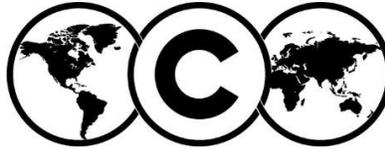


INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE®



1818 N STREET, NW, 8TH FLOOR · WASHINGTON, DC 20036 · TEL (202) 355-7924 · FAX (202) 355-7899 · WWW.IIPA.COM · EMAIL: INFO@IIPA.COM

September 18, 2012

VIA ELECTRONIC SUBMISSION
Docket number: USTR-2012-0012

William D. Jackson
Deputy Assistant U.S. Trade Representative
and Chair of the GSP Subcommittee
of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
1724 F Street, N.W.
Washington, D.C. 20508

Re: GSP Country Practices Review, USTR-2012-0012, Ukraine, Pre-Hearing Brief and Request to Appear at the GSP Public Hearing

To the GSP Subcommittee:

The International Intellectual Property Alliance (IIPA) hereby submits this Request to Appear at the October 2, 2012 public hearing on the GSP country practices review of Ukraine. As you know, IIPA was the original petitioner of the GSP review of Ukraine's intellectual property rights practices in the 2011 Annual GSP Review.

Attached to this letter is IIPA's Pre-Hearing Brief.

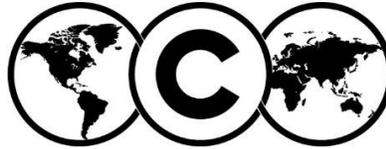
The IIPA witness will be:

Eric J. Schwartz, Counsel
International Intellectual Property Alliance
1818 N Street, N.W., Suite 800
Washington, D.C. 20036
Tel: (202) 355-7903; Fax: (202) 355-7899
Email: ejs@msk.com

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric J. Schwartz', is written over a light yellow rectangular background.

Eric J. Schwartz
Counsel, International Intellectual Property Alliance



**Pre-Hearing Brief
International Intellectual Property Alliance
GSP Review of the
Intellectual Property Rights Practices of Ukraine**

**Before the GSP Subcommittee
Docket: USTR-2012-0012, Ukraine**

October 2, 2012

I. Introduction

The International Intellectual Property Alliance (IIPA) appreciates this opportunity to provide the GSP Subcommittee with a summary of the serious copyright law reform and enforcement issues confronting our members in Ukraine.

According to the intellectual property provisions of the 1974 Trade Act (sections 502(b) and 502(c)), one of the bases for a country's GSP eligibility is "the extent to which such country is providing adequate and effective protection of intellectual property rights." 19 U.S.C. § 2462(c)(5). In our view, the Government of Ukraine is not complying with these eligibility requirements because the Ukrainian legal and enforcement regime is inadequate and ineffective in many key areas. In addition, for the reasons stated below, Ukraine is not "provid[ing] equitable and reasonable access to [its] markets..." which is also a requirement for GSP eligibility. In addition to failing to meet the GSP eligibility requirements, Ukraine is failing to comply with its international treaty obligations and its bilateral commitments to the U.S. Government, including a 2010 IPR Action Plan, intended to address the rampant digital piracy problem in Ukraine.

If at the conclusion of its investigation, the GSP Subcommittee concurs with this assessment, IIPA recommends that Ukraine's GSP benefits be suspended or withdrawn, in whole or in part, until requisite improvements are made by Ukraine to remedy its intellectual property rights (IPR) protection and enforcement deficiencies.

In 2011, Ukraine benefited from over \$53.2 million in unilateral duty-free GSP benefits in the U.S. market (an increase from the \$39.1 million in 2010). In 2012, through May, Ukraine has received \$31.05 million, which represents a 52.3% change (increase) in the same time period in 2011.

At the same time that Ukraine is benefiting from preferential access to the U.S. market, the members of the IIPA and other copyright-based industries are suffering millions of dollars in losses in Ukraine due to a weak IPR legal and enforcement regime. In this filing, we outline the myriad legal and enforcement deficiencies which are adversely affecting U.S. copyright owners of works and sound recordings, including the members of the IIPA, and offer recommendations on ways to strengthen and improve the legal regime in Ukraine.

II. Interest of the IIPA in this GSP IPR Review

The U.S. creative industries represent a sector of the U.S. economy that regularly contributes to a positive balance of trade. It is essential to the continued growth and future competitiveness of these industries that U.S. trading partners provide free and open markets and high levels of protection to the copyrights on which this trade depends, both for “hard copy” goods and, especially for works and recordings in the digital marketplace. In addition to the worldwide problem of piracy, several foreign countries have erected market access barriers to U.S. copyright products. One of the critical trade “tools” used to combat these problems in developing countries, is to enforce the IPR obligations in the GSP program.

Unfortunately, at present in Ukraine, there are myriad obstacles to adequate and effective copyright protection, ranging from rampant copyright piracy to governmental decisions related to the operation of collecting societies that have—at least temporarily—removed the ability of rightsholders to determine how their rights will be administered. Piracy rates are exceedingly high in Ukraine. In addition, the use of unlicensed business software by government ministries is a long-festering problem that the Government of Ukraine has not corrected.

Weak copyright protection has been a long-standing problem in Ukraine, but in the past two years the situation has substantially worsened. Ukraine is a key country in the region for the enforcement of IPR because it exports piracy, especially digital piracy, into both European Union markets and other countries in the Commonwealth of Independent States (CIS). For example, there are several notorious websites hosted in Ukraine by Ukrainian ISPs that, while identified to Ukrainian enforcement officials, continue to act with impunity.

We are extremely troubled by recent developments related to the operation of collecting societies. Ironically, while IIPA has long highlighted the problem of rogue societies issuing “licenses” which they lack authority to grant, the Government of Ukraine has instead decided to act against the legitimate society representing rightsholders (UMRL), recently removing their accreditation and launching a new and risky accreditation process that has created tremendous confusion in the Ukrainian marketplace, and which threatens to undermine the ability of rightsholders to determine how to license the use of their works.

IIPA members appreciate that a multi-national effort to stop the operations of demonoid.me is now underway, including actions in early August 2012 by Ukraine enforcement officials against a server located in Ukraine. IIPA and its members are closely following the progress of the criminal case in Mexico, Ukraine and Panama, and hope that a proper criminal investigation will commence and proceed accordingly. While the actions that began a year ago in Mexico, and are now proceeding in Ukraine are a positive step, this is but one of many illegal Internet distribution services in Ukraine that should be addressed—most notably, ex.ua which is

back in operation after the highly publicized raid some months ago, and which has resumed its role as a primary hub for the distribution of infringing materials.

There is a long history to Ukraine's eligibility for GSP benefits tied to its IPR regime for the protection and enforcement of U.S. copyrighted works and recordings. That history is as follows: in June 1999, IIPA requested a review of Ukraine's GSP benefits as a result of its then-existing IPR enforcement practices, focused mainly on hard-copy piracy, especially the wide-scale production and distribution of illegal optical media (CDs, DVDs, etc.) by various production facilities in Ukraine, and the exporting of those illegal copies throughout Europe and elsewhere in the world.

In 2000, the U.S. Government accepted the IIPA petition and a review of Ukraine's IPR regime was commenced. On August 24, 2001, "due to Ukraine's failure to combat [optical media] piracy" Ukraine's GSP benefits were completely suspended (and other trade sanctions were later imposed as well) by the President. See 66 Fed. Reg. 42246-50. During this period there were extensive bilateral deliberations, including the development of a Joint Action Plan (2000) by the presidents of Ukraine and the United States, to address the IPR regime deficiencies. The subsequent implementation of that Action Plan, and, in 2005, the adoption of significant new optical disc laws meant to improve enforcement against optical disc piracy, resulted in the resumption of GSP eligibility, in January 2006. The IIPA supported that decision: <http://www.iipa.com/pdf/IIPA%20Ukraine%20GSP%20Press%20Announcement%20EJS%20012506%20FINAL.pdf>.

