SECTION-BY-SECTION ANALYSIS OF H.R. 2281 AS PASSED BY THE UNITED STATES HOUSE OF REPRESENTATIVES ON AUGUST 4, 1998

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**COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES**

ONE HUNDRED FIFTH CONGRESS

HENRY J. HYDE, *Chairman*

SEPTEMBER 1998

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON: 1998

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SECTION-BY-SECTION ANALYSIS OF H.R. 2281 AS PASSED BY THE UNITED STATES HOUSE OF REPRESENTATIVES ON AUGUST 4, 1998

SUMMARY

Mr. SPEAKER: The following is a section-by-section discussion and analysis of H.R. 2281, the "Digital Millennium Copyright Act," as passed by the House of Representatives on August 4, 1998, under suspension of the Rules.

I introduced H.R. 2281 on July 29, 1997, along with Representatives Henry Hyde, Chairman of the Committee on the Judiciary, John Conyers, Ranking Democratic Member of the Committee, and Barney Frank, Ranking Democratic Member of the Subcommittee on Courts and Intellectual Property. The bill was referred to the Committee on the Judiciary, and subsequently, to the Subcommittee on Courts and Intellectual Property.

The Subcommittee on Courts and Intellectual Property held two days of hearings on this legislation on September 16 and 17, 1997 (Serial #33). Testimony was received from over 25 witnesses. The Subcommittee conducted a markup of H.R. 2281 on February 26, 1998, and the Committee on the Judiciary ordered to be reported the bill, as amended, on April 1, 1998. The bill was reported on May 22, 1998 (Report #105-551, part I). The Committees on Commerce and Ways and Means each requested a sequential referral on portions of the bill over which they possessed jurisdiction concurrent with that of the Committee on the Judiciary, and both Committees were granted a sequential referral on those portions on May 22, 1998. The Committee on Commerce ordered to be reported the bill, as amended, on July 17, 1998. The bill was reported by the Committee on Commerce on July 22, 1998 (Report #105-551, part II). The Committee on Ways and Means did not conduct a markup or order the bill to be reported pursuant to an agreement memorialized in an exchange of letters between Chairman Archer and Chairman Hyde, to exclude language objectionable to the Committee on Ways and Means contained in the bill as reported by the Committee on the Judiciary, by means of a Manager's Amendment to the bill considered under suspension of the Rules on August 4, 1998. Those letters have been made part of the record.

The Manager's Amendment considered and passed by the House on August 4, 1998, contained provisions agreed upon by the Committees on the Judiciary, Commerce, and Ways and Means, other provisions which have already been considered and passed by the House under suspension of the Rules, and technical, clarifying and other provisions. As Manager and author of the bill and author of the amendment which passed the House, I am placing into the



record today, pursuant to leave granted by unanimous consent on August 4, 1998, a section-by-section analysis of the Manager's Amendment to explain thoroughly the intent of the provisions contained therein.

While some of the provisions of H.R. 2281 as it was passed by the House reflect substantial changes to the bill as I introduced it last year, and as it was reported this spring from the Committee on the Judiciary, others have not been changed at all. These unchanged provisions include the key operative provisions that define prohibited acts of manufacturing, importing, distributing, or otherwise trafficking in circumvention services or tools: section 1201(a) (2) and (3), and section 1201(b), of the new Chapter 12 of Title 17. Thus, as to these provisions, the authoritative legislative history is to be found in the report of the Judiciary Committee, since the sequential Committees did not change any of these provisions as they had already been authoritatively interpreted in the Judiciary Committee report. However, because varying interpretations of these provisions have been offered by some parties, I will take this opportunity to clarify the intent of these provisions which initially appeared in my bill as introduced, and which emerged basically unchanged from the Judiciary Committee consideration of the bill.

Mr. Speaker, this bill protects property rights in the digital world. The digital environment now allows users of electronic media to send and retrieve perfect reproductions easily and nearly instantaneously, to or from locations around the world. With this evolution in technology, the law must adapt in order to make digital networks safe places to disseminate and exploit material in which American citizens have rights in an unregulated and beneficial environment. This is especially important to small businesses and independent creators who will be able to use this new medium to benefit economically from a new international distribution system without many outside costs.

I congratulate the House on this major achievement for our economy and look forward to a productive conference with the other body, and the eventual passage into law of this very important legislation.

MANAGER'S AMENDMENT SECTION-BY-SECTION ANALYSIS

*Section 1*

This section provides a short title for this Act. It may be cited as the "Digital Millennium Copyright Act."

*Section 2*

This section provides a table of contents indicating the titles and sections contained in this Act.

TITLE I--WIPO COPYRIGHT TREATIES IMPLEMENTATION

*Section 101: Short Title*

This section provides that this title may be cited as the "WIPO Copyright Treaties Implementation Act."

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*Section 102: Technical Amendments*

*Summary*

To comply with the obligations of the WIPO Treaties, several technical amendments to the U.S. Copyright Act are necessary. These amendments are needed to ensure that works from countries that join the two new WIPO Treaties, including works in existence on the date each treaty becomes effective for the United States, will be protected in the United States on a formality-free basis, as required by the provisions of each treaty. Three sections of the Copyright Act require amendment: (1) section 104, which specifies the conditions on which works from other countries are protected in the United States; (2) section 104A, which restores protection to certain preexisting works from other countries that have fallen into the public domain in the United States; and (3) section 411(a), which makes copyright registration a precondition to bringing suit for infringement for some works. In addition, the amendments made to these sections require some additions to, and changes in, the definition section of the Copyright Act, section 101.

*Changes to Section 101: Definitions.*

The bill amends section 101 to define "treaty party" as "any country or intergovernmental organization that is a party to an international agreement" and to define "international agreement" to include, *inter alia*, the two new WIPO Treaties. Definitions of the two new WIPO Treaties are also provided. In addition, a definition of "United States work" was added for purposes of amended section 411.

*Changes to Section 104: Subject Matter of Copyright: National Origin.*

Existing section 104 identifies the criteria that must be met for a work to qualify for protection under the U.S. copyright law (i.e., "points of attachment"). Among those protected under section 104 are nationals or domiciliaries of those countries with which we have an appropriate Treaty relationship. Section 104, as it is presently written, explicitly identifies those Treaty relationships, but does not refer to the two new WIPO Treaties. Therefore, section 104 needs to be amended to provide for points of attachment for the two new WIPO Treaties.

This bill amends section 104 so that all countries that have copyright relations with the United States would be referred to collectively by the term "treaty parties." This change, in conjunction with the amendments to section 101, which define "treaty party" and "international agreement," serves to ensure that the two new WIPO Treaties are covered by section 104. The bill also amends section 104 to extend protection to foreign works from any treaty party based on four points of attachment: nationality of the author, place of first publication of the work, place of fixation of the sounds embodied in a sound recording, and the situs of a constructed architectural work.

The way section 104 is presently written requires that it be amended each time U.S. treaty membership changes. By defining "treaty party" in section 101 and amending section 104 to refer to

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"treaty party," future changes in the treaties to which the U.S. is a party would not require changes to section 104. It is much clearer and less unwieldy to have a single set of criteria for eligibility in section 104 as proposed by this bill, rather than multiple, overlapping criteria in a long list of complex definitions in section 101. If we join any future

treaties, they can simply be added to the list of "international agreements" without any detailed amendments repeating the criteria for eligibility. The amendment to section 104 also makes clear that membership in the Geneva Phonograms Convention and the WIPO Performances and Phonograms Treaty provides national eligibility for sound recordings only, not other types of works.

*Changes to Section 104A: Copyright in Restored Works.*

The bill amends subsection (h) of section 104A by adding the two new WIPO Treaties to the definitions of "date of adherence or proclamation" and "eligible country." It would also add a paragraph to the definition of "restored work" to ensure that copyrighted works other than sound recordings do not qualify as restored works where the sole basis for protection in the United States is adherence to the WIPO Performances and Phonograms Treaty.

*Changes to Section 411(a): Registration and Infringement Actions.*

In its current form, section 411(a) requires works to be registered with the Copyright Office before suit can be brought for their infringement, but exempts Berne Convention works whose country of origin is not the United States. The section must be amended to exempt works from members of the two new WIPO Treaties.

Amendments to section 411(a) reframe the registration requirement in the affirmative--essentially the converse of the current section. In other words, the provision would state affirmatively that "United States works" must be registered before suit, with "United States works" defined as the converse of the current definition of works whose country of origin is not the United States. Similar to the changes in section 104, this section could be easily updated each time the United States joins another treaty, without the need to change several interrelated provisions of the Act.

*Change to Section 507(a)*

Currently, section 507(a) provides for a three-year statute of limitations period for all criminal copyright actions. Section 507(a) is amended to recognize exceptions to the three-year limitations period if expressly provided elsewhere in Title 17. New chapter 12 of Title 17 provides for a five-year criminal limitation period.

*Section 103: Copyright Protection and Management Systems.*

*Summary*

The two new WIPO Treaties include substantively identical provisions on technological measures of protection (also commonly referred to as the "black box" or "anticircumvention" provisions). These provisions require contracting parties to provide "adequate legal protection and effective legal remedies against the circumven-



tion of effective technological measures that are used by authors in connection with the exercise of their rights under this Treaty or the Berne Convention and that restrict acts, in respect of their works, which are not authorized by the authors concerned or permitted by law."

Both of the new WIPO treaties also include substantively identical provisions on rights management information. These provisions require contracting parties to protect the integrity of rights management information. The treaties define rights management information as "information which identifies the work, the author of the work, the owner of any right in the work, or information about the terms and conditions of use of the work, and any numbers or codes that represent such information, when any of these items of information is attached to a copy of a work or appears in connection with the communication of a work to the public."

Legislation is required to comply with both of these provisions. To accomplish this, this section adds a new chapter (chapter twelve) to Title 17 of the United States Code. This new chapter twelve includes four new sections to the Copyright Act--(1) section 1201, which prohibits the circumvention of technological copyright protection measures; (2) section 1202, which protects the integrity of copyright management information; (3) section 1203, which provides for civil remedies for violations of sections 1201 and 1202; and (4) section 1204, which provides for criminal penalties for violations of sections 1201 and 1202.

Subsection (a) of Section 103 thus amends title 17 to establish this new Chapter 12 to the Copyright Act to protect against certain acts of circumvention of technological measures employed by copyright owners to defend against unauthorized access to or copying of their works.

*Section 1201: Circumvention of Copyright Protection Systems.*

*Subsection (a) of new Section 1201* applies when a person who is not authorized to have access to a work seeks to gain access by circumventing a technological measure put in place by the copyright owner that effectively controls access to the work. The relevant terminology is defined in paragraph (3), as described below.

*Paragraph (1).* The act of circumventing a technological protection measure put in place by a copyright owner to control access to a copyrighted work is the electronic equivalent of breaking into a locked room in order to obtain a copy of a book. Subparagraph (A) establishes a general prohibition against gaining unauthorized access to a work by circumventing a technological measure put in place by the copyright owner where such measure effectively controls access to a work protected under Title 17 of the U.S. Code. This prohibition will not take effect until 2 years from the date of enactment of this chapter of the Copyright Act.

Subparagraph (B) provides that the prohibition against circumvention contained in subparagraph (A) will not apply to persons who have been authorized to gain initial access to a work, or to nonprofit libraries, archives, educational institutions, or other nonprofit entities, with regard to a work contained within a class of works as to which such person or entity is determined to have been adversely affected by the prohibition in their ability to make



noninfringing uses. This determination is to be made by means of a rulemaking proceeding described in subparagraph (C).

Subparagraph (C) establishes a rulemaking to be conducted in the two-year period after the enactment of this new chapter (before the prohibition contained in subparagraph (A) goes into effect), and subsequent to that, every three years, by the Secretary of Commerce, in conjunction with the Under Secretary of Commerce for Intellectual Property Policy, the Register of Copyrights and the Assistant Secretary of Commerce for Communications and Information. The rulemaking will determine, based on specific evidence, whether and to what extent the exemptions in subparagraph (B) to the prohibition contained in subparagraph (A) will take effect.

