1) For the full text of these statutes, see the web site of the United States Department of Justice, Criminal Division, at <http://www.usdoj.gov/criminal/cybercrime/iplaws.htm>.

(2) This contrasts with civil actions, in which the plaintiff need only prove its case by a preponderance of the evidence.

(3) In civil actions for trademark infringement, the plaintiff need only show a "likelihood of confusion." There is no criminal liability for acts of infringement which do not rise to the level of trademark counterfeiting.

(4) United States Department of Justice, *Fiscal Year 2000 Performance Report and Fiscal Year 2002 Performance Plan*, Appendix F.

(5) Administrative Office of the U.S. Courts, *2000 Annual Report of the Director*, Supplemental Table C-2A.

(6) As noted before, a "preponderance of the evidence" standard applies in civil cases.

(7) United States Department of Justice, *Fiscal Year 2000 Performance Report and Fiscal Year 2002 Performance Plan*, Appendix F.