However, since the resumption of GSP eligibility in 2006, Ukraine has failed to fully implement the now decade-old plan to provide significantly improved enforcement on the ground, or to properly reform its laws or enforcement regime to address digital piracy. For example, illicit peer-to-peer hosting and illegal websites have grown rapidly in Ukraine in the past few years, and the Government of Ukraine has done little to address this problem – either with new laws, or effective enforcement. In 2010, the governments of the U.S. and Ukraine developed an IPR "Action Plan" that was never implemented; in fact, some actions have been undertaken by Ukrainian officials that are contrary to the proposed plan, and would weaken, not strengthen enforcement.

The IPR criteria – noted above – are a condition, not only for obtaining GSP benefits in the first place, but also for retaining GSP benefits. The 1984 Act authorized the President to "withdraw, suspend, or limit the application of the duty-free treatment accorded under Section 501 of this title with respect to any article or **any country**" (emphasis added) and requires the President, when taking any such action, to "consider the factors set forth in Sections 501 and 502(c)." TTA 1984 Section 505(a)(1); TA 1974 Section 504(a)(1), as amended; 19 U.S.C. § 2464(a)(1). The Act also created a system of "general reviews" to ensure that these statutory criteria are met. TTA 1984 Section 505(b); TA 1974 Section 504(c)(2)(A), as amended; 19 U.S.C. § 2464(c)(2)(A); *see also* 15 C.F.R. 2007.3.

The U.S. Government has now accepted the IIPA petition pursuant to Section 501 *et seq.* of the Trade Act of 1974, as amended, 19 U.S.C. § 2461 *et seq.*, and 15 C.F.R. Part 2007, and specifically to Section 502(c)(4) and (5) of the Trade Act (19 U.S.C. § 2462(c)((4) and (5)), and 15 C.F.R. 2007.0(b). A recommendation by the GSP Subcommittee to the President to

“vigorously exercise” his authority and to suspend, withdraw or limit GSP benefits of Ukraine, in whole or in part, would comply with the explicit intent of Congress in enacting the statutory criterion on IPR in the GSP law.

As noted, the optical media piracy problem in Ukraine was, in large measure, successfully addressed by a GSP review and suspension. IIPA recommends the use of this GSP review and suspension to encourage the Government of Ukraine to turn its attention to its serious present-day IPR deficiencies especially with regard to the problems pertaining to digital piracy, the ability of rightsholders to determine how their rights will be administered, including through the collecting body of their choosing and the other enforcement issues highlighted in this filing.

II. Ukraine is not providing “adequate and effective protection” for copyrighted works or sound recordings for U.S. rightsholders.

Information regarding Ukraine and its inadequate and ineffective protection for copyright works and sound recordings has been previously presented to members of various U.S. government interagency groups (including the GSP Subcommittee and various individual members), plus the Special 301 interagency group, and the Trade Policy Staff Committee, in the context of USTR’s Annual Special 301 review and the GSP process.

On December 29, 2011, IIPA filed its GSP petition requesting review of the Intellectual Property Rights Practices of Ukraine (in accordance with the annual GSP country practices review (76 Fed. Reg. 67531 (November 1, 2011))).

On February 10, 2012, IIPA filed its annual Special 301 submission to Assistant USTR for Intellectual Property and Innovation, Stanford McCoy. This submission was widely distributed among the interagency for its internal consideration in the 2012 Special 301 Annual Review. IIPA’s entire report is available on the IIPA website, <http://www.iipa.com/special301.html>.

A full description of the deficiencies in Ukraine’s copyright legal and enforcement regime appears in Appendix A, which is the IIPA Special 301 report on Ukraine filed with USTR in February 2012.

Ukraine has made several bilateral commitments (to the United States) to improve its IPR regime. These commitments include: the 2010 IPR Action Plan; the 2000 Joint Action Plan; and the 1992 Bilateral Trade Agreement.

The 2010 IPR Action Plan was developed by agreement of the two governments – first, by a formal document presented by the U.S. Government in October 2010, and approved and signed by the Government of Ukraine in February 2011 (the plan is “effective” October 2010). The “plan” was actually a formal summary of obligations made by the Government of Ukraine over the past several years, especially targeting digital piracy.

The background of the 1992 and 2000 commitments and agreements is as follows: on June 5, 2000, Ukraine formally announced an Action Plan in a joint statement issued by President Clinton and Ukrainian President Kuchma. The Action Plan consisted of several parts: including closing optical disc plants and adopting proper optical media production and

distribution regulations, but also, improving significantly the copyright law and introducing other legal reforms, including criminal and administrative penalties, necessary to implement a modern copyright regime. These latter commitments remain unfulfilled. On May 6, 1992 Ukraine signed a bilateral trade agreement with the United States. This agreement entered into force on June 23, 1992 (see Article VIII of the bilateral agreement for the IPR obligations, as well as the separate IPR Side Letter). The 1992 agreement (Article VIII) requires Ukraine to provide “adequate and effective protection and enforcement” – which was and is understood to include deterrent civil and criminal penalties, as well as border measures. This bilateral trade agreement with the U.S. provided most favored nation (now known as Normal Trade Relations or “NTR”) treatment for Ukraine.

IIPA recommends that the U.S. should suspend Ukraine’s GSP eligibility or withdraw its GSP benefits (in whole or part) because Ukraine fails to: (a) provide “adequate and effective” copyright protection; (b) fully comply with its bilateral treaty obligations with the United States, and (c) provide “reasonable access” to its markets, all as required for GSP benefits.

In short, Ukraine is not providing the legal framework it obligated itself to provide, nor has it established an effective enforcement regime. Ukraine has established itself as a “safe haven” for copyright pirates, in particular, for digital piracy. Ukraine is now one of the few countries in the world (along with Russia) with pay-for-download piracy of music and film, and is the source of some of the world’s top BitTorrent systems, with some sites advertising openly on billboards. As a consequence, legitimate online marketplaces cannot develop for copyrighted materials in Ukraine. Ukraine’s rampant online piracy is being exported to other countries seriously impairing the global digital marketplace. As one example, efforts to address the BitTorrent sites (including www.ex.ua) have, so far, neither resulted in a suspension of services (in fact, in the ex.ua case, the site is back in operation and the criminal case was closed), nor in a single Internet criminal case being initiated in the past year. Ukraine’s many open air markets and street stalls remain replete with illegal copies of recorded music, films, entertainment and business software.

In the case of business software, various ministries within the Government of Ukraine (especially the Ministry of Interior, the offices of State Tax Inspection, and the Prosecutor’s Office) are blatantly using unlicensed software. Ukraine’s own State Intellectual Property Service (SSIP) reported that the software piracy rate in Ukrainian state agencies in 2011 exceeded 60%. After agreeing to a Memorandum of Understanding (2003) to reduce piracy within government agencies, the Government of Ukraine has failed to properly finance or implement this “legalization” MOU. For example, in 2011, the Ministry of Education request for centralized funds for legal software in government ministries in the 2012 budget year was denied by the Cabinet of Ministers. Since signing the MOU, the Government of Ukraine has never allocated funds to legalize software used by its institutions, ministries or state-owned enterprises. The continued use by state agencies of illegal software sets a poor example for the business sector, where illegal software use (i.e., end-user piracy) is practically the norm.

Moreover, Ukraine remains a global hot spot for high-quality illegal camcords of films that are uploaded to top sites and distributed across the Internet. Irregular and insufficient criminal and border enforcement is causing pirate physical material to flow freely into and out of Ukraine.