The main purpose of delaying for two years (under subparagraph (A)) the effective date of the prohibition against circumvention of access control technologies is to allow the development of a record as to how the implementation of these technologies is affecting availability of works in the market place for non-infringing uses. It is anticipated that the main focus of the rulemaking proceeding will be on whether a substantial diminution of that availability is *actually occurring* in the market for particular classes of copyrighted works. However, it should be recognized that market developments may well proceed on a different pace than the triennial schedule for rulemaking proceedings established in this subsection. Accordingly, the rule-making may also, to the extent required, assess whether an adverse impact is *likely to occur* over the time period relevant to each rule-making proceeding. However, the determination should be based upon anticipated, rather than actual, adverse impacts only in extraordinary circumstances in which the evidence of likelihood of future adverse impact during that time period is highly specific, strong and persuasive. Otherwise, the prohibition would be unduly undermined.

The focus of the rulemaking proceeding must remain on whether the prohibition on circumvention of technological protection measures (such as encryption or scrambling) has caused any substantial adverse impact on the ability of users to make non-infringing uses. Adverse impacts that flow from other sources--including marketplace trends, other technological developments, or changes in the roles of libraries, distributors or other intermediaries--or that are not clearly attributable to such a prohibition, are outside the scope of the rulemaking. So are mere inconveniences, or individual cases, that do not rise to the level of a substantial adverse impact.

In assessing the impact of the implementation of technological measures, and of the law against their circumvention, the rulemaking proceedings should consider the positive as well as the adverse effects of these technologies on the availability of copyrighted materials. The technological measures--such as encryption, scrambling and electronic envelopes--that this bill protects can be deployed, not only to prevent piracy and other economically harmful unauthorized uses of copyrighted materials, but also to support new ways of disseminating copyrighted materials to users, and to safeguard the availability of legitimate uses of those materials by individuals. These technological measures may make more works more widely available, and the process of obtaining permissions easier.

For example, an access control technology under section 1201(a) would not necessarily prevent access to a work altogether, but could be designed to allow access during a limited time period, such as during a period of library borrowing. Technological measures are also essential to a distribution strategy that allows a consumer to purchase a copy of a single article from an electronic database, rather than having to pay more for a subscription to a journal containing many articles the consumer does not want.

Use-facilitating technological protection measures such as these would simultaneously protect the legitimate interests of copyright owners while enabling the kinds of uses by individuals that have been so important in the past in promoting the access of all Americans to the bounty of creative works available from our writers, artists, musicians, composers, film makers, and software developers. The Secretary should give appropriate weight to the deployment of such technologies in evaluating whether, on balance, the prohibition against circumvention of technological measures has caused an adverse impact on the specified categories of users of any particular class of copyrighted materials.

Similarly, in assessing the impact of the prohibition on the ability to make noninfringing uses, the Secretary should take into consideration the availability of works in the particular class in other formats that are not subject to technological protections.

Deciding the scope or boundaries of a "particular class" of copyrighted works as to which the prohibition contained in section 1201(a)(1) has been shown to have had an adverse impact is an important issue to be determined during the rulemaking proceedings. The illustrative list of categories appearing in section 102 of Title 17 is only a starting point for this decision. For example, the category of "literary works" *(17 USC 102*(a)(1)) embraces both prose creations such as journals, periodicals or books, and computer programs of all kinds. It is exceedingly unlikely that the impact of the prohibition on circumvention of access control technologies will be the same for scientific journals as it is for computer operating systems; thus, these two categories of works, while both "literary works," do not constitute a single "particular class" for purposes of this legislation. Even within the category of computer programs, the availability for fair use purposes of PC-based business productivity applications is unlikely to be affected by laws against circumvention of technological protection measures in the same way as the availability for those purposes of videogames distributed in formats playable only on dedicated platforms, so it is probably appropriate to recognize different "classes" here as well.

At the same time, the Secretary should not draw the boundaries of "particular classes" too narrowly. For instance, the section 102 category "motion pictures and other audiovisual works" may appropriately be subdivided, for purposes of the rulemaking, into classes such as "motion pictures," "television programs," and other rubrics of similar breadth. However, it would be inappropriate, for example, to subdivide overly narrowly into particular genres of motion pictures, such as Westerns, comedies, or live action dramas. Singling out specific types of works by creating in the rulemaking process "particular classes" that are too narrow would be inconsistent with the intent of this bill.

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Of course, the Secretary is not required to make a determination under the statute with respect to any class of copyrighted works. In any particular 3-year period, it may be determined that the conditions for the exemption do not exist. Such an outcome would reflect that the digital information marketplace is developing in the manner which is most likely to occur, with the availability of copyrighted materials for lawful uses being enhanced, not diminished, by the implementation of technological measures and the establishment of carefully targeted legal prohibitions against acts of circumvention.

A determination that the exceptions in Section 1201(a)(1) are in effect for a particular class of works means that enforcement against someone who circumvents a technological measure that effectively controls access to a work falling in that class may not be undertaken during the period (not to exceed three years) covered by the determination. The determination does not change the illegality of (or the ability to enforce against) any other act of circumvention of an access control technology. For instance, if the same scrambling technology is used to protect two different classes of copyrighted works, and the Secretary makes a determination that the exceptions apply as to the first class, someone who circumvents that technology to gain unauthorized access to a work in the second class would violate the prohibition and would be subject to enforcement action.

Subparagraph (D) provides for publication by the Secretary of a list of any class of works the Secretary has determined, pursuant to subparagraph (C), to be or likely to be adversely affected. Pursuant to subparagraph (B), the prohibition contained in subparagraph (A) shall not apply to the entities described in subparagraph (B) with respect to the particular class(es) of works published, for the following three-year period. During the next rulemaking proceeding,

if it is determined that there is no longer an adverse impact on noninfringing use, the prohibition will apply and the exemption will cease to exist.

Subparagraph (E) provides that the exception contained in subparagraph (B) from the application of the prohibition contained in subparagraph (A) may not be used as a defense in any suit brought to enforce any provision of this title other than those contained in paragraph (1). For example, it would not provide a defense to a claim based on the manufacture or sale of devices under paragraph (2) or section 1201(b), or to a copyright infringement claim.

*Paragraph (2).* In order to provide meaningful protection and enforcement of the copyright owner's right to control access to his or her copyrighted work, this paragraph supplements the prohibition against the act of circumvention in paragraph (1) with prohibitions on creating and making available certain technologies, products and services used, developed or advertised to defeat technological protections against unauthorized access to a work. Similar laws have been enacted in related contexts. *See, e.g.*, *17 U.S.C. § 1002*(a) (prohibiting the import, manufacture, or distribution of digital audio recording equipment lacking specified characteristics and prohibiting the import, manufacture, or distribution of any device, or the offer to perform any service, the primary purpose or effect of which is to circumvent the serial copy management system re-

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quired for digital audio equipment); *47 U.S.C. § 553*(a)(2) (prohibiting the manufacture or distribution of equipment intended for the unauthorized reception of cable television service); *47 U.S.C. § 605*(e)(4) (prohibiting the manufacture, assembly, import, and sale of equipment used in the unauthorized decryption of satellite cable programming.)

Specifically, paragraph (2) prohibits manufacturing, importing, offering to the public, providing, or otherwise trafficking in certain technologies, products, services, devices, components, or parts that can be used to circumvent a technological protection measure that otherwise effectively controls access to a work protected under Title 17. It is drafted carefully to target "black boxes," and to ensure that legitimate multipurpose devices can continue to be made and sold. For a technology, product, service, device, component, or part thereof to be prohibited under this subsection, one of three conditions must be met. It must:

(1) be primarily designed or produced for the purpose of circumventing;

(2) have only a limited commercially significant purpose or use other than to circumvent; or

(3) be marketed by the person who manufactures it, imports it, offers it to the public, provides it or otherwise traffics in it, or by another person acting in concert with that person, for use in circumventing a technological protection measure that effectively controls access to a work protected under Title 17.

This provision is designed to protect copyright owners, and simultaneously allow the development of technology.

This three-part test, established for determining when the manufacture, distribution or other provision of a product or service constitutes a violation, is the core of the anti-circumvention provisions of this legislation. This test (also spelled out in 1201(b)(1)), as explicated by the Judiciary Committee report, stands on its own. While this legislation is aimed primarily at "black boxes" that have virtually no legitimate uses, trafficking in any product or service that meets one or more of the three points in this test could lead to liability. It is not required to prove that the device in question was "expressly intended to facilitate circumvention." At the same time, the manufacturers of legitimate consumer products such as personal computers, VCR's, and the like have nothing to fear from this legislation because those legitimate devices do not meet the three-part test. The *Sony* test of "capab[ility] of substantial non-infringing uses," while still operative in cases claiming contributory infringement of copyright, is not part of this legislation, however. *Sony Corporation of America v. Universal City Studios, Inc., 464 U.S. 417, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984).* The relevant test, spelled out in the plain and unchanged language of the bill, is whether or not a product or service "has only limited commercially significant purpose or use other than to circumvent."

*Paragraph (3)* defines certain terms used throughout subsection (a):

(1) "circumvent a technological measure"--for purposes of subsection (a) only, which covers technological protections against unauthorized access to a work, this term means "to descramble a scrambled work, to decrypt an encrypted work, or

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otherwise to avoid, bypass, remove, deactivate, or impair a technological protection measure, without the authority of the copyright owner."

(2) "effectively controls access to a work"--a technological measure "effectively controls access to a work" if the measure, in the ordinary course of its operation, requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work.

The report issued by the Committee on Commerce, to which certain provisions of this legislation were referred sequentially, and the statements of some individual members, could be read to provide a more narrow definition of the "effective technological measures" this legislation is intended to protect against circumvention. These statements may reflect a misapprehension of the approach that this legislation has consistently taken ever since it was introduced.

Throughout the legislative process, the phrase "technological measure" (or, in earlier versions of the legislation, "technological protection measure")n1 has been treated in H.R. 2281 in terms of the function such a measure would perform, rather than the specific technology to be used or the means for developing it. The Committee on the Judiciary took this approach in crafting this legislation in recognition that technology evolves so rapidly that it would be impractical to freeze in time the applicability of these provisions by limiting them to specifically named technologies.

The bill does define the *functions* of the technological measures that are covered--that is, what it means for a technological measure to "effectively control access to a work" (section 1201 (a)(3)(B)) and to "effectively protect a right of a copyright owner under this title" [i.e., Title 17, United States Code] (section 1201(b)(2)(B)). The practical, common-sense approach taken by H.R. 2281 is that if, in the ordinary course of its operation, a technology actually works in the defined ways to control access to a work, or to control copying, distribution, public performance, or the exercise of other exclusive rights in a work, then the "effectiveness" test is met, and the prohibitions of the statute are applicable. This test, which focuses on the function performed by the technology, provides a sufficient basis for clear interpretation. It applies equally to technologies used to protect access to works whether in analog or digital formats.

This approach also follows that taken by the parallel provisions of the Communications Act. Section 553(a) of Title 47, for example, prohibits both the act of cable signal theft, and the manufacturing or distribution of "equipment intended... for unauthorized reception of any communications service offered over a cable system." In enacting this provision, Congress did not seek to define the particular technologies used by cable systems to prevent theft of service, nor the particular means of circumvention that were prohibited. Rather, the prohibition extends to any unauthorized act of "intercepting" cable signals, as well as to any equipment whose intended function is to circumvent any protective mechanism.

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The Committee on the Judiciary, which possesses primary jurisdiction over this legislation, considered the argument that the lack of a definition of "technological measure" leaves manufacturers in the dark as to the range of protective technologies to which their products must respond. The Committee concluded that any such concern is unfounded. No legitimate manufacturer of consumer electronics devices or computer equipment could reasonably claim to be left in doubt about the course of action to be avoided, simply because the phrase "technological measure" is not itself defined in the bill. The only obligation imposed on manufacturers by this legislation is a purely negative one: to refrain from affirmatively designing a product or a component *primarily* for the purpose of circumventing a protective technology that effectively controls unauthorized access to or uses of a copyrighted work.

Any effort to read into this bill what is not there--a statutory definition of "technological measure"--or to define in terms of particular technologies what constitutes an "effective" measure, could inadvertently deprive legal protection to some of the copy or access control technologies that are or will be in widespread use for the protection of both digital and analog formats. Perhaps more importantly, this approach runs a substantial risk of discouraging innovation in the development of protective technologies. For instance, today the standard form of encryption of digital materials involves scrambling its contents so that they are unintelligible unless processed with a key supplied by the copyright owner or its agent. However, in a field that changes and advances as rapidly as encryption research, it would be short-sighted to write this definition into a statute as the exclusive technological means protected by this bill.