While the law in Ukraine provides for remuneration rights for the broadcasting or other public performances of musical works and sound recordings, it is estimated that over 90% of the broadcast and public performance market places are unlicensed. This problem has been significantly worsened by the Government of Ukraine which has prevented state broadcasters from complying with the law's licensing obligations. In addition, the Government of Ukraine has not undertaken proper actions against known pirate websites and other infringers as noted above, nor against collecting societies like Oberih and Avtor which purport to grant "licenses" for which they do not have rights. Instead (and incorrectly), the Government of Ukraine has directed its investigators, and IPR enforcement resources, on the operations of legitimate rightsholder organizations.

There are two sets of priority actions—enforcement steps and legal reforms—that the Government of Ukraine should address to improve its IPR regime.

The key enforcement actions that IIPA and its members recommend the Government of Ukraine focus on are: (1) criminally prosecuting the owners of the numerous pay-per-download and BitTorrent sites; (2) criminally prosecuting the principals of the rogue collecting societies that offer "licenses" to both online and physical businesses, that they do not have the authority to grant; (3) immediately taking down illegal websites; (4) systematically taking enforcement actions against open air and street market piracy occurring at large outdoor markets and in the streets (at or around underground stations, and near local shops and supermarkets), and including long-term closures of illegal businesses, plus the use of search warrants against "closed" premises and warehouses; (5) taking immediate actions to prevent the sale of pirated entertainment software products bearing illegitimate holograms at retail chains; (6) targeting organized criminal syndicates, applying criminal prosecutions and deterrent sentences (to date, the Government has instead relied heavily on non-deterrent administrative penalties); (7) targeting corporate end-user piracy with an emphasis on large-scale infringers (rather than targeting small companies and individuals); (8) stopping and prosecuting camcording piracy; (9) targeting infringers of cable transmissions and retransmissions, public performances, and unauthorized TV and radio broadcasts; and (10) properly implementing the Customs Code amendments, in force since February 2007, which provided customs officers with *ex officio* authority.

Unfortunately, the Government of Ukraine has not undertaken these steps.

With regard to the use of unlicensed business software, IIPA and its members have recommended that the Government of Ukraine allocate to each Ministry dedicated funds for software legalization that are sufficient to meet each Ministry's software needs, and to perform software audits, in order to eliminate the use of unlicensed software in the public sector; and, that it should quickly develop and make public an action plan for software legalization – identifying the steps necessary, making one individual responsible for coordinating implementation (and individuals within each Ministry to carry out the plan).

The key legal reforms that IIPA and its members recommend are: (1) enacting Draft Law #6523 to modernize Ukraine's copyright law by making camcording illegal (excluding camcording from any "private copy" exception), and ensuring that business end-use piracy of software is a criminal offense; (2) ensuring a fair, transparent process for the accreditation of

collecting societies, and in particular ensuring that any society accredited to license on behalf of an entire category of rightholders (e.g., on the basis of extended collective licensing) represent the majority of rightholders in that category; (3) amending Article 176 of the Criminal Code (and separately, in the Civil Code) to ensure the availability of criminal remedies against online piracy of all works and sound recordings; (4) abolishing the hologram stickering system; and (5) implementing the 2003 resolution of the Cabinet of Ministers regarding legalization of software in state agencies.

There are, however, reports of some troubling amendments to Draft Law #6523, including provisions that could weaken the application of criminal sanctions pertaining to copyright infringements, changes that would negatively affect the ability of rightholders to effectively exercise their rights through the collecting society of their choice, and limitations on the scope of rights enjoyed by performers and record producers. A careful review of the law is needed before enactment to avoid passage of provisions that could further weaken, rather than strengthen, the copyright regime.

In sum, Ukraine is not providing “adequate and effective” enforcement with any meaningful police or prosecutorial activity, as required by its existing multilateral or bilateral trade and treaty agreements, even if some (albeit weak) criminal, civil and administrative provisions do exist. The most significant shortcoming in the Ukraine enforcement regime has been the absence of effective criminal prosecutions and deterrent sentencing which are necessary to combat digital and hard-copy piracy. The failure to provide an adequate legal and enforcement regime in Ukraine is causing significant harm to the copyright industries.

III. Ukraine is not providing “equitable and reasonable access to [its] markets” for copyrighted works of certain U.S. rightholders.

In addition to the requirement to provide “adequate and effective” copyright protection, GSP eligibility requires Ukraine to provide “equitable and reasonable access to [its] markets...” which it is not doing. In particular, the motion picture industry is confronting two critical market barriers to access. These barriers are: (1) an obligation to manufacture film prints and digital encryption keys in Ukraine; and (2) customs valuation rules that assess valuation on projected royalties, rather than on the underlying carrier medium.

In more detail, these market barriers are as follows:

Compulsory Manufacturing of Film Prints: Ukrainian law requires the production of film prints locally (by statute, in effect March 18, 2010); this rule requires local film print production for the issuance of a state distribution certificate. The required local production rule was reiterated by the State Film Agency and entered into force on August 15, 2012.

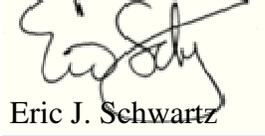
Customs Valuation: In November 2009, Ukrainian customs authorities declared new customs valuation rules. Rather than assessing duties on the underlying carrier medium, the new rules assessed valuations based on projected royalties. To further complicate matters, Ukrainian customs officials stated that the new “ruling” would be retroactive (three years), and would be enforced with serious penalties for valuations based on the carrier medium rather than royalties. Contrary to murmurings that these rules might be reversed, in May 2012 a new Customs Code

was adopted which affirms the duties on royalties for both theatrical and home entertainment imports. These valuation procedures are governed by CMU Resolution No. 446.

IV. Conclusion

For the reasons stated in this submission (including the Appendix), IIPA requests that the U.S. suspend Ukraine's eligibility, or withdraw or limit the GSP benefits of Ukraine, in whole or in part unless or until it corrects the deficiencies in its IPR regime.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Eric J. Schwartz", is written over a light yellow rectangular background.

Eric J. Schwartz

Counsel

International Intellectual Property Alliance

UKRAINE

INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE (IIPA) 2012 SPECIAL 301 REPORT ON COPYRIGHT ENFORCEMENT AND PROTECTION

Special 301 Recommendation: IIPA recommends that Ukraine be elevated to the Priority Watch List in 2012, as a result of very severe enforcement problems, as well as numerous longstanding legal deficiencies.¹ In addition, in December 2011, IIPA filed a petition with the U.S. Government recommending the eligibility of Ukraine as a Generalized System of Preferences (GSP) beneficiary developing country be reviewed, and that its benefits be suspended or withdrawn absent immediate IPR improvements. IIPA also recommends that the U.S. Government should conduct an Out-of-Cycle (OCR) review of Ukraine in order to accelerate the implementation of the 2010 Action Plan by no later than mid-2012.

Executive Summary: Piracy rates in Ukraine are among the highest in Europe, including for both hard copy and digital copyright piracy. For IIPA members, Ukraine is a key country in the region for the enforcement of intellectual property rights (IPR) because it exports piracy, especially digital piracy, into both European Union markets and other countries in the Commonwealth of Independent States (CIS). For example, there are several notorious websites hosted in Ukraine by Ukrainian Internet service providers (ISPs) that, while identified to Ukrainian enforcement officials, have continued to act with impunity. In 2010, the governments of the U.S. and Ukraine developed an IPR “Action Plan” intended to target digital piracy. Not only has the plan never been implemented, but some actions have been undertaken by Ukrainian officials that are contrary to the proposed plan, and would weaken, not strengthen enforcement.

In short, Ukraine is not providing effective criminal enforcement, nor is there a proper legal framework in place for enforcement, as Ukraine is obligated to do under its treaty (including WTO/TRIPS) and bilateral commitments. Instead, Ukraine has established itself as a “safe haven” for criminal syndicates involved in copyright piracy, in particular, for digital piracy of business and entertainment software, recorded music, films and books. Ukraine is now one of the few countries in the world (along with Russia) with pay-for-download piracy of music and film, as well as the source of some of the world’s top BitTorrent systems. Plus, the government needs to resolve the dire situation of “rogue” collecting societies and take enforcement steps against these unauthorized societies (while also halting the investigations and harassment of legal collectives). As a consequence of its many shortcomings, legitimate online marketplaces cannot develop for copyrighted materials in Ukraine, and, by exporting piracy, Ukraine is harming legitimate marketplaces elsewhere. Moreover, Ukraine remains a global hot spot for high-quality illegal camcords of films that are uploaded to top sites and distributed across the Internet.

¹For more details on Ukraine’s Special 301 history, see IIPA’s “History” appendix to this filing at <http://www.iipa.com/pdf/2012SPEC301HISTORICALCHART.pdf>, as well as the previous years’ reports, at <http://www.iipa.com/countryreports.html>. For a summary of IIPA’s 2011 global issues, see our cover letter at <http://www.iipa.com/pdf/2012SPEC301COVERLETTER.pdf>.

Ukraine's many open air markets and street stalls remain replete with illegal copies of recorded music, films, entertainment and business software. Irregular and insufficient criminal and border enforcement is a further reason that pirate physical material is flowing freely into and out of Ukraine. In the case of business software, various ministries within the Government of Ukraine (especially the Ministry of Interior, the offices of State Tax Inspection, and the Prosecutor's Office) are blatantly using unlicensed software. This sets a poor example for the business sector, where illegal software use (i.e., end-user piracy) is practically the norm. In sum, a roadmap for effective enforcement already exists – the full implementation of the Action Plan, which was developed first by a formal document presented by the U.S. Government in October 2010, and approved and signed by the Government of Ukraine in February 2011 (the plan became “effective” October 2010). The plan was actually a formal summary of obligations made by the Government of Ukraine over the past several years, especially to address Internet piracy.

IIPA Priority Recommendations in Ukraine – Key Enforcement Actions and Legal Reforms: Among the many issues and recommendations noted in this report, here is a list of priorities that IIPA recommends to the Government of Ukraine in 2012:

Criminal Enforcement

Criminal enforcement is a key IIPA-member priority because it can, if undertaken correctly, address myriad piracy problems. To be effective, criminal enforcement requires: (a) coordination by key agencies – including, the Ministry of Internal Affairs and General Prosecutors Office; (b) a significant increase in the number of raids and prosecutions; and (c) additional resources, especially for IPR police enforcement personnel (bringing the force up to a minimum of 260 officers). IIPA recommends that effective criminal enforcement, including prosecutions and deterrent sentencing, should be directed at:

- Owners of the numerous pay-per-download and BitTorrent sites. Criminal enforcement authorities should be using existing laws to take down illegal websites dedicated to pirated music, film, business and entertainment software and/or printed materials (and including sites relying, in bad faith, on the false rogue collecting society licenses).
- Principals of the rogue collecting societies that claim to offer “licenses” to both online and physical businesses, that they do not have the authority to grant.
- Organized crime syndicates, applying criminal prosecutions and deterrent sentences, not, as has been done to date, relying on non-deterrent administrative penalties. Targets should include the syndicates operating websites and peer-to-peer operations, hard-copy distribution centers, camcording operations, and optical disc media production facilities (including CD-burning operations).
- Owners and operators of open air and street market piracy, especially the piracy occurring at large outdoor markets and in the streets at or around underground stations, and near local shops and supermarkets.
- Retail chain owners that are selling pirated entertainment software products bearing illegitimate holograms at retail chains. These actions should include: long-term closures of illegal businesses, and follow-up raids at stores, kiosks and warehouses. Law enforcement authorities should – using search warrants – enter sales premises and

suspected warehouses to seize illegal material, even if such premises/warehouses are closed.

Administrative and Customs Enforcement, End-User Piracy, and Software Legalization

There are several administrative and customs law enforcement efforts that we recommend as priorities, including:

- An emphasis on corporate end-user piracy enforcement targeting large-scale infringers (in lieu of the current targets which are small companies and individuals), and as applicable, also using criminal enforcement against large-scale infringers.
- Allocation in each ministry (in 2012) of funds dedicated to full software legalization and the creation of an effective software asset management policy and practice (including audits). Further, we recommend: (a) the development of (and public statements about) an action plan for software legalization; (b) identifying both the steps to be taken to implement the resolution of the Cabinet of Ministers (designating the individuals responsible in the process); and (c) placing the plan's implementation under the Prime Minister's supervision.
- Moving aggressively against infringing cable transmissions and retransmissions, public performances, and TV and radio broadcasting with administrative (and where, applicable, criminal) actions.
- Using the *ex officio* authority (in place since 2007) to improve border controls, especially along the Russian border, focused on railroad traffic.

Legal Reforms

A Copyright Law amendments bill (Bill #6523) was introduced in the Verkhovna Rada in June 2010 and passed its first reading in February 2011. If enacted (with additional proposals submitted by rights holders to the Parliamentary committee) it would improve the Copyright Law (and other IPR laws of Ukraine) with amendments regarding temporary copies, damages, the imposition of takedown notices and third party (ISP) liability as well as excluding camcording from the scope of the private copy exception. There are some further amendments needed (i.e., the proposals submitted) at the next reading; but, overall, IIPA supports this legislation. Here is the list of the key legal reforms that IIPA recommends:

- Full implementation of the WIPO digital treaties – in the Copyright, Industrial Property, Criminal and Criminal Procedural Codes. Ukraine acceded to the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT) in 2002.
- Adopting amendments to the Law on Telecommunications to promote a fair and effective response to online piracy, including: (i) legal incentives for ISPs to cooperate with rights holders to effectively deal with Internet piracy; (ii) rules that clarify the illegality of providing services that are intended to promote the infringement of copyright and related rights; and (iii) injunctive relief and a duty on Internet service providers (ISPs) to provide information to law enforcement agencies and rights holders. Additionally, Copyright Law amendments be enacted to ensure that an unauthorized online distribution, communication or making available is considered an act of infringement, regardless of

whether it is undertaken for profit-making purposes or other commercial benefit or advantage.

- Amendments to Article 176 of the Criminal Code (and separately, in the Civil Code) to ensure the availability of criminal remedies against online piracy of all works and sound recordings; and, to establish in the Criminal Procedure Code, clear rules for prosecuting infringers.
- Amendments the Copyright Act and Criminal Code to make camcording illegal by excluding camcording from any “private use” exception, and criminalizing this activity. Additionally, amendments to the Law on Cinematography to repeal the requirements of local production of film prints.
- Implementing the 2003 resolution of the Cabinet of Ministers regarding legalization of software in state agencies.
- Amending the Copyright Law and the Civil Code to ensure that all relevant right holders are entitled (in law and practice) to operate effectively through the collecting bodies of their choice in the licensing of broadcasting, public performance and other communications to the public.
- Abolishing the hologram stickering system (or, at the very least, fixing it so that it cannot be used by infringers to make pirate product appear legitimate).

COPYRIGHT ENFORCEMENT IN UKRAINE

Internet piracy in Ukraine in 2011: Ukraine Internet penetration is growing fast – it is now estimated that 33.9% of Ukraine’s population, or 15.3 million people are on the Internet according to the International Telecommunications Union (a U.N. agency) as of March 2011; this places Ukraine as the 9th largest user of the Internet in Europe. All of the copyright industries – music, film, book and music publishing, entertainment software and business software – report very weak Internet enforcement, coupled with an especially sharp increase in the rate of illegal peer-to-peer hosting and website-based Internet piracy, including BitTorrent sites (some of the world’s largest), located in Ukraine, for target audiences primarily in the countries of Western Europe and the United States. There are numerous open and notorious sites including, for example: demonoid-me (940,000 visitors each month; the site offers over 75,000 unauthorized movies and nearly 47,000 unauthorized television programs). Ukraine has many free and pay-per-download music and video websites, as well as streaming services, some aimed at an international audience. One particularly severe case of blatant and open piracy is the filesharing site EX.ua, which (according to a 2010 survey) is responsible for half of all the users who upload and download illegally in Ukraine, and whose popularity is growing. On January 31, 2012, EX.ua was raided by police; for two years rights holders have gathered and provided enforcement authorities with evidence of ongoing infringing activity by this site. On January 31, the site was briefly taken down, but it is currently back in operation.