If only those measures that are in use or on the "drawing board" today are effectively protected against circumvention, the innovative new methods that are certain to be developed as a result of this legislation may fall

outside the scope of any definition Congress can write today. It would then not be a violation to circumvent these new methods of protection, or even to go into the business of making devices or providing services for the purpose of circumventing them, even though the new methods are effective, in the ordinary course of their operation, in controlling access to or the exercise of exclusive rights with respect to a work, and even if they accomplish these goals more efficiently and effectively than the measures that are in place or under development today. As a result, property owners would not be protected and there would be no market for such measures to protect copyright. The flexible and pragmatic approach of this legislation avoids this scenario by making it clear that if a technology works to control access or the exercise of exclusive rights--in other words, if it meets the definitions of effectiveness contained in subsections 1201(a)(3)(B) or 1201(b)(2)(B)--no matter how it does so, the prohibitions of the statute are applicable.

Similarly, the statements in the Commerce Committee report that attempt to read out of the ambit of "effective" technological measures those technologies that affect the appearance of the display or performance of the works protected find no support in either the text of the bill or in the authoritative legislative history

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of these provisions prepared by the Judiciary Committee. The definitions contained in sections 1201(a)(3)(B) and 1201(b)(2)(B) require no further embellishment. The statements contained in the Commerce Committee report are problematic because they could be read to suggest that electronic equipment manufacturers should feel free to circumvent technological protections if they believe their equipment would function better without them in displaying or performing works.

For example, some forms of digital "watermarking" superimpose a faint image on a copyrighted work to protect it from unauthorized copying. If there were a "playability" exception to the anti- circumvention provisions of this bill, as these statements incorrectly imply, then devices or services specifically designed for the purpose of removing such "watermarks" could be immunized under the pretext that they improve image resolution. Such a result would undermine the purpose of this legislation.

While the best approach is for copyright owners and equipment manufacturers to cooperate in the development of measures that can maximize protection while minimizing impact, it is not the intent of this legislation that manufacturers should have the authority to determine unilaterally which protective technologies copyright owners may employ. More importantly, there is nothing in the bill, nor in the authoritative legislative history, which supports the assertion that circumvention of an otherwise effective technological measure is acceptable if done in the name of "playability." Since the text of the legislation relating to this has not been amended to establish this principle, any effort to read such a principle into the words the sponsors wrote, and that both the Judiciary Committee and the Commerce Committee approved, should be dismissed.

*Subsection (b)* applies when a person has obtained authorized access to a copy or a phonorecord of a work, but the copyright owner has put in place technological measures that effectively protect his or her rights under Title 17 to control or limit the nature of the use of the copyrighted work.

*Paragraph (1).* Paralleling subsection (a)(2), above, paragraph (1) seeks to provide meaningful protection and enforcement of copyright owners' use of technological measures to protect their rights under Title 17 by prohibiting the act of making or selling the technological means to overcome these protections and facilitate copyright infringement. Paragraph (1) prohibits manufacturing, importing, offering to the public, providing, or otherwise trafficking in certain technologies, products, services, devices, components, or parts thereof that can be used to circumvent a technological measure that effectively protects a right of a copyright owner under Title 17 in a work or portion thereof. Again, for a technology, product, service, device, component, or part thereof to be prohibited under this subsection, one of three conditions must be met. It must:

(1) be primarily designed or produced for the purpose of circumventing;

(2) have only limited commercially significant purpose or use other than to circumvent; or

(3) be marketed by the person who manufactures it, imports it, offers it to the public, provides it, or otherwise traffics in it,

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or by another person acting in concert with that person, for use in circumventing a technological protection measure that effectively

protects the right of a copyright owner under Title 17 in a work or a portion thereof.

Like subsection (a)(2), this provision is designed to protect copyright owners, and simultaneously allow the development of technology.

*Paragraph (2)* defines certain terms used in subsection (b):

(1) "circumvent protection afforded by a technological measure" is defined as "avoiding, bypassing, removing, deactivating, or otherwise impairing a technological measure."

(2) "effectively protects a right of a copyright owner under Title 17"--a technological measure effectively protects a right of a copyright owner under Title 17 "if the measure, in the ordinary course of its operation, prevents, restricts, or otherwise limits the exercise of a right under Title 17 of a copyright owner."

The legislative history described under subsection (a)(3), above, pertains to subsection (b) as well. As stated earlier, the practical, common-sense approach taken by H.R. 2281 is that if, in the ordinary course of its operation, a technology works to control copying, distribution, public performance, or the exercise of other exclusive rights in a work, then the "effectiveness" test is met, and the prohibitions of the statute are applicable. This test, which focuses on the function performed by the technology, provides a sufficient basis for clear interpretation. It applies equally to technologies used to protect works whether in analog or digital formats. Further, there is nothing in the bill, nor in the authoritative legislative history, which supports the assertion that circumvention of an otherwise effective technological measure is acceptable if done in the name of "playability."

*Subsection (c)* provides that section 1201 shall not have any effect on rights, remedies, limitations, or defenses to copyright infringement, including fair use, under Title 17. Paragraph (2) provides that section 1201 shall not alter the existing doctrines of contributory or vicarious liability for copyright infringement in connection with any technology, product, service, device, component or part thereof. Together, these provisions are intended to ensure that none of the provisions in section 1201 affect the existing legal regime established in the Copyright Act and case law interpreting that statute.

Paragraph (3) clarifies that nothing in section 1201 creates a mandate requiring manufacturers of consumer electronics, telecommunications, and computing products to design their products or their parts and components to respond to any particular technological measure employed to protect a copyrighted work. While the failure of a product to respond to a particular technological measure does not in and of itself create liability, neither does it immunize those trafficking in the product from liability under section 1201(a)(2) or (b), if the tests of liability in those provisions are otherwise met.

*Subsection (d)* allows a nonprofit library, nonprofit archives or nonprofit educational institution to obtain access to a copyrighted work for the sole purpose of making a good faith determination as



to whether it wishes to acquire a copy, or portion of a copy, of that work in order to engage in conduct permitted under the Copyright Act, such as a fair use under section 107. A qualifying institution may not gain access for a period of time longer than necessary to determine whether it wishes to obtain a copy, or portion of a copy, for such purposes and the right to gain access shall not apply for any other purpose.

The right to obtain access under this paragraph only applies when the nonprofit library, nonprofit archives, or nonprofit educational institution cannot obtain a copy of an identical work by other means, and such an entity may not use the exemption in this paragraph for commercial advantage or financial gain without exposing itself to penalties for violation of section 1201.

This paragraph can not be used as a defense to the prohibitions on manufacturing or selling devices contained in subsection (a)(2) or subsection (b).

*Subsection (e)* makes clear that the prohibitions in section 1201 do not prohibit any lawfully authorized investigative, protective, or intelligence activity by or at the direction of a federal, state, or local law enforcement agency, or of an intelligence agency of the United States.

*Subsection (f)* is intended to allow legitimate software developers to continue engaging in certain activities for the purpose of achieving interoperability to the extent permitted by law prior to the enactment of this chapter. The objective is to ensure that the effect of current case law interpreting the Copyright Act is not changed by enactment of this legislation for certain acts of identification and analysis done in respect of computer programs. *See, Sega Enterprises Ltd. v. Accolade, Inc., 977 F.2d 1510, 24 U.S.P.Q.2d 1561 (9th Cir. 1992).* The purpose of this subsection is to avoid hindering competition and innovation in the computer and software industry.

Paragraph (1) permits the circumvention of access control technologies for the sole purpose of achieving software interoperability. For example, this subsection permits a software developer to circumvent an access control technology applied to a portion or portions of a program in order to perform the necessary steps to identify and analyze the information needed to achieve interoperability. Subsection (f)(1) permits the act of circumvention in only certain instances. First, the copy of the computer program which is the subject of the analysis must be lawfully acquired. That is, the computer program must be acquired from a legitimate source, along with any necessary serial codes, passwords, or other such means as may be necessary to be able to use the program as it was designed to be used by a consumer of the product. The permitted acts are limited in application to those elements of the program which must be analyzed to achieve the sole permitted purpose, which is interoperability of an independently created program with other programs. Interoperability is defined in paragraph (4) as the ability of computer programs to exchange information, and for such programs mutually to use the information which has been exchanged. The resulting product must be a new and original work, not infringing the original computer program. In addition, the objective of the analysis must be to identify and extract such elements as are necessary to achieve interoperability and which are not otherwise



available to the person. Finally, the goal of this section is to ensure that current law is not changed, and not to encourage or permit infringement. Thus, each of the acts undertaken must fall within the scope of fair use on otherwise avoid infringing the copyright of the author of the underlying computer program.

Paragraph (2) recognizes that to accomplish the acts permitted under paragraph (1) a person may, in some instances, have to make and use certain tools. In most instances these will be generally available tools that programmers use in developing computer programs, such as compilers, trace analyzers and dissassemblers, which do not fall within the prohibition of this section. In certain instances, it is possible that a person may have to develop special tools to achieve the permitted purpose of interoperability. Thus, this provision creates an exception to the prohibition on making circumvention tools contained in sections 1201(a) (2) and (b). These tools can be either software or hardware. Again, this provision is limited by a general ban on acting in a way that constitutes infringing activity.

Paragraph (3) recognizes that developing complex computer programs often involves the efforts of many persons. For example, someone may be hired to develop a specific portion of the final product. For that person to perform this task, some of the information acquired through the permitted analysis, and the tools to accomplish it, may have to be made available to that person. This subsection allows developers of independently created software to rely on third parties either to develop the necessary circumvention tools or to identify the necessary information to achieve interoperability. The ability to rely on third parties is particularly important for small software developers who do not have the capability of performing these functions in-house. This provision permits such sharing of information and tools. Recognizing, however, that making circumvention information or tools generally available would undermine the objectives of this Act, the provision imposes strict limitations. Sharing information and tools is permitted solely for the purpose of achieving interoperability of an independently created computer program with other programs. If a person makes this information available for another purpose, he is not covered by this exemption. In addition, the acts are permitted only to the extent that they do not constitute infringement under this title, or violate applicable law other than this title.

Paragraph (4) defines "interoperability" as the ability of computer programs to exchange information, and for such programs mutually to use the information which has been exchanged. The seamless exchange of information is a key element of creating an interoperable independently created program. This provision applies to computer programs as such, regardless of their medium of fixation and not to works generally, such as music or audiovisual works, which may be fixed and distributed in digital form. Accordingly, since the goal of interoperability is the touchstone of the exceptions contained in paragraphs (1)-(3), nothing in those paragraphs can be read to authorize the circumvention of any technological protection measure that controls access to any work other than a computer program, or the trafficking in products or services for that purpose.

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*Subsection (g)* is intended to facilitate the purpose of this bill, namely, to improve the ability of copyright owners to prevent the theft of their works, including by applying technological measures. The effectiveness of such measures depends in large part on the rapid and dynamic development of better technologies, including encryption-based technological measures. The development of encryption science requires ongoing research and testing by scientists of existing encryption methods in order to build on those advances, thus promoting encryption technology generally.

The goals of section 1201 would be poorly served if these provisions had the undesirable consequence of chilling legitimate research activities in the area of encryption. Subsection (g) ensures that the prohibitions contained in this bill do not have such an unintended negative effect. This subsection provides that generally available encryption testing tools meeting certain specifications will not be made illegal by this Act. If each of these tools has a legitimate and substantial commercial purpose--testing security and effectiveness--it is therefore explicitly excluded from the prohibition in section 1201.

In addition to the exemption contained in this subsection, the testing of specific encryption algorithms would not fall within the scope of 1201, since mathematical formulas as such are not protected by copyright. Thus, testing of an encryption algorithm or program that has multiple uses, including use as a technological measure to protect copyrighted works, would not be prohibited when the encryption is in a form not implemented as a technological measure. Similarly, the testing of encryption technologies developed by the government of the United States would not violate section 1201, since copyright does not subsist in such subject matter. Also, encryption research will often be undertaken with the consent or at the direction of the copyright owner and therefore will not give rise to any action under section 1201.

For example, a cryptographer may use various cryptoanalytic research techniques to discover a flaw in the U.S. government's Escrowed Encryption Standard (EES) used in the Clipper Chip and Fortezza cards. The flaw allows users to circumvent essential features of the algorithm. Since these encryption products are not covered by copyright, because they are merely mathematical algorithms in addition to being owned by the U.S. government, the cryptographer's acts do not violate 1201.

Another example would be a company, in the course of developing a new cryptographic product, sponsoring a crypto-cracking contest with cash prizes. Contestants would not violate section 1201, since the research acts are specifically authorized.

Significantly, section 1201 does not make illegal cryptographic devices that have substantial legitimate purposes other than to circumvent technological protection measures as applied to a work. For example, many popular word processing and other computer programs include a security feature allowing users to password-protect documents (employing a low-grade form of encryption.) It is not uncommon for users of such products to forget or lose their passwords for such documents, making their own protected works unrecoverable. As a result, many independent programmers have created utilities designed to assist in the recovery of passwords or

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password-protected works. Several of these utilities are distributed over the Internet as freeware or shareware. Because these utilities have a substantial legitimate use, and because they would be used by persons to gain access to their own works, these devices do not violate section 1201.

H.R. 2281 would also not prohibit certain kinds of commercial "key-cracker" products, e.g., a computer program optimized to crack certain 40-bit encryption keys. Such machines are often rented to commercial customers for the purpose of quick data recovery of encrypted data. So long as these devices have a substantial legitimate use, and do not become used principally to facilitate infringement, they would not be prohibited by section 1201.

Today, network and web site management and security tools increasingly contain components that automatically test a system's security and identify common vulnerabilities. These programs are valuable tools for systems administrators and web site operators, to use in the course of their regular testing of their systems' security. Again, because these devices are good products put to a good use, they do not fall within the scope of this statute.

In sum, the prohibition on "devices" as written does not encompass many forms of useful encryption products. Subsection (g) is specifically structured to go further, and allow the development and use of certain additional encryption products used for research purposes.

Under the exemption, it would not be prohibited conduct for a person to circumvent a technical measure effectively controlling access to a copyrighted work in the course of engaging in *good faith* encryption research if the following conditions apply: that person has lawfully obtained the encrypted copy of the copyrighted work; circumvention is necessary to conduct good faith encryption research; the person first made a good faith effort to obtain authorization from the copyright owner before circumventing; and the act of circumvention does not constitute copyright infringement or a violation of other applicable law, such as *18 USC 1030* or the provisions of the Computer Fraud and Abuse Act of 1986.

Paragraph (3) lists the factors to be used in determining whether a person qualifies for the exemption contained in this subsection. Specifically, in any suit for violation of section 1201 where this subsection is used as an affirmative defense, a court should consider whether the information derived from the encryption research was disseminated by the defendant to others, and if so, whether it was done in a manner reasonably calculated to advance the state of knowledge or development of encryption technology, instead of to facilitate infringement or to otherwise violate the law, such as laws protecting privacy rights or security. A court should also consider whether the defendant is engaged in a legitimate course of study, is employed, or is appropriately trained and experienced, in the field of encryption technology, and whether the defendant provides the copyright owner of the work in question with notice of the findings and documentation of the research conducted in good faith.

Paragraph (4) allows a person to develop the means to conduct the encryption research allowed in this subsection notwithstanding the prohibition on devices contained in subsection (a)(2). Specifically, a person may develop and employ technological means to cir-



cumvent a technological measure as described in paragraph (2), and provide the technological means to another person with whom he or she is working collaboratively, only for the purpose of conducting research in accordance with paragraph (2), or for the limited purpose of having that other person verify the research conducted in accordance with paragraph (2).

Paragraph (5) requires the Under Secretary of Commerce for Intellectual Property Policy, the Register of Copyrights and the Assistant Secretary of Commerce for Communications and Information to jointly report to Congress and to suggest any changes in legislation no later than one year after the effective date of section 1201, regarding the effect this subsection has had on encryption research and the development of encryption technology, the adequacy and effectiveness of technological measures designed to protect copyrighted works pursuant to the protections offered under section 1201, and the protection of copyright owners against unauthorized access to their copyrighted works.

*Subsection (h).* This provision contains two exceptions regarding minors. To alleviate concern that section 1201(a) might inadvertently make it unlawful for parents to protect their children from pornography and other harmful material available on the Internet, or have unintended legal consequences for manufacturers of products designed solely to enable parents to protect their children in this fashion, and to alleviate concern that section 1201(a) might inadvertently make it unlawful for parents to view a copy of a test, examination or other evaluation of their child, subsection (h) allows circumvention under very specific and limited circumstances.

Paragraph (1) allows a court, in applying the prohibition contained in subsection (a) to a component or part of a technology, product, service or device which is subject to a case or controversy before it, to consider the necessity for the intended and actual incorporation of the component or part in the technology, product, service or device, if the technology, product, service or device does not itself violate the provisions of this title and has as its sole purpose the prevention of access of minors to material on the Internet. This paragraph is intended to allow the continued manufacturing and development of specific technology to aid parents in preventing access by their children to objectionable material in the digital environment.

Paragraph (2) allows a parent of a minor child (an elementary or secondary school student) to circumvent a technological measure effectively controlling access to a copyrighted test, examination, or other evaluation of that minor child, if the parent has first made a good faith effort to obtain authorization from the copyright owner to view the test, examination, or other evaluation and if, as a result of the copyright owner's refusal, circumvention is necessary for purposes of obtaining a copy of such test, examination or other evaluation.

*Subsection (i)* deals with personal privacy concerns. It allows the circumvention of a technological measure effectively controlling access to a copyrighted work for the limited purpose of identifying and disabling any capability

of the measure or work to collect or disseminate personally identifying information reflecting the online activities of the user, only if the user is not provided with notice

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and the capability to prevent or restrict such collection or dissemination, and only if the circumvention conducted to identify and disable the ability of the measure to collect or disseminate has no other effect on the ability of any person to gain access to any work.

It is possible that certain encryption or other technologies used to protect copyrighted works under section 1201 may collect or disseminate personally identifying information about the online activities of a user. To maintain privacy in the digital environment, subsection (i) was established to allow the circumvention of such technologies in order to identify and disable any ability to collect or disseminate personally identifying information, where such an ability to identify and disable is not already provided to the user. It is hoped that this subsection will serve as a deterrent to the development and use of technologies that are capable of such collection and information and do not either provide a method by which a user may disable those capabilities, or fully disclose the lack of such methods.

*Section 1202: Integrity of Copyright Management Information.*

*Subsection (a)* establishes a general prohibition against knowingly providing, distributing or importing false copyright management information ("CMI"), as defined in subsection (c). There are two prerequisites that must be met for the conduct to be illegal: (1) the person providing, distributing or importing the false CMI must know the CMI is false, and (2) he or she must do so with the intent to induce, enable, facilitate or conceal an infringement of any right under Title 17. The prohibition in this subsection does not apply to the ordinary and customary practices of broadcasters or the inadvertent omission of credits from broadcasts of audiovisual works, since such acts do not involve the provision of false CMI with the requisite knowledge and intent.

*Subsection (b)* establishes a general prohibition against deliberately removing or altering CMI, and against distributing or importing for distribution altered CMI or distributing, importing for distribution or publicly performing works in which CMI has been removed. Three specific acts are prohibited if they are committed without the authority of the copyright owner or the law, and if they are done knowing, or with respect to civil remedies under section 1203, having reasonable grounds to know, that they will induce, enable, facilitate or conceal a copyright infringement: (1) intentionally removing or altering CMI; (2) distributing or importing for distribution CMI, knowing that it has been altered without the authority of the copyright owner or the law; or (3) distributing, importing for distribution, or publicly performing works, copies of works, or phonorecords, knowing that CMI has been removed or altered without the authority of the copyright owner or the law. As with subsection (a), the prohibition in this subsection does not include the ordinary and customary practices of broadcasters or the inadvertent omission of credits from broadcasts of audiovisual works, since such omissions do not involve the requisite knowledge and intent.

*Subsection (c)* defines CMI. To fall within the definition, there is a threshold requirement that the information be conveyed in con-

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nection with copies or phonorecords, performances or displays of the copyrighted work. The term "conveyed" is used in its broadest sense and is not meant to require any type of transfer, physical or otherwise, of the information. It merely requires that the information be accessible in conjuction with, or appear with, an embodiment of the work itself.

CMI is defined as any of the following: (1) the title of a work or other information that identifies the work; (2) the author's name or other information that identifies the author; (3) the copyright owner's name or other information that identifies the copyright owner; (4) with the exception of public performances of works by radio and television broadcast stations, a performer's name or other information that identifies a performer whose performance is fixed in a non-audiovisual work; (5) with the exception of public performances of works by radio and television broadcast stations, the name of or other identifying information about a writer, performer, or director who is credited in an audiovisual work; (6) terms and conditions for use of a work; and (7) numbers and symbols which refer to, link to, or represent the above information. As noted above, both treaties require that numbers and symbols be included within the definition of CMI. Links, such as embedded pointers and hyperlinks, to the above information are also included. The phrase "links to such information" was included in paragraph (7) because removing or altering a link to the information will have the same

adverse effect as removing or altering the information itself. Finally, paragraph (c)(8) of the definition permits the Register of Copyrights to prescribe by regulation other information that, if conveyed in connection with a work, is to be protected as CMI. To protect the privacy of users of copyrighted works, however, the Register of Copyrights may not include within the definition of CMI any information concerning *users* of copyrighted works.

Section 1202 does not mandate the use of CMI, or of any particular type of CMI. It merely protects the integrity of CMI if a party chooses to use it in connection with a copyrighted work, by prohibiting its deliberate deletion or alteration. It also should be noted that the definition of "copyright management information" does not encompass, nor is it intended to encompass, tracking or usage information relating to the identity of users of works. It would be inconsistent with the purpose and construction of this bill and contrary to the protection of privacy to include tracking and usage information within the definition of CMI.

Section 1202 imposes liablity for specified acts. It does not address the question of liability for persons who manufacture devices or provide services.

*Subsection (d)* makes clear that the prohibitions in section 1202 do not prohibit any lawfully authorized investigative, protective or intelligence activity by or at the direction of a federal, state or local law enforcement agency, or of an intelligence agency of the United States.

*Subsection (e)* recognizes special problems that certain broadcasting entities may have with the transmission of copyright management information. Under this subsection, radio and television broadcasters, cable systems, and persons who provide programming to such broadcasters or systems, who do not intend to induce, en-



able, facilitate or conceal infringement, are eligible for an exemption from liability for violation of the CMI provisions of subsection (b) in certain, limited circumstances.

In the case of an analog transmission, paragraph (1) provides that an eligible person will not be held liable for violating provisions of subsection (b) if it is not "technically feasible" for that person to avoid the violation or if avoiding the violation would "create an undue financial hardship." Avoiding a violation of subsection (b) by transmitting credits that are of excessive duration in relation to standard practice in the relevant industries (for instance, the motion picture and television broadcast industries) is one example of an activity that may "create an undue financial hardship" under paragraph (1). As indicated above, this exemption applies only in the absence of an intent to induce, enable, facilitate or conceal infringement by engaging in such activity.

Paragraph (2) provides an exemption in the case of certain digital transmissions, and contemplates the creation of voluntary digital transmission standards for the placement of copyright management information. Separate standards are likely to be set for the location of copyright management information in different categories of works. For instance, the standard(s) for the location of the name of a copyright owner in a sound recording or musical work to be broadcast by radio stations may differ--and be set in a separate standard-setting process(es)--from the standard for the location of such information in a motion picture or other audiovisual work to be broadcast by television stations.

Subparagraph (A) provides that if a digital transmission standard for the placement of copyright management information for a category of works is set in a voluntary, consensus standard-setting process involving a representative cross-section of the relevant copyright owners and relevant transmitting industry, including but not limited to reprsentatives of radio or television broadcast stations, cable systems, and copyright owners of a category of works that are intended for public performance by such stations or systems, an eligible person will not be liable for a violation of subsection (b) if the copyright management information involved in the violation was not placed in a location specified by the standard for that information. The eligible person, however, cannot qualify for this limitation on liability if that person was responsible for the nonconforming placement, or had the intent to induce, enable, facilitate or conceal infringement.