In many cities and towns outside Kiev – especially where internet bandwidth is relatively slow – a problem exists with so-called “LAN” (Local Area Networks) sites. These are high-speed FTP sites that store massive amounts of content, most of it consisting of infringing movies, music and videogames. Local users can get access to these LAN networks by paying a fee and

can then download as much content as they wish; there are no constraints on bandwidth limitations (as they might encounter when visiting infringing sites abroad). In 2011, the police did commence some investigations, and a few resulted in prosecutions of LAN operators (14 LANs had their operations taken down). In total, UAPA, the anti-piracy organization, reported that they worked with the police on 17 Internet investigations in 2011, of which 15 resulted in criminal proceedings commencing (although there are no reports on the disposition of these cases). According to a 2011 Entertainment Software Association (ESA) study, Ukraine is in the top 20 countries worldwide in terms of the number of detected connections from peers participating in unauthorized file sharing (taken from a sampling of ESA titles on peer-to-peer networks).

The recording industry reports that paid download sites like mp3fiesta.com remain a major source of piracy in Ukraine (some selling whole albums for US\$1). These sites use the same business model as the original Russian alfofmp3.com site, with professional looking interfaces capable of deceiving unfamiliar users into believing they are legal sites. Some of these websites offer incentives such as free give-aways in return for users making monetary “deposits” onto the sites.

The independent segment of the film and television industry (IFTA) is especially concerned with the impact of Internet piracy because of its harm to legitimate online distribution services – harming consumers and rights holders alike. Revenue from these services, which is licensed country-by-country, is critical for the independents to finance the development of new creative works worldwide. Internet piracy is instantly exported into other markets, spreading high piracy rates; this not only undercuts anticipated revenue from the distribution of a particular film (including licensing fees such as theatrical, DVD and television rights), it also harms the ability of independent producers to secure financing for future productions.

In addition to infringing hosted content available for download, another common type of Internet piracy is via mail order – with orders placed online and delivered by mail, according to the Business Software Alliance (BSA). One common example involves the reselling of software in violation of licensing agreements, for example, software obtained using privileged licenses for a finite set of users which is then resold to the public on the Internet.

There are currently two major hindrances to effective enforcement against Internet piracy: (1) the absence of any third party (ISP) liability in the existing law; and (2) the inability of right holders or enforcement authorities to collect information about suspected infringing website owners. In fact, not only is there no clear third party liability that could lead to cooperation between rights holders and ISPs, but the Law on Telecommunications (Article 40, paragraph 4 on the “responsibility of operators”) bluntly states that ISPs “do not bear responsibility for the content of the information transmitted through their networks.” Additionally, Article 38 states that ISPs can disable end-users from the Internet, or block access to (i.e., take-down) infringing websites only with a court order. In the past, the ISP association (IAU) – citing this statutory language – has taken the position that rights holders need to go after illegal websites directly, without ISP assistance or cooperation. Many of the websites offering pirated copyright materials are thriving in part because of the support of local ISPs (there are over 400 ISPs in Ukraine and over 150 sites offering pirated CDs and DVDs). The copyright industries have, for years, been seeking private agreements (with governmental assistance) with ISPs to work cooperatively to

take-down illegal websites and slow illegal peer-to-peer traffic. The Government of Ukraine has made no effort to move this process forward and makes it clear that IPR enforcement, especially on the Internet, is not a priority. Some ISPs will delete links upon request (MPAA estimates that in 2011, about 20% of the ISPs responded to takedown letters); but, most refuse rights holders requests and demand court orders. It has been over three years since IAU agreed to work more forcefully with right holders to reach a mutually acceptable solution to help stem Internet piracy, but these efforts stalled, which is why IIPA recommends that the Government of Ukraine must get involved to broker a private agreement, and, at the same time, adopt some key Internet enforcement legal reforms.

Despite claims from the Government of Ukraine that adequate *ex officio* authority exists under current law, police continue to claim they are unable to instigate criminal operations against online piracy unless a rights holder first files a claim for damages. When criminal investigations are undertaken, police efforts are often stymied by a lack of cooperation from ISPs, which often refuse to provide available information on their infringing users. In December 2009, amendments to the Law on Telecommunications (draft # 3271) were proposed but ultimately defeated; they were intended to assist the police in conducting Internet crime investigations by providing subscriber information. The business software industry, for example, reports that legislative deficiencies and lack of cooperation with the ISPs thwart any attempts to focus on enforcement against Internet piracy. Thus, in general, the copyright industries report that the lack of clear prosecutorial and court procedures for Internet-related cases is a block on effective enforcement and that existing procedures are too difficult to be used effectively. Another impediment: procedures require that prosecutors identify the exact name of a website owner and the local network user(s) prior to commencing a case. IIPA recommends the adoption of guidelines and more effective procedures for police, prosecutors and judges for these crimes.

Hard copy piracy: The widespread availability of illegal material in open-air markets persists, in such places as: Petrovka (in Kiev), Mayak (in Donetsk), the “7-Kilometer” open market (in Odessa), and Barabashovo (in Kharkov), and, in other locations and cities. There has been little change in this problem in the past few years. The hard goods piracy problem is also prevalent in some retail chains, many of which openly sell pirate product alongside legitimate product. Often times these pirated goods bear wrongly issued holograms which legitimizes the product and makes enforcement challenging.

It was reported that the police undertook about 280 raids against open markets and street stalls in 2011. Some industries report a (slight) decline in hard copy piracy, as Internet piracy grows rapidly. Still, the size and scope of open market piracy in Ukraine is widespread. The Motion Picture Association (MPA) reports, that for example the “7-Kilometer” market in Odessa has 80 to 90 stalls selling pirate audiovisual product, the Mayak market in Donetsk and the Petrovka market in Kiev each have 200 such stalls, and the Barabashovo market in Kharkov has about 60, but because it is near a railway crossing point into Russia, serves as a distribution point within Ukraine, for Russian made optical disc media. The points of sale – the markets and street vendors – are occasionally raided, but these sites are rarely permanently shut-down, and operators rarely criminally prosecuted.

For the Entertainment Software Association (ESA), piracy at Internet and cyber cafés or “game clubs” continues unabated, with pirated and/or unlicensed versions of videogame software

in wide use. Most of the hard copy piracy is produced in plants for PCs on discs and is manufactured in Ukraine, without licenses and absent any royalty payments to rightful owners. The problems persist despite efforts by police to initiate actions and raids, including seizures at retail outlets, warehouses, and Internet cafes. One on-going problem is post-raid investigations (which are unduly lengthy, costly, and non-transparent) and prosecutions – very few cases get to trial. Instead, it is common for cases to be simply dismissed or terminated without explanation, even when high volume seizures are involved.

The camcording of motion pictures, and the quick transference of these illegal copies on the Internet, is a major problem for the motion picture industry. The camcording problem in this hot spot is driven by criminal syndicates operating in Ukraine and Russia. As a consequence, illicit camcording shifts quickly between the two countries resulting in hard copy and Internet piracy. Illicit camcords sourced from Ukraine are quickly uploaded to the Internet and burned to optical discs for distribution. Amendments to the Copyright Law (Bill #6523) and the Criminal Code are necessary to effectively enforce against illicit camcording. According to IFTA, DVD sales in Ukraine have been particularly hurt by piracy, with digital copies (often sourced from illegal camcords) being routinely offered for free online (and sold in hard copies). Unable to compete with free, legitimate distributors in Ukraine are not able to commit to distribution agreements, or alternatively offer drastically lower license fees which are inadequate to assist in financing of independent productions.