Paragraph (2)(B)(i) provies that until such a standard is set for a category of works, an eligible person will not be liable for a violation of subsection (b) if the transmission of the copyright management information would cause a perceptible visual or aural degradation of the digital signal. Clause (ii) provides that during this time period before a standard is set, an eligible person also will not be liable if the digital transmission of the information would conflict with an applicable government regulation or industry standard relating to the transmission of information in a digital signal, such as the regulation requiring the placement of closed captioning in line 21 of the vertical blanking interval (*47 C.F.R.*

*79.1*, implementing *47 U.S.C. 613).* For purpose of this clause, however, the applicable industry-wide standard must be of a type specified in sub-

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clauses (II) or (III). The first type, defined in subclause (II), includes only those standards that were adopted by a voluntary, consensus standards body, such as the Advanced Television Systems Committee, before the effective date of section 1202. The other type, defined in subclause (III), includes only those standards adopted in a voluntary, consensus standards-setting process open to participation by groups, including but not limited to, a representative cross-section of radio or television broadcast stations, cable systems, and copyright owners of a category of works that are intended for public performance by such stations or systems.

*Section 1203. Civil Remedies*

Section 1203 is divided into three paragraphs. Subsection (a) sets forth the general proposition that civil remedies are available for violations of sections 1201 and 1202. This paragraph establishes the jurisdiction for such civil actions as the "appropriate U.S. district court" and limits standing to bring a civil action to those persons injured by a violation of section 1201 to 1202.

Subsection (b) sets out the powers of the court that hears the case. Subsection (b) permits the court to (1) grant temporary and permanent injunctions; (2) order the impounding of any device or product that is in the custody or control of the alleged violator and that the court has reasonable cause to believe was involved in a violation; (3) award damages; (4) allow the recovery of costs by or against any party; (5) award reasonable attorney's fees to the prevailing party; and (6) order the remedial modification or the destruction of any device or product involved in the violation that is in the custody or control of the violator or has been impounded.

Subsection (c) is divided into five sections, each of which addresses the awarding of damages to the prevailing party. Paragraph (1) establishes the general proposition that a person who violates section 1201 or 1202 is liable for either actual damages and any additional profits of the violator or statutory damages. Paragraphs (2) and (3) specify that the complaining party may finalize a choice between the two types of damage awards at any time until the final judgment is entered.

Paragraph (2) provides that, when the prevailing party opts for actual damages, the court shall award to that party the actual damages suffered by the party as a result of the violations, as well as any profits of the violator that are attributable to the violation and are not taken into account in computing the actual damages.

Paragraph (3) provides different statutory award amounts depending upon whether the civil action involves a section 1201 or 1202 violation. When the violation is a section 1201 violation and the prevailing party opts to recover an award of statutory damages the prevailing party will be awarded statutory damages of not less than $ 200 or more than $ 2,500 per act of circumvention, device, product, component, offer, or performance of service. When the violation is a section 1202 violation and the prevailing party opts to recover an award of statutory damages, the prevailing party will be awarded statutory damages of not less than $ 2,500 or more than $ 25,000 for each violation.

Paragraphs (4) and (5) set forth circumstances in which it would be appropriate to increase or decrease a damage award. Paragraph

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(4) provides for an increased damage award when the violator is a repeat offender. Specifically, when the prevailing party establishes that a person violated section 1201 or 1202 within three years after a final judgment was entered against that person for another such violation, the award of damages may be increased to a sum of up to triple the amount that would otherwise be awarded. Paragraph (5)(A) provides that, when a violator of section 1201 or 1202 was not aware and had no reason to believe that its acts constituted a violation, the damage award *may* be reduced or remitted. Paragraph (5)(B) provides even greater protection for nonprofits. When a violator of section 1201 or 1202 is a nonprofit library, nonprofit archives, or nonprofit educational institution, and was not aware and had no reason to believe that its acts constituted a violation, the damage award *shall* be remitted entirely.

*Section 1204: Criminal Penalties.*

Subsection (a) provides for the availability of criminal penalties for violations of sections 1201 and 1202. The standard applicable under this section is identical to the standard used in section 506 of the Copyright Act to establish criminal violations. Subsection (a) also sets forth the penalties available for a criminal violations of sections 1201 and 1202 as "not more than $ 500,000 or imprisonment for not more than five years, or both." If the person who is found guilty of criminal violation of sections 1201 or 1202 is a repeat offender, section 1204 provides that penalties may be increased to "not more than $ 1,000,000 or imprisonment for not more than ten years, or both."

Subsection (b) exempts completely any nonprofit library, nonprofit archives and nonprofit educational institution from the criminal penalties contained in subsection (a).

Subsection (c) provides for a five-year statute of limitations for criminal offenses under chapter 12.

*Section 1205: Savings Clause*

Section 1205 deals with the relationship between this act and laws protecting privacy. It establishes that nothing in the new chapter 12 created under this title abrogates, diminishes, or weakens the provisions of any law that prevents the violation of individual privacy rights related to use of the Internet, nor does it provide any defense or element of mitigation in a criminal prosecution or civil action under law for the violation of those rights.

Subsection (b) of Section 103 of this title is a conforming amendment which amends the table of chapters to accommodate the addition of a new chapter 12.

*Section 104: Development and Implementation of Technological Protection Measures*

*Subsections (a)-(c)* of section 105 contain a sense of the Congress stating that the Congress anticipates the development and implementation of technological measures which protect access to copyrighted works that will be developed by a broad consensus in an open, fair, multi-industry process, that will be made available on reasonable and nondiscriminatory terms, and that will not impose substantial costs or burdens on either the copyright owners who



will use them or on the manufacturers of hardware or software which will be used in conjunction with them. Congress anticipates that, pursuant to this legislation, these technological measures will include, but not be limited to, those which help nonprofit libraries to continue to lend copies to library users as they do today and in digital formats which do not infringe copyright; those which effectively protect against copyright infringement; and those which promote market place solutions for making works available in digital formats to consumers and users.

*Subsection (d)* requires that the Under Secretary of Commerce for Intellectual Property Policy, the Register of Copyrights and the Assistant Secretary of Commerce for Communications and Information jointly submit a report and any suggestions for legislation to Congress every year for three years after the enactment of this title reviewing the impact of new section 1201 on individual access to copyrighted works in digital formats. The issues to be addressed in the report are described in paragraph (2).

*Section 105: Evaluation of Impact of Copyright Law and Amendments on Electronic Commerce and Technological Development*

Section 105 requires that the Under Secretary of Commerce for Intellectual Property Policy, the Register of Copyrights and the Assistant Secretary of Commerce for Communications and Information jointly submit a report and any suggestions for legislation to Congress within one year after the enactment of this title, evaluating the impact of this title and the development of electronic commerce on the operation of sections 109 and 117 of title 17, and the relationship between existing and emerging technology on the operation of those provisions.

Section 109 of the Copyright Act is a codification of the judiciallydeveloped "first sale doctrine" which limits the exclusive right of a copyright owner to distribute copies of the work to the first sale or transfer of any particular lawfully made copy. Thus, the owner of a particular copy lawfully made under the Act may, without the authority of the copyright owner, sell or otherwise dispose of the possession of *that copy*. The first sale doctrine does not readily apply in the digital networked environment because the owner of a particular digital copy usually does not sell or otherwise dispose of the possession of that copy. Rather, "disposition" of a digital copy by its owner normally entails reproduction and transmission of that reproduction to another person. The original copy may then be retained or destroyed. The

appropriate application of this doctrine to the digital environment merits further evaluation and this section therefore calls for such an evaluation and report.

Section 117 of the Copyright Act limits the exclusive rights of copyright owners by allowing the lawful owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that program if it is necessary as an essential step in the utilization of the program in conjunction with a machine or for archival purposes only. The amendments contained in Title III of this legislation further amend section 117 to allow for the unauthorized making of copies in certain specific circumstances during the repair or maintenance of a machine (see detailed legislative history in title III.) The impact of the use of encryption and other

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technologies on these limitations also merits further evaluation and this section therefore calls for such an evaluation and report.

*Section 106: Effective Date*

This section establishes the general effective date of the proposed amendments in this bill as the date the bill is enacted into law. There are several exceptions to this effective date. These exceptions only apply to the technical amendments that are proposed in section 102 of the bill. The bill fixes the effective date of any provision in section 102 of the bill that specifically refers to the WIPO Copyright Treaty or the WIPO Performances and Phonograms Treaty as the date the respective Treaty enters into force.

These exceptions were necessary because, as of the drafting of this bill, the two treaties have not entered into force and will not do so until three months after 30 States deposit their instruments of ratification or accession with the Director General of WIPO. The exceptions ensure that the amendments that refer specifically to the two treaties do not become effective until the treaties themselves become effective. In addition, it was necessary to refer to each treaty separately in this section, because the two treaties may enter into force at different times, and the provisions relating specifically to one treaty should not become effective as soon as the other treaty enters into force. Finally, the phrase "with respect to the United States" was added to ensure that, if the Treaties enter into force before the United States deposits its instrument of accession, the United States does not extend benefits to Member States of these Treaties until the United States becomes party to the Treaties.

TITLE II--ONLINE COPYRIGHT INFRINGEMENT LIABILITY LIMITATION

*Section 201: Short Title*

This section establishes that this title may be cited as the "Online Copyright Infringement Liability Limitation Act."

*Section 202: Limitations on Liability for Copyright Infringement*

*Summary*

The "Online Copyright Infringement Liability Limitation Act" addresses concerns raised by a number of on-line service and Internet access providers regarding their potential liability when infringing material is transmitted on-line through their services. While several judicially created doctrines currently address the question of when liability is appropriate, providers have sought greater certainty through legislation as to how these doctrines will apply in the digital environment.

Title II of this bill codifies a liability system based on the core of current case law dealing with the liability of on-line service providers, while narrowing and clarifying the law in other respects. It offers the advantage of incorporating and building on those judicial applications of existing copyright law to the digital environment that have been widely accepted as fair and reasonable.

Subsection (a) of section 202 amends chapter 5 of the Copyright Act *(17 U.S.C. 501,* et. seq.") to create a new section 512, entitled "Limitations on liability relating to material online."

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*Subsection (a)* of new section 512 applies to communications functions associated with sending digital communications of others across digital networks, such as the Internet and other online networks. It establishes a limitation on liability for infringements that may occur in the provision of services falling within the definition of

subsection (j)(1)(A). The limitations on injunctive relief set forth in subsection (i)(1)(B) are applicable when the functions at issue fall within the provisions of subsection (a), and the service provider meets the threshold criteria of subsection (h). These threshold criteria apply to all of the liability limitations contained in section 512.

Subsection (a) applies to service providers transmitting, routing, or providing connections for material, and some forms of intermediate and *transient storage* of material in the course of performing these functions. For example, in the course of moving packets of information across digital online networks, many intermediate and transient copies of the information may be made in routers and servers along the way. Such copies are created as an automatic consequence of the transmission process. In this context,"intermediate and transient" refers to such a copy made and/or stored in the course of a transmission, not a copy made or stored at the points where the transmission is initiated or received. The use of the term "transmitting" throughout section 512 is not intended to be limited to transmissions of "a performance or display" of "images or sounds" within the meaning of section 101 of the Copyright Act.

Paragraphs (1) through (5) limit the range of activities that qualify under this subsection to ones in which, a service provider plays the role of a "conduit" for the communications of others. This limitation on liability applies if: (1) the communication was initiated by or at the direction of a person other than the service provider; (2) it is carried out through an automatic technical process without selection of the material by the service provider; (3) the service provider does not select the recipients of the material except as an automatic response to the request of another; (4) no copy of the material made in the course of intermediate or transient storage is maintained on the system or network so that it is ordinarily accessible to persons other than the anticipated recipients, and no copy is maintained on the system or network in a manner ordinarily accessible to the anticipated recipients for a longer period than is reasonably necessary for the communication; and (5) the content (but not necessarily the form) of the material is not modified in the course of transmission. Thus, for example, an e-mail transmission may appear to the recipient without bolding or italics resulting from format codes contained in the sender's message.

The term "selection of the material" in subsection (a)(2) is intended to reflect an editorial function of determining what material to send, or the specific sources of material to place online (e.g., a radio station), rather than "an automatic technical process" of responding to a command or request, such as one from a user, an Internet location tool, or another network. The term "automatic response to the request of another" is intended to encompass a service provider's actions in responding to requests by a user or other networks, such as requests to forward e-mail traffic or to route messages to a mailing list agent (such as a Listserv) or other dis-



cussion group. Subsection (a)(4) is intended to cover copies made of material while it is en route to its destination, such as copies made on a router or mail server, storage of a web page in the course of transmission to a specific user, store and forward functions, and other transient copies that occur en route. The term "ordinarily accessible" is intended to encompass stored material that is routinely accessible to third parties. For example, the fact that an illegal intruder might be able to obtain access to the material would not make it ordinarily accessible to third parties. Neither, for example, would occasional access in the course of maintenance by service provider personnel, nor access by law enforcement officials pursuant to subpoena make the material "ordinarily accessible." However, the term does not include copies made by a service provider for the purpose of making the material available to other users. Such copying is addressed in subsection (b).

*Subsection (b)* applies to a different form of intermediate and *temporary storage* than is addressed in subsection (a). In terminology describing current technology, this storage is a form of "caching," which is used on some networks to increase network performance and to reduce network congestion generally, as well as to reduce congestion and delays to popular sites. This storage is intermediate in the sense that the service provider serves as an intermediary between the originating site and ultimate user. The material in question is stored on the service provider's system or network for some period of time to facilitate access by users subsequent to the one who previously sought access to it.

For subsection (b) to apply, the material must be made available on an originating site, transmitted at the direction of another person through the system or network operated by or for the service provider to a different person, and stored through an automatic technical process so that users of the system or network who subsequently request access to the material from the originating site may obtain access to the material from the system or network.

Paragraphs (2)(A) through (2)(E) further refine the circumstances under which subsection (b) applies. Paragraph (2)(A) provides that the material must be transmitted to subsequent users without modification to its content in

comparison to the way it was originally transmitted from the originating site. This restriction is intended to apply, for example, so that a service provider who caches material from another site does not change the advertising associated with the cached material on the originating site without authorization from the originating site.

Paragraph (2)(B) limits the applicability of subsection (b) to circumstances where the service provider complies with certain updating commands.

Paragraph (2)(C) provides that the service provider shall not interfere with the ability of certain technology that is associated with the work by the operator of the originating site to return to the originating site information, such as user "hit" counts, that would have been available to the site had it not been cached. The technology must: (i) not significantly interfere with the performance of the storing provider's system or network or with intermediate storage of the material; (ii) be consistent with generally accepted industry standard communications protocols applicable to Inter-

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net and online communications, such as those approved by the Internet Engineering Task Force and the World Wide Web Consortium; and (iii) not extract information beyond that which would have been obtained had the subsequent users obtained access to the material directly on the originating site.

Paragraph (2)(D) applies to circumstances in which the originating site imposes a prior condition on access.

Paragraph (2)(E) establishes a notification and take down procedure for cached material modeled on the procedure under subsection (c). However, this take down obligation does not apply unless the material has previously been removed from the originating site, or the party submitting the notification has obtained a court order for it to be removed from the originating site and notifies the service provider's designated agent of that order. This proviso has been added to paragraph (2)(E) because storage under subsection (b) occurs automatically and unless infringing material has been removed from the originating site, the infringing material would ordinarily simply be re-cached.

*Subsection (c)* limits the liability of qualifying service providers for claims of direct, vicarious and contributory infringement for storage at the direction of a user of material that *resides* on a system or network controlled or operated by or for the service provider. Examples of such storage include providing server space for a user's web site, for a chatroom, or other forum in which material may be posted at the direction of users. Subsection (c) defines the scope of this limitation on liability. It also sets forth procedural requirements that copyright owners or their agents and service providers must follow with respect to notifications of claimed infringement under paragraph (3). Information that resides on the system or network operated by or for the service provider through its own acts or decisions and not at the direction of a user does not fall within the liability limitation of subsection (c).

Paragraph (1)(A) sets forth the applicable knowledge standard. This standard is met either by actual knowledge of infringement or in the absence of such knowledge by awareness of facts or circumstances from which infringing activity is apparent. The term "activity" is intended to mean activity using the material on the system or network. Such activity is intended to refer to wrongful activity that is occurring at the site on the provider's system or network at which the material resides, regardless of whether copyright infringement is technically deemed to occur at that site or at the location where the material is received. For example, the activity at an online site offering audio or video may be an unauthorized public performance of a musical composition, a sound recording, or an audio-visual work, rather than (or in addition to) the creation of an unauthorized copy of any of these works.

Paragraph (1)(A)(ii) can best be described as a "red flag" test. As stated in subsection (l), a service provider need not monitor its service or affirmatively seek facts indicating infringing activity (except to the extent consistent with a standard technical measure complying with subsection (h)), in order to claim this limitation on liability (or, indeed any other limitation provided by the legislation). However, if the service provider becomes aware of a "red flag" from which infringing activity is apparent, it will lose the lim-

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itation of liability if it takes no action. The "red flag" test has both a subjective and an objective element. In determining whether the service provider was aware of a "red flag," the subjective awareness of the service provider of the facts or circumstances in question must be determined. However, in deciding whether those facts or circumstances constitute a

"red flag"--in other words, whether infringing activity would have been apparent to a reasonable person operating under the same or similar circumstances--an objective standard should be used.

Paragraph (1)(A)(iii) provides that once a service provider obtains actual knowledge or awareness of facts or circumstances from which infringing material or activity on the service provider's system or network is apparent, the service provider does not lose the limitation of liability set forth in subsection (c) if it acts expeditiously to remove or disable access to the infringing material. Because the factual circumstances and technical parameters may vary from case to case, it is not possible to identify a uniform time limit for expeditious action.

Paragraph (1)(B) sets forth the circumstances under which a service provider would lose the protection of subsection (c) by virtue of its benefit from and control over infringing activity. In determining whether the financial benefit criterion is satisfied, courts should take a common-sense, fact-based approach, not a formalistic one. In general, a service provider conducting a legitimate business would not be considered to receive a "financial benefit directly attributable to the infringing activity" where the infringer makes the same kind of payment as non-infringing users of the provider's service. Thus, receiving a one-time set-up fee and flat periodic payments for service from a person engaging in infringing activities would not constitute receiving a "financial benefit directly attributable to the infringing activity." Nor is subparagraph (B) intended to cover fees based on the length of the message (per number of bytes, for example) or by connect time. It would however, include any such fees where the value of the service lies in providing access to infringing material.

Paragraph (1)(C) establishes that in cases where a service provider is notified of infringing activity by a copyright owner or its authorized agent, in accordance with the notification procedures of paragraph (3), the limitation on the service provider's liability shall be maintained only if the service provider acts expeditiously either to remove the infringing material from its system or to prevent further access to the infringing material on the system or network. This "notice and takedown" procedure is a formalization and refinement of a cooperative process that has been employed to deal efficiently with network-based copyright infringement.

Section 512 does not require use of the notice and take-down procedure. A service provider wishing to benefit from the limitation on liability under subsection (c) must "take down" or disable access to infringing material residing on its system or network of which it has actual knowledge or that meets the "red flag" test, even if the copyright owner or its agent does not notify it of a claimed infringement. On the other hand, the service provider is free to refuse to "take down" the material or site, even after receiving a notification of claimed infringement from the copyright owner; in such a situa-



tion, the service provider's liability, if any, will be decided without reference to section 512(c). For their part, copyright owners were not obligated to give notification of claimed infingement in order to enforce their right. However, neither actual knowledge nor awareness of a red flaif may be imputed to a service provider based on information from a copyright owner or its agent that dows not comply with the notification provisions of subsection (c) (3), and the limitation of liability set forth in subsection (c) may apply.

Subsection (c)(2) limits, in certain circumstances, the liability of nonprofit educational institutions for performing the functions of a service provider. The provision is intended to ensure that they do not lose the benefit of this title's limitations on liability due to their special relationship with their faculty and students. It would relieve such institutions from certain types of liability for acting as a service provider when a transmission through a system or network controlled or operated by the institution is initiated by or at the direction of a student or faculty member is engaged in activities unrelated to the institution's provision of the services set forth in subsection (j)(1). It is not intended to affect direct or secondary liability for other roles the institutions may play.

Subsection (c)(3) provides that to qualify for the liability limitation of subsection (c), the service prvider must designate an agent to receive notifications under subsection (c)(1)(C). The designation, provided to the Register fo Copyrights, and made available on the service provider's web site is to contain certain information necessary to communicate with the service provider concerning allegedly infringing material or activity. The Register of Copyrights is directed to maintain a directory of designated agents available for inspection by the public, both on the web site of the Library of Congress, and in hard copy format on file at the Copyright Office. it is not anticipated or intended that the Register will publish hard copies of the directory. The directory of designated agents available for inspection by the public, both on the web site of the Library of Congress, and in hard copy format on file at the Copyright Office. It is not

anticipated or intended that the Register will publish hard copies of the directory. The directory shall have entries for the name, address, telephone number and electronic mail address of an agent designated by service providers. The service provider's designation shall substantially comply with these elements.

Subsection (c)(4) sets forth the procedures under which copyright owners and their agents may provide effective notification to a service provider of allegations of infingement on the provider's system or network. Subparagraph (A) requires that to count as an effective notification, the notification must be in writing and submitted to the service provider's designated agent.

Subsection (c)(4)(A), clauses (i)-(vi), then set forth the information to be included in an effective notification. The standard against which a notification is to be judged is one of substantial compliance. Clause (i) provides that the notification must be signed by the copyright owner or its authorized agent to be effective. The requirement for signature, either physical or electronic, relates to the verification requirements of clauses (v) and (vi).

Clause (ii) requires that the copyright owner identify the copyrighted work alleged to be infringed. Where multiple works at a single online site are covered by a single notification, a representative list of such works at that site is sufficient. Thus, where a party is operating an unauthorized Internet jukebox from a particular

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site, it is not necessary for a compliant notification to list every musical composition or sound recording that has been or could be infringed at that site, so long a s a representative list of those compositions or recordings is provided so that the servic provider can understand the nature and scope of the infringement being claimed.

Clause (iii) requires that the copyright owner or its authorized agent provide the service provider with information reasonably sufficient to permit the service provider to identify and locate the allegedly infringing material. An example of such sufficient information would b e a copy or description of the allegedly infringing material and the URL address of the location (web page) which is alleged to contain the infringing material. The goal of this provision is to provide the service provider with adequate information to find and address the allegedly infringing material expeditiously.

Clause (iv) requires that the copyright owner of its authorized agent provide reasonably sufficient identifying information concerning the owner or its agent who submits the notification, such as an address, telephone number, and if available an electronic mail address so that the service provider may contact the complaining party.

Clause (v) makes clear that the notification from complaining parties must contain a statement that the complaining party has a good faith belief taht the use of the material in the manner complained of is not authorized by the copyright owner, or its agent, or the law.

Clause (vi) specifies that the notification must contain a statement that the information contained therein is accurate. The complaining party--whether the copyright owner, or an authorized representative--also must confirm under penaly of perjury, that it has authority to act on behalf of the owner of the exclusive right that is alleged to be infringed. The term "perjury" is used in the sense found elsewhere in the United States Code. *See 28 U.S.C. 1746; 18 U.S.C. 1621.*

Subsection (c)(4)(B) addresses the effect of notifications that do not substantially comply with the requirements of paragraph (3). Under this subsection, the court shall not consider such notifications as evidence of whether the service provider has actual knowledge, is aware of facts or circumstances, or has received a notification for purposes of subparagraph (A). However, a defective notice provided to the designated agent may be considered in evaluating the service provider's knowledge or awarenes of facts and circumstances, if (i) the complaining party has provided the requisite information concerning the identification of the copyrighted work, identification of the allegedly infringing material, and information sufficient for the service provider to contract the complaining party, and (ii) the service provider does not promptly attempt to contact the person making the notification or take other reasonable steps to assist in the receipt of notification that substantially complies with subparagraph (A). If the service provider subsequently receives a substantially compliant notice, the provisions of subparagraph (C) would then apply upon receipt of the notice.

The substantial compliance standard in subsections (c)(2) and (c)(3) are intended to be applied so that technical errors (such as

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misspelling a name, supplying an outdated area code if the phone number is accompanied by an accurate address, or supplying an outdated name if accompanied by an e-mail address that remains valid for the successor of the prior designated agent or agent of a copyright owner) do not disqualify service providers and copyright owners from the protections afforded under subsection (c). It is expected that the parties will comply with the functional requirements of the notification provisions--such as providing sufficient information so that a designated agent or the complaining party submitting a notification may be contacted efficiently--in order to ensure that the notification and take down procedures set forth in this subsection operate smoothly.