Rogue collecting societies: While the law in Ukraine provides for remuneration rights for the broadcasting or other public performances of musical works and sound recordings, it is estimated that over 90% of the broadcast and public performance market places are unlicensed. This problem has been significantly worsened by the Government of Ukraine which has prevented state broadcasters from complying with the law's licensing obligations. In addition, the Government of Ukraine has not undertaken proper actions against known pirate websites and other infringers, nor against collecting societies like Oberih and Avtor which purport to grant "licenses" for which they do not have rights. Instead (and incorrectly), the Government of Ukraine has directed its investigators, and IPR enforcement resources, on the operations of legitimate rightsholder organizations.

The proliferation of rogue collecting rights societies – such as Oberih and Avtor – which falsely claim "licenses" to repertoire, and the inability for legal societies to properly operate in Ukraine, remain a major problem for the recording industry. In 2009, the Ministry of Education and Science (with approval from the Ministry of Justice) issued an executive order (Order #1175) for the accreditation of collecting societies, but providing that there could be no more than one authorized collecting society for each copyright sector – thus, one for broadcasting rights, one for public performances, etc.. The executive order delegated the authority to implement the accreditation of organizations to the State Department of Intellectual Property (SDIP) – now re-named the State Intellectual Property Service; the executive order also noted that the authorization of any particular organization would be based on the majority of the national and international repertoire represented. Two legitimate organizations – the Ukrainian Music Alliance (UMA) – broadcasting – and the Ukrainian Music Rights League (UMRL) – public performances – legitimately represent over 80% of the domestic and international repertoire for music. They were both properly accredited by SDIP. Despite various attempts by non-representative organizations to cancel the results of accreditation (three years ago), IIPA supports

this accreditation and the reform brought on by Order #1175. In order for authorized collecting societies to function efficiently, we recommend that the regulatory framework increase their authority, including the possibility of inspections, representation in court, and cooperation with law-enforcement agencies, and that only organizations with a majority of relevant repertoire of material be authorized.

One positive step was the launch, by prosecutors, of a criminal investigation into the activities of Oberih, the rogue collecting society. Unfortunately, it has taken far too long to conclude an investigation in this case of clear-cut piracy. IIPA calls upon the enforcement officials to quickly conclude their investigation and to properly prosecute those responsible for Oberih's illegal operations (in addition to taking action against other rogue collecting societies, such as UPO Avtor, which license pirate websites). Prosecutors have never communicated the status of the Oberih investigation to rights holders; U.K. police have recently sent evidence to the Ukrainian police (via Interpol), in order to open a criminal investigation on Avtor.

Software legalization: In the case of business software, various ministries within the Government of Ukraine (especially the Ministry of Interior, the offices of State Tax Inspection, and the Prosecutor's Office) are blatantly using unlicensed software; the government should be leading by example, in a country where illegal software use by businesses (i.e., end-user piracy) is practically the norm. In 2003, the Cabinet of Ministers passed a regulation establishing procedures for the use of software in government agencies. It provided for government institutions to use properly licensed and legally held software, and prohibited public servants from installing, using, or copying software without prior consultation with a responsible system administrator. Over eight years ago, the government issued a new regulation to implement legalization – assigning all procurement authority for software products to one entity, SDIP (now SIPS), in order to try to eliminate the use of pirated software products in the public sector. However, since then, implementation of the program by the government, the largest consumer of illegal software in Ukraine, has been very slow. Piracy rates in Ukraine are very high for business software, with PC software piracy rates exceeding 80% in each of the past five years.² The IIPA's recommendations on the steps the Government of Ukraine should take to address this problem are set out in our priorities section above. In sum, the Government of Ukraine (including the Rada) does not treat piracy, including business software piracy (by the

²BSA's 2011 software piracy statistics will not be available until after the filing deadline for this submission, but will be released in May 2012, at which time piracy rates and U.S. software publishers' share of commercial value of pirated software will be available at www.iipa.com. In 2010, the software piracy rate in Ukraine was 86%, representing a commercial value of unlicensed software attributable to U.S. vendors of US\$314 million. These statistics follow the methodology compiled in the Eighth Annual BSA and IDC Global Software Piracy Study (May 2011), <http://portal.bsa.org/globalpiracy2010/index.html>. These figures cover packaged PC software, including operating systems, business applications, and consumer applications such as PC gaming, personal finance, and reference software – including freeware and open source software. They do not cover software that runs on servers or mainframes, or routine device drivers and free downloadable utilities such as screen savers. The methodology used to calculate this and other piracy numbers are described in IIPA's 2012 Special 301 submission at <http://www.iipa.com/pdf/2012spec301methodology.pdf>.

government or businesses) as a priority problem to be corrected. There are many enforcement failings, including weak or non-existent regulations for inspection orders (raids), and evidentiary and prosecutorial procedural and resource failings as well (including engaging the Tax Inspections, as well as Customs officials in software audits and prosecutions). The pending draft Copyright Law – with some further improvements as recommended by the business software community – could correct these problems.

Hologram stickering: All of the copyright industries – music, film, entertainment and business software companies – report persistent problems with the administration of the current hologram stickering system which was adopted in 2000. In short, the system has failed as an enforcement tool, and should either be abolished or completely revised. As a result of ineffective oversight by Intelzakhist, the body responsible for administration of the hologram system, holograms are often issued on the basis of false contracts and licenses. Unauthorized music compilations of 100+ tracks in mp3 format on each CD (featuring “the best hits” of well-known artists) are widely available with holograms. Unauthorized videogame discs (such as discs with Xbox games) bearing holograms are found in many retail outlets throughout the country. In sum, the system has done considerably more harm than good to the interests of legitimate copyright owners while it has permitted suspect companies (based on false contracts and unverified licenses) to receive thousands of holograms for foreign releases (music, film, entertainment and business software) for which they have no licenses, despite objections from the legitimate licensees. This makes the pirate product *de facto* “authorized” by the state for distribution which means it cannot be (or is not) seized by law enforcement officials.

For some industries, one out of every two illegal products seized is labeled with a false hologram, and for others (for example, the motion picture industry), all illegal copies seized had false holograms. Were the hologram requirement effectively administered it could potentially benefit rights holders. However, in practice, the hologram requirement actually benefits those engaged in the distribution of pirated product. Consequently, IIPA recommends an immediate moratorium on the hologram regime. While IIPA favors abolishing the system entirely, at the very least, IIPA urges a complete revision of the law to bring transparency to the hologram sticker administration procedures (along with proper enforcement). One “fix” would require SDIP (now SIPS) to publish on its official website information about all current applications for stickers, and to indicate both the names of the applicants as well as the names of all works (CDs and DVDs) seeking labels – this would assist right holders in tracking applications.

Broadcast and public performance piracy: Broadcast television piracy is a major problem for the motion picture, music publishing and recording industries – both with regard to regional and nationwide broadcasts. Broadcasting, cable retransmission, and public performance piracy is estimated to be over 90%. Despite the fact that the Ukrainian Copyright Act provides for broadcasting and public performance rights, and collecting societies are in place, the overwhelming majority of users in Ukraine – cable operators and TV stations (including the largest state-owned broadcaster), restaurants, bars, shopping malls, sports clubs, etc. – refuse to pay royalties to the relevant authorized collecting societies. IIPA continues to recommend that the Government of Ukraine create a database, inspect commercial users, set a goal to bring these 90+% piracy levels down below 50% in one year (by relying on regional police economic crime units and state IP inspectors), and subject unauthorized users to administrative and criminal prosecutions. The law should, additionally, be clear that wholesale blatant copyright and related

rights infringements could lead to station broadcast license suspensions or cancellations from the state.