*Subsection (d)* applies to referring or linking users to an online location containing infringing material or infringing activity using information location tools. the reference to "infringing activity" is intended to refer to wrongful activity that is occurring at the location to which the link or reference refers, without regard to whether copyright infringement is technically deemed to occur at that location or at the location where the material is received. The term information location tools includes, for example: a directory or index of online sites or material such as a search engine that identifies pages by specified criteria, a reference to other online material such as a list of recommended sites, a pointer that stands for an Internet location or address, or a hypertext link which allows users to access material without entering its address.

Subsection (d) incorporates the notification and take down structure of subsection (c) and applies it to the provision of references and links to infringing sites. A service provider is entitled to the liability limitations of subsection (d) if it: (1) lacks actual knowledge of infringement on the other site, and is not aware of facts or circumstances from which infringing activity in that location is apparent; (2) does not receive a financial benefit directly attributable to the infringing activity on the site, where the service provider has the right and ability to control the infringing activity; and (3) responds expeditiously to remove or disable the reference or link upon receiving a notification of claimed infringement as described in subsection (c)(3). The notification procedures under subsection (d) follow those set forth in subsection (c). However, the information submitted by the complaining party under subsection (c)(3)(A)(iii) is identification of the reference or link to infringing material or activity, and information reasonably sufficient to permit the service provider to locate that reference or link.

Subsection (d) provides a safe harbor that would limit the liability of a service provider that refers or links users to an online location containing infringing material or activity by using "information location tools," such as hyperlink directories and indexes. A question has been raised as to whether a service provider would be disqualified from the safe harbor based solely on evidence that it had viewed the infringing Internet site. If so, there is concern that online directories prepared by human editors and reviewers, who view and classify various Internet sites, would be denied eligibility to the information location tools safe harbor, in an unintended number of cases and circumstances. This is an important concern because such online directories play a valuable role in assisting



Internet users to identify and locate the information they seek on the decentralized and dynamic networks of the Internet.

Like the information storage safe harbor in section 512(c), a service provider would qualify for this safe harbor if, among other requirements, it "does not have actual knowledge that the material or activity is infringing" or, in the absence of such actual knowledge, it is "not aware of facts or circumstances from which infringing activity is apparent." Under this standard, a service provider would have no obligation to seek out copyright infringement, but it would not qualify for the safe harbor if it had turned a blind eye to "red flags" of obvious infringement.

For instance, the copyright owner could show that the provider was aware of facts from which infringing activity was apparent if the copyright owner could prove that the location was clearly, at the time the directory provider viewed it, a "pirate" site of the type described below, where sound recordings, software, movies or books were available for unauthorized downloading, public performance or public display. Absent such "red flags" or actual knowledge, a directory provider would not be similarly aware merely because it saw one or more well known photographs of a celebrity at a site devoted to that person. The provider could not be expected, during the course of its brief cataloguing visit, to determine whether the photograph was still protected by copyright or was in the public domain; if the photograph was still protected by copyright, whether the use was licensed; and if the use was not licensed, whether it was permitted under the fair use doctrine.

The important intended objective of this standard is to exclude sophisticated "pirate" directories--which refer Internet users to other selected Internet sites where pirate software, books, movies, and music can be downloaded or transmitted--from the safe harbor. Such pirate directories refer Internet users to sites that are obviously infringing because they typically use words such as "pirate," "bootleg," or slang terms in their uniform resource locator (URL) and header information to make their illegal purpose obvious to the pirate directories and other Internet users. Because the infringing nature of such sites would be apparent from even a brief and casual viewing, safe harbor status for a provider that views such a site and then establishes a link to it would not be appropriate. Pirate directories do not follow the routine business practices of legitimate service providers preparing directories, and thus evidence that they have viewed the infringing site may be all that is available for copyright owners to rebut their claim to a safe harbor.

In this way, the "red flag" test in section 512(d) strikes the right balance. The common-sense result of this "red flag" test is that online editors and catalogers would not be required to make discriminating judgments about potential copyright infringement. If, however, an Internet site is obviously pirate, then seeing it may be all that is needed for the service provider to encounter a "red flag." A provider proceeding in the face of such a red flag must do so without the benefit of a safe harbor.

Information location tools are essential to the operation of the Internet; without them, users would not be able to find the information they need. Directories are particularly helpful in conducting

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effective searches by filtering out irrelevant and offensive material. The Yahoo! directory, for example, currently categorizes over 800,000 online locations and serves as a "card catalogue" to the World Wide Web, which over 35,000,000 different users visit each month. Directories such as Yahoo!'s usually are created by people visiting sites to categorize them. It is precisely the human judgment and editorial discretion exercised by these cataloguers which makes directories valuable.

This provision is intended to promote the development of information location tools generally, and Internet directories such as Yahoo!'s in particular, by establishing a safe-harbor from copyright infringement liability for information location tools providers if they comply with the notice and takedown procedures and other requirements of subsection (d). The knowledge or awareness standard should not be applied in a manner which would create a disincentive to the development of directories which involve human intervention. Absent actual knowledge, awareness of infringement as provided in subsection (d) should typically be imputed to a directory provider only with respect to pirate sites or in similarly obvious and conspicuous circumstances, and not simply because the provider viewed an infringing site during the course of assembling the directory.

Subsection (e) establishes a right of action against any person who knowingly misrepresents that material or activity online is infringing, or that material or activity was removed or disabled by mistake or misidentification under the "put back" procedure set forth in subsection (f). Actions may be brought under subsection (e) by any copyright owner, copyright owner's licensee, or by a service provider, who is injured by such misrepresentation, as a result of the service provider relying upon the misrepresentation in either taking down material or putting material back online. Defendants who make such a knowing misrepresentation are liable for any damages, including costs and attorneys' fees, incurred by any of these parties as a result of the service provider's reliance upon the misrepresentation. This subsection is intended to deter knowingly false allegations to service providers in recognition that such misrepresentations are deterimental to rights holders, service providers, and Internet users.

*Subsection (f)* provides immunity to service providers for taking down infringing material, and establishes a "put back" procedure under which subscribers may contest a complaining party's notification of infringement provided under subsection (c)(3). The put back procedures were added as an amendment to this title in order to address concerns that other provisions of this title established strong incentives for service providers to take down material, but insufficient protections for third parties whose material would be taken down.

Paragraph (1) immunizes service providers from any claim based on the service provider's good faith disabling of access to, or removal of, material or activity claimed to be infringing. The immunity also applies to material or activity that a service provider disables access to or removes based on facts or circumstances from which infringing activity is apparent. This immunity applies even if the material or activity is ultimately determined not to be in-

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fringing. The purpose of this subsection is to protect service providers from liability to third parties whose material service providers take down in a good faith effort to comply with the requirements of subsection (c)(1).

Paragraph (2) establishes a "put back" procedure through an exception to the immunity set forth in subsection (f)(1). The exception applies in a case in which the service provider, pursuant to a notification provided under subsection (c)(1)(C) in accordance with subsection (c)(3), takes down material that a subscriber has posted to the system or network. In such instances, to retain the immunity set forth in subsection (f)(1) with respect to the subscriber whose content is taken down, the service provider is to follow up to three steps.

Under subsection (f)(2)(A), the service provider is to take reasonable steps to notify the subscriber promptly of the removal or disabling of access to the subscriber's material. It is intended that "reasonable steps include, for example, sending an e-mail notice to an e-mail address associated with a posting, or if only the subscriber's name is identified in the posting, sending an e-mail to an email address that the subscriber submitted with its subscription. It is not intended that this subsection impose any obligation on service providers to search beyond the four corners of a subscriber's posting or their own records for that subscriber in order to obtain contact information. Nor is it intended to create any right on the part of subscribers who submit falsified information in their postings or subscriptions to complain if a service provider relies upon the information submitted by the subscriber.

The subscriber may then file a counter notification, in accordance with the requirements of subsection (f)(3), contesting the original take down on grounds of mistake or misidentification of the material and requesting"put back"of the material that the service provider has taken down. If a subscriber files a counter notification with the service provider's designated agent, subparagraph (f)(2) calls for the service provider to promptly forward a copy to the complaining party who submitted the take down request. Finally, under subsection (f)(2)(C), the service provider is to place the subscriber's material back online or cease disabling access to it between 10 and 14 business days after receiving the counter notification unless the designated agent receives a further notice from the complaining party that the complaining party has filed an action seeking a court order to restrain the subscriber from engaging in infringing activity on the service provider's system or network with regard to the material in question.

Subscriber counter notifications must substantially comply with defined requirements set forth in subsection (f)(3). Notifications shall be signed by the subscriber physically or by electronic signature; identify the material taken down and the location from which it was taken down; include a statement under penalty of perjury that the subscriber has a good faith belief that the material was taken down as a result of mistake or misidentification of the material; and include the subscriber's contact information, as well as a statement consenting to the jurisdiction of a Federal district court and to accept service of process from the complaining party or the



complaining party's agent. The substantial compliance standard is the same as that set forth in subsections (c)(2) and (3).

Subsection (f)(4) is included to make clear the obvious proposition that a service provider's compliance with the put back procedure does not subject it to liability for copyright infringement or cause it to lose its liability limitation with respect to the replaced material.

*Subsection (g)* creates a procedure by which copyright owners or their authorized agents who have submitted or will submit a request for notification satisfying the requirements of subsection (c)(4)(A) may obtain a subpoena for identification of alleged infringers who are users of a service provider's system or network. Under this procedure, the copyright owner or agent files three documents with the clerk of any U.S. District Court: a copy of the notification, a proposed subpoena, and a sworn declaration that the purpose of the order is to obtain the identity of an alleged infringer and that the information obtained will only be used to protect the owner's rights under this title 17.

Subpoenas issued under subsection (g) shall authorize and order the service provider expeditiously to disclose to the person seeking the order information sufficient to identify the alleged infringer to the extent such information is available to the service provider. A subpoena for disclosure is intended to be interpreted as requiring disclosure of information in the possession of the service provider, rather than obliging the service provider to conduct searches or information that is available from other systems or networks. It is intended that such subpoenas be expeditiously issued if the notification meets the provisions of subsection (c)(4)(A) and the declaration is properly executed. The issuing of the order should be a ministerial function performed quickly for this provision to have its intended effect. After receiving the order, the service provider shall expeditiously disclose to the copyright owner or its agent the information

required by the order to the extent that the information is available to the service provider, regardless of whether the service provider responds to the notification of claimed infringement.

*Subsection (h)* sets forth two conditions that a service provider must satisfy to be eligible for the limitations of liability provided in subsections (a) through (d).

First, the service provider is expected to adopt and reasonably implement a policy for the termination in appropriate circumstances of the accounts of subscribers of the provider's service who are repeat online infringers of copyright."Subscribers" is intended to include account holders who are parties with a business relationship to the service provider that justifies treating them as subscribers, for the purposes of section 512, even if no formal subscription agreement exists. Examples include students who are granted access to a university's system or network for digital online communications; employees who have access to their employer's system or network; or household members with access to a consumer online service by virtue of a subscription agreement between the service provider and another member of that household. It should be recognized that there are different degrees of online copyright infringement, from the inadvertent to the noncommercial, to the willful and commercial. In addition, it is not intended this



provision to undermine the principles of subsection (1) or the knowledge standard of subsection (c) by suggesting that a provider must investigate possible infringements, monitor its service, or make difficult judgements as to whether conduct is or is not infringing. However, those who repeatedly or flagrantly abuse their access to the Internet through disrespect for the intellectual property rights of others should know that there is a realistic threat of losing that access.

Second, a provider's system must accommodate, and not interfere with, standard technical measures used to identify or protect copyrighted works. Technology is likely to be the solution to many of the issues facing copyright owners and service providers in this digital age. For that reason, the bill includes subsection (h)(1)(B), which is intended to encourage appropriate technological solutions to protect copyrighted works. It is expected that all of the affected parties will expeditiously commence voluntary, inter-industry discussions to agree upon and implement the best technological solutions available to achieve these goals.