Criminal enforcement: The most significant shortcoming in the Ukraine enforcement regime has been the absence of effective criminal prosecutions and deterrent sentencing which are necessary to combat digital and hard-copy piracy. Despite 2006 amendments to the Criminal Code (Article 176) to significantly lower the previously too-high threshold for criminal prosecution, the current threshold is still high. The threshold is now 10,730 UAH or US\$1,336 (as of January 2012, including minimum wage adjustments) which serves as a bar to effective criminal enforcement and results in less effective administrative actions in lieu. This is particularly true for online piracy matters where the valuation of damages (by law enforcement agents, prosecutors and the courts) is too difficult to calculate absent an official methodology; this prevents the initiation of criminal investigations and prosecutions against online piracy. Additionally, enforcement officials have applied the threshold on a per-rights holder basis, which means that when illegal material is seized, if the material for each rights holder does not exceed the threshold, the criminal case does not proceed. There are other procedural problems as well, including: (a) the use of expert evidence; (b) treatment of repeat offenders; (c) needed changes in the Criminal Code or Criminal Procedure Code to avoid delays and case dismissals; and (d) the lack of guidelines for judges on sentencing and developing expertise in IPR cases (IIPA recommends that the highest specialized court in civil and criminal cases issue guidelines for judges in this regard). Provisions do exist in the Ukrainian Criminal Code (e.g., Article 28) for prosecuting organized groups or criminal organizations, including for IPR offenses, but these provisions have been under-utilized by prosecutors. One lingering enforcement problem (in criminal and civil cases) is the required proof of ownership (including a complete chain of title), and the denial of standing to licensees (especially of foreign record companies) in court.

Enforcement efforts are further hampered by a lack of resources. The Government of Ukraine established a specialized unit for intellectual property rights crimes within the Economic Crime Division in the Ministry of the Interior. This was a positive step, but with only about 100 officers serving in that division for the entire country, there are simply too few officers to conduct effective and systematic actions to deter piracy; IIPA recommends that this number should be increased. In 2009, a Cyber Crime Unit was also created within the Ministry of the Interior; in 2011, it commenced its work on IPR (including copyright) enforcement. IIPA continues to recommend that there should be a team of officers dedicated exclusively to copyright and related rights violations, and these officers should be provided with effective training (including IT skills), equipment, high-speed broadband connections, etc. (with IIPA members willing to help train these officials, as many IIPA members, including BSA, MPAA, RIAA and others have done over the years). Similarly, the current number of state IP inspectors in SDIP (SPIS) empowered to combat various IPR infringements throughout the 25 regions of Ukraine is inadequate and should increase to 25 at a minimum, so that each region has at least one dedicated inspector. In populated cities such as Kiev (2.5 million people), Kharkyv (1.5 million), and Dnypropetrovsk, Odessa and Donetsk (1+ million, each), to be effective, IIPA recommends a team of at least three inspectors as the minimum number available. Unfortunately, contrary to the Action Plan commitment to increase the number of State IP inspectors, their numbers have been significantly reduced. Other agencies – Tax Administration and the Security Service – are, unfortunately, not actively engaged in IPR enforcement. A resolution of the

plenum (judges of the highest court) on proper IPR criminal procedures, as a way of guiding lower courts, would be helpful as well.

Raids, Seizures and Other Enforcement Actions in 2011: According to the Government of Ukraine, in 2011, it seized 700,000 optical discs (down almost 65% from 2010); there were a total of 800 criminal investigations commenced (compared with 960 in 2010), and administrative measures were applied in about 3,000 cases (down from 4,700 in 2010). The administrative actions were mostly undertaken against stores, kiosks and other street piracy. Unfortunately, these actions were not coupled with severe enough penalties to deter these crimes.

The business software industry (BSA) reported in 2011, that there were 303 *ex officio* raids – 62 relating to CD sellers, 203 to end-users, 34 to hard disc loaders and only four to Internet piracy. These raids resulted in 230 criminal cases commencing (a slight increase from 2010); of these, 58 cases were sent to the courts for their consideration (a slight decrease from 2010). As in recent years, almost all requests for assistance by rights holders for raids against suspected targets were denied by law enforcement agencies.

ESA, like other copyright industries, reports continued frustration with the pace at which investigations are undertaken and the rarity with which cases reach trial. Officers often refuse to proceed with investigations or to transfer cases in a timely manner to prosecutors, even when high volume seizures are involved. In some instances, ESA member companies did agree to support cases (as complainant), at the request of prosecutors, only to incur great expenses, and were provided with little or no information about progress of the case. In rare instances in which cases do make it to court, there is a high likelihood that judges will dismiss the case. The hurdles that the copyright industries face in Ukraine are ineffective investigations and prosecutions and non-deterrent sentencing for the few cases that do reach trial. For example, BSA reports that only 15% to 20% of filed criminal cases end up in court and of those, only a very small percentage result in convictions, much less any sentence. Ukrainian tax authorities will exercise enforcement authority, and initiate cases, usually against retail pirates (as administrative actions).

The anti-piracy organization (UAPA) reported that it worked with the police on 73 hard copy cases in 2011, assisting in the seizure of 205,000 optical discs, but, that all of the cases resulted in suspended sentences or probation. As noted, MPAA reported 14 LANs were taken down in 2011.

Optical Disc Piracy and Enforcement: There is currently no evidence of large-scale industrial production of pirated optical discs in Ukraine – at least not of music and film material; but, other forms of optical disc piracy involving CD-R and DVD material, in particular, persist. However, some legal plants producing CDs and DVDs have been able to obtain unauthorized holograms which are then sold, without authorization, in Ukraine.

The June 2000 Joint Action Plan not only detailed plant licensing and inspection requirements, but also the adoption and implementation of criminal and administrative penalties, which could and should be used effectively against all forms of pirated product. A multi-agency order signed into law in November 2009 (with the approval of the Police, Customs, Tax, the Ministry of Culture, the Security Service, the Ministry of Education, as well as representatives of

Microsoft-Ukraine, the BSA, the Music Association and UAPA) to improve IPR protection, has been wholly ineffective.

Regulation and control of the plants that does exist is still not effective, especially for industry sectors not present or unable to provide sufficient resources in Ukraine, and thereby unable to assist the authorities with inspections. There are, at present, eight optical media disc plants (producing CDs, DVDs or both) in operation in Ukraine.

Ineffective Border Enforcement: Customs officials were granted *ex officio* authority to properly conduct enforcement investigations (in amendments to the Customs Code in 2004 and 2006). With this *ex officio* authority (Article 203-1) customs officials can seize illegal material at the border without a court order. Unfortunately, Customs authorities are not sufficiently engaged in enforcement measures and thus are under-utilizing their authority, with the exception of some minor seizures by customs authorities of illegally produced CDs and other pirated materials over the past several years; cooperation with right holders could be improved as well. The State Customs Service of Ukraine (SCSU) is the agency responsible for stopping importations. IIPA recommends an expansion of the specialized intellectual property rights unit within the Customs Service (and that it not rely on a centralized bureaucracy), and that it be provided with sufficient resources to effectively stop illegal material at the border.

Ukrainian law provides for the payment of a levy on blank media (e.g., CD-Rs) to compensate for private copying; the levies are to be paid to UMA, a collecting society of right holders. Unfortunately, the SCSU is not, in practice, stopping imports for non-payment of the levy. Moreover, SCSU has no legal obligation to collect and share data on its collection of imported blank media. Under the Copyright Law, the non-payment of private copying levies does not constitute an infringement of copyright and related rights (although Bill #6523 would correct this problem). But, until the law is amended, there is no viable mechanism for enforcement of the law, and widespread violation thereof, undermining the rule of law.

LEGAL REFORMS

In the “legal reform” section above, IIPA notes its legislative priorities for effective enforcement and full TRIPs compliance (now that Ukraine is a member of the World Trade Organization). A history of the key legal reforms made by Ukraine in the past few years is available on the IIPA website at <http://www.iipa.com/rbc/2010/2010SPEC301UKRAINE.pdf>.

The Copyright Law and related IPR amendments in 2003 included in the Civil Procedure and Commercial Procedure Codes’ *ex parte* search provisions necessary for effective end-user (software) piracy actions. In 2004, the Highest Commercial Court of Ukraine adopted recommendations to implement these procedures. However, practical difficulties remain, most critically, the inability of the authorized enforcement agency (the state executive service) to actually undertake *ex parte* searches in spite of the revised Civil Procedure Code (since the Civil Code does not apply to administrative remedies).

Copyright Law: The Copyright Law of 2001 (as amended) fixed several major deficiencies, but a number of problems remain, especially in the sphere of Internet enforcement, and, the collective management of rights. The accreditation of non-representative collecting

societies remains a major problem for the music industry, because it allows rogue societies to undertake collections on behalf of all music rights holders (including foreign rights holders) when they do not control any “volume of rights” by legitimate negotiated direct agreement with rights holders. The order of the Ministry of Education and Science (Order #1175) which was intended to address this problem is an administrative fix that cannot substitute for the needed Copyright Law amendments on this matter.

One positive note: in June 2010, the Supreme Court – in a resolution – declared that the storage of illegal copies of software in a computer memory could be a copyright infringement. Neither the Copyright Law of Ukraine nor the Criminal Code clearly provide that the use of illegal copies of software is an infringement – this should be corrected (which Bill #6523 would do). According to the current wording of Article 1 of the Copyright law, the installation, duplication and sale of unauthorized software is a violation of the copyright law, but the use or storage of such copies is not.

There are three other important recommended amendments to the Copyright Law (contained in Bill #6523): (1) Article 52 to allow licensees of foreign music companies to be treated equally to local right holders; (2) an amendment making either the non-payment of music rights royalties or of private copying levies, an infringement of copyright and/or related rights; and (3) adding statutory damages and/or a system of enhanced damages in order to adequately compensate right holders and deter further infringement (Article 52 – to double actual damages).

Anti-Camcord Legislation (Copyright Law amendments): The illicit recording of a movie in a theater remains the single most prolific source of movie piracy in Ukraine which is why an amendment is needed. The Copyright Law reform (Bill #6523), currently under consideration by the Verkhovna Rada, includes an anti-camcording amendment that would specifically exclude camcording from the scope of the Copyright Law’s private copy exception. The law, if enacted, would prohibit the reproduction of audiovisual works during their exhibition in theatres and at other premises intended for public consumption. The motion picture industry (MPAA) appreciates the Government of Ukraine’s attention to this matter and urges expedited passage of this important legislation.

Criminal Code and Criminal Procedure Code: The Criminal Code was completely revised in the past several years, including amendments in 2007 (May 31, 2007); but, the threshold for criminal responsibility under Article 176 remains high.

Amendments we recommend include: fixing Article 176 of the Criminal Code to clearly apply to all forms of piracy (i.e., on the Internet), not only (as it clearly does now) to hard-copy piracy. Second, any amendment to the Criminal Code should ensure that repeat copyright infringement (within 12 months) would automatically lead to a criminal, and not solely an administrative, prosecution. Last, relevant criminal sanctions should be included in the code for intentional infringements related to the obligation to pay music rights royalties.

As noted, police practice under the Criminal Procedure Code must also be fixed so that police exercise their authority to act *ex officio* to initiate criminal intellectual property cases. Ukrainian criminal procedures in practice (although not required by the code) currently require right holders to file complaints to initiate actions which acts as a bottleneck to successful

enforcement. Police should initiate intellectual property criminal cases and investigations for submission to the court; it must also be clear that the police (as they sometimes do in software cases) have the authority to hold seized products and equipment for use at trial.

WIPO Digital Treaties: In 2001, Ukraine acceded to the two “digital” treaties – the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonogram Treaty (WPPT), in force in March and May 2002, respectively. The Copyright Law of 2001 included amendments intended to implement these treaties. Unfortunately, the amendments fell short of complete and effective implementation, especially with regard to technological protection measures (requiring proof of “intentional” circumvention, which could prove a major impediment to protection). Ukraine needs to fully implement the treaties with amendments to its copyright law, as well as ensuring that the law is correctly applied. One concern remains: the attempts to reverse one (proper) implementation measure (Resolution No. 71 – January 18, 2003) which ensures the proper enforcement of cable retransmission rights.

Administrative Remedies: As part of the Joint Action Plan in 2000, Ukraine agreed to adopt and implement appropriate administrative remedies to deter piracy (in addition to criminal penalties). While proper administrative remedies now exist, they are not being used effectively to remove the business licenses of infringing retail stores, kiosks, and other smaller scale pirates. Further amendments have been proposed, but never adopted, to increase the maximum fines, which IIPA recommends. Administrative courts should be able to hear infringement cases even in the absence of the infringer – such delays, and the deadlines, lead to many unnecessary case dismissals. One major enforcement hurdle in the Administrative Code of Ukraine (Article 51.2) is the requirement to prove intent of the infringer; intent, while relevant in criminal proceedings, has no relevance in administrative sanctions, and should be deleted from the code (which Bill #6523 would do).

Customs Code: The Customs Code of Ukraine (amended in 2006; effective March 2, 2007) provides clear *ex officio* authority (Article 257) to customs officials. But, for suspected illegal material, a monetary threshold remains. Also, for optical discs, a maximum of 20 discs can be imported or exported for personal use under the Optical Disc Law. The 2004 Customs Code narrowed the applicable sanctions to acts meeting a “commercial purpose” threshold which limited the code’s effectiveness. Amendments in 2006 replaced the “commercial purpose” criteria; the sanctions now apply to “goods destined for manufacturing or other business activity.” The notification and registration requirements, and the fees, were not repealed by the 2006 amendments. While some administrative improvements have been made in recent years, IIPA recommends the abolishment of the registration system altogether because it is an unnecessary maze of regulations which interferes with effective border enforcement.

Market Access: There are three serious market access issues that the motion picture industry is confronting. The first, is the set of rules governing the compulsory manufacturing of film prints and digital encryption keys. Under current law (in effect March 18, 2010) film prints must be produced locally; the rule requires local film print production for the issuance of a state distribution certificate. The rules are so unclear, however, as a result of other, conflicting laws, that movie distributors are uncertain about the rules, and the State Film Agency continues to issue distribution visas irrespective of a print’s place of production. The local production rule

was reiterated by the State Film Agency in March 2011; it is applicable to analog and digital prints.

The second market barrier is the set of rules governing foreign ownership and investment restrictions. Ukrainian laws prohibit the direct ownership or establishment of television stations by foreign companies, and foreign investment is limited to 30% in these enterprises. There are also (apparently) domestic broadcast quotas (no less than 30%) as well and requirements for Ukrainian language usage on television programming.

The third market barrier is the customs valuation rules that customs authorities declared in November 2009. Rather than assessing duties on the underlying carrier medium, the new rules assess valuations based on projected royalties. Since the new rules went into force, several cases have resulted, and their rulings only add to the current uncertainty. There were three cases in 2011 (one in July, two in November) which ruled that royalties should not be used in customs valuations; the Government of Ukraine should fix and clarify the rules.

Generalized System of Preferences: In the first eleven months of 2011, almost US\$44.4 million in imports to the U.S. from Ukraine enjoyed unilateral duty-free treatment under the GSP program. In 2010, over US\$39.1 million in imports received GSP benefits. On December 29, 2011, IIPA filed a petition with the U.S. Government recommending the eligibility of Ukraine as a GSP beneficiary developing country be reviewed, and that Ukraine's GSP benefits be suspended or withdrawn, in whole or in part, if requisite improvements are not made by Ukraine to remedy its IPR deficiencies, because Ukraine currently does not comply with the "adequate and effective protection" obligations of the GSP program.