Subsection (h)(1)(B) is explicitly limited to "standard technical measures" that have been developed pursuant to a broad consensus of both copyright owners and service providers in an open, fair, voluntary, multi-industry standards process. It is anticipated that these provisions could be developed both in recognized open standards bodies or in ad hoc groups, as long as the process used is open, fair, voluntary, and multi-industry and the measures developed otherwise conform to the requirements of the definition of standard technical measures set forth in paragraph (h)(2). A number of recognized open standards bodies have substantial experience with Internet issues. It should be noted that an ad-hoc approach has been successful in developing standards in other contexts, such as the process that has developed copy protection technology for use in connection with DVD.

*Subsection (i)* defines the terms and conditions under which an injunction may be issued against a service provider that qualifies for the limitations of liability set forth in subsections (a) through (d), but is otherwise subject to an injunction under existing principles of law. Subsection (i)(1) limits the scope of injunctive relief that may be ordered against a qualifying provider.

Subsection (i)(2) identifies factors a court must consider in deciding whether to grant injunctive relief and in determining the appropriate scope of injunctive relief.

Subsection (i)(1) is divided into two subparagraphs. Subparagraph (A) defines the scope of injunctive relief available against service providers who qualify for the limitations of liability set forth in subsections (b), (c) or (d). Only three forms of injunctive relief may be granted. First, the court may provide for the removal or blocking of infringing material or activity that is residing at a specific location on the provider's system or network. This is essentially an order to take the actions identified in subsection (c)(1)(C) to "remove, or disable access" to the material that is claimed to be infringing or to be the subject of infringing activity.

Second, the court may order the provider to terminate the accounts of a subscriber of the provider's service who is engaging in infringing activity.

Subparagraph (A) permits the court, under appropriate circumstances, to enter a different form of injunction if the court considers it necessary to prevent or restrain infringement of specific copyrighted material that resides at an identified online location. If a court enters an injunction other than that contemplated in the first two clauses of subparagraph (A), the court must determine that the injunctive relief is the least burdensome to the service provider among those forms of relief that are comparably effective.

Subparagraph (B) sets forth a different set of remedies available for injunctions against service providers qualifying for the limitation on remedies set forth in subsection (a). In such cases, if a court determines that injunctive relief is appropriate, it may only grant injunctive relief in one or both of two specified forms. The first is an order to the service provider to terminate subscriber accounts that are specified in the order. The second form of relief, available in cases in which a provider is engaging in infringing activity relating to a foreign online location, is an order to reasonable steps to block access to a specific, identified foreign online location. Such blocking orders are not available against a service provider qualifying under subsection (a) in the case of infringing activity on a site within the United States or its territories.

Paragraph (2) of subsection (i) sets forth mandatory considerations for the court beyond those that exist under current law. These additional considerations require the court to consider factors of particular significance in the digital online environment.

Paragraph (3) prohibits most forms of ex parte injunctive relief (including temporary and preliminary relief) against a service provider qualifying for a liability limitation under section 512. A court may issue an order to ensure the preservation of evidence or where the order will have no material adverse effect on the operation of the provider's network.

*Subsection (j)* sets forth two definitions of the term "service provider" as used in this title, as well as a definition of the term "monetary relief." Only an entity that is performing the functions of a "service provider is eligible for the limitations on liability set forth in section 512 with respect to those function.

The first definition of a service provider, set forth in paragraph (1)(A), defines a narrower range of functions and applies to use of the term in subsection (a). As used in that subsection the term "service provider" means any entity offering the transmission, routing or providing of connections for digital online communications, between or among points specified by a user, of material of a user's choosing without modification to the content of the material as sent or received. This freestanding definition is derived from the definition of "telecommunications" found in *47 U.S.C. 153*(48) in recognition of the fact that the functions covered by this definition are conduit activities, but this legislation has reworked the definition and established subparagraph (A) to make it appropriate for the Internet and online media. Thus, the subparagraph (A) definition includes the offering of transmission, routing or providing of connections. Although the transmission, routing or providing of connections may occur over digital or analog networks, the service provider must be providing such services for communications that are both digital and online. Online communications is intended to refer



to communications over an interactive computer network, such as the Internet. Thus, over-the-air broadcasting, whether in analog or digital form, or a cable television system, or a satellite television service would not qualify, except to the extent it provides users with online access to a digital network such as the Internet, or it provides transmission, routing or connections to connect material to such a network, and then only with respect to those functions. An entity is not disqualified from being a "service provider" because it alters the form of the material, so long as it does not alter the content of the material. As threshold matter, a service provider's performance of a particular function with respect to allegedly infringing activity falls within the (j)(1)(A) definition of service provider if and only if such function is within the range of functions set forth in subparagraph (A). For example, hosting a World Wide Web site does not fall within ther subparagraph (A) definition; providing connectivity for a world wide web site does fall within that definition. The subparagraph (A) definition of service provider is not intended to exclude providers that perform other functions in addition to those set forth in subparagraph (A), including the functions identified in subparagraph (B). Conversely, the fact that a provider performs some functions that fall within the definition of subparagraph (A) does not imply that its other functions that do not fall within the definition of subparagraph (A) qualify for the limitation of liability under subsection (a).

The second definition of "service provider," set forth in subparagraph(B), applies to the term as used in any other subsection of section 512. This definition is broader than the first, covering providers of online services or network access, or the operator of facilities therefor. This definition includes, for example, services such as providing Internet access, e-mail, chat room and web page hosting services. The (j)(1)(B) definition of service provider, for example, includes universities and schools to the extent they perform the functions identified in subparagraph (B). The definition also specifically includes any entity that falls within the first definition of service provider. A broadcaster or cable television system or satellite television service would not qualify, except to the extent it performs functions covered by (j)(1)(B).

Finally, paragraph (2) of subsection (j) defines the term "monetary relief" broadly for purposes of this section as encompassing damages, costs, attorneys' fees and any other form of monetary payment.

*Subsection (k)* clarifies that other defenses under copyright law are not affected and codifies several important principles.

New section 512 does not define what is actionable copyright infringement in the online environment, and does not create any new exceptions to ther exclusive rights under copyright law. The rest of the Copyright Act sets those rules. Similarly, new section 512 does not create any new liabilities for service providers or affect any defense available to a service provider. enactment of section 512 does not bear upon whether a service provider is or is not an infringer when its conduct falls within the scope of section 512. Even if a service provider's activities fall outside the limitations on liability specified in the bill, the service provider is not necessarily an infringer; liability in these circumstances would be adjudicated based



on the doctrines of direct, vicarious or contributory liability for infringement as they are articulated in the Copyright Act and in the court decisions interpreting and applying that statute, which are unchanged by section 512. In the event that a service provider does not qualify for the limitation on liability, it still may claim all of the defenses available to it under current law. New section 512 simply defines the circumstances under which a service provider, as defined in this Section, may enjoy a limitation on liability for copyright infringement.

*Subsection (l)* is designed to protect the privacy of Internet users. This subsection makes clear that the applicability of subsections (a) through (d) is no way conditioned on a service provider: (1) monitoring its service or affirmatively seeking facts indicating infringing activity except to the extent consistent with implementing a standard technical measure under subsection (h); or (2) accessing, removing or disabling access to material if such conduct is prohibited by law, such as the Electronic Communications Privacy Act.

*Subsection (m)* establishes a rule of construction applicable to subsections (a) through (d). Section 512's limitations on liability are based on functions, and each limitation is intended to describe a separate and distinct function. Consider, for example, a service provider that provides a hyperlink to a site containing infringing material which it then caches on its system in order to facilitate access to it by its users. this service provider is engaging in at least three functions that may be subject to the limitation on liability: transitory digital network communications under subsection (a), system caching under subsection (b), and information location tools under subsection (d). If this service provider (as defined in subsection (j)(1)(A) in the case of transitory digital communications, or as defined in subsection (j)(1)(B) in the case of system caching or information location tools) meets the threshold criteria spelled out in subection (h)(1), then for its acts of system caching defined in subsection (b), it may avail itself of the liability limitations stated in subsection (b), which incorporate the limitations on injunctive relief described in subsection (i)(1)(B) and (i)(3). If it is claimed that the same company is committing an infringement by using information location tools to link its users to infringing material, as defined in subsection (d), then its fulfillment of the requirements to claim the system caching liability limitation does not affect whether it qualifies for the liability limitaion for information location tools; the criteria in subsection (d), rather than those in subsection (b), are applicable, Section 512(m) codifies this principle by providing that the determination of whether a service provider qualifies for one liability limitation has no effect on the determination of whether it qualifies for a separate and distinct liability limitation under another subsection of section 512.

Subsection (b) of section 202 amends the table of sections for chapter 5 of the Copyright Act *(17 U.S.C. 501* et. seq.) to reflect the new section 512, as created by this title.

Subection (c) of section 202 establishes the effective date of the amendments made by section 202 as the date of enactment of this Act.

**[41]**

*Section 203: Effective Date.*

This section establishes the effective date of the amendments made by title II as the date of enactment of this Act.

TITLE III--COMPUTER MAINTENANCE OR REPAIR COPYRIGHT EXEMPTION

*Section 301: Short Title.*

This section provides that this title may be cited as the "Computer Maintenance Competition Assurance Act."

*Section 302: Limitations on Exclusive Rights: Computer Programs.*

This section amends Section 117 to ensure that independent service organizations do not inadvertently become liable for copyright infringement merely because they have truned on a machine in order to service its hardware components.

When a computer is activated, that is when it is truned on, certain software or parts thereof (generally the machine's operating system software) is automatically copied into the machine's random access memory; or "RAM." During the course of activating the computer, different parts of the operating system may reside in the RAM at different times because the operating system is sometimes larger than the capacity of the RAM. Because such copying has been held to constitute a "reproduction" under § 106 of the Copyright Act,n2 a person who activated the machine without the authorization of the copyright owner of that software could be liable for copyright infringement. This section has the narrow and specific intent of relieving independent service providers, persons unaffiliated with either the owner or lessee of the machine, from liability under the Copyright Act when, solely be virtue of activating the machine in which a computer program resides, they inadvertently cause an unauthorized copy of that program to be made.

The section is narrowly crafted to achieve the foregoing objective without prejudicing the rights of copyright owners of computer software. Thus, for example, the amendment does not relieve from liability persons who make unauthorized adaptations, modifications or other changes to the software. The amendment also does not relieve from liability persons who make any unauthorized copies of software other those caused solely by activation of the machine.

The operative provisions, and limitations, are in two new subsections to Section 117: subsections (c) and (d).

Subsection (c) delineates the specific circumstances under which a reproduction of a computer program would not constitute infringement of copyright. The goal is to maintain undiminished copyright protection afforded under the Copyright Act to authors of computer programs, while making it possible for third parties to perform servicing of the hardware. It states that it is not an infringement of copyright for the owner or lessee of a machine to make or authorize the making of a copy of a computer program provided that the following conditions are met:

**[42]**

First, subsection (c) itself makes clear that the copy of the computer program must have been made solely and automatically by virtue of turning on the machine in order to perform repairs or maintenance on the hardware components of the machine. Moreover, the copy of the computer program which is reproduced as a direct and sole consequence of activation must be an authorized copy that has lawfully been installed in the machine. Authorized copies of computer programs are only those copies that have been made available with the consent of the copyright owner. Also, the acts performed by the service provider must be authorized by the owner or lessee of the machine.

Second, in accordance with paragraph (c)(1), the resulting copy may not be used by the person performing repairs or maintenance of the hardware components of the machine in any manner other than to effectuate the repair or maintenance of the machine. Once these tasks are completed, the copy of the program must be destroyed, which generally will happen automatically once the machine is turned off.

Third, as is made clear in paragraph (c)(2), the amendment is not intended to diminish the rights of copyright owners of those computer programs, or parts thereof, that also may be loaded into RAM when the computer is turned on, but which did not need to be so loaded in order for the machine to be turned on. A hardware manufacturer or software developer might, for example, provide diagnostic and utility programs that load into RAM along with or as part of the operating system, even though they market those programs as separate products--either as freestanding programs, or pursuant to separate licensing agreements. Indeed, a password or other technical access device is sometimes required for the owner of the machine to be able to gain access to such programs. In other cases, it is not the

hardware or software developer that has arranged for certain programs automatically to be reproduced when the machine is turned on; rather, the owner of the machine may have configured its computer to load certain applications programs into RAM as part of the boot-up process (such as a word processing program on a personal computer). This amendment is not intended to derogate from the rights of the copyright owners of such programs. In order to avoid inadvertent copyright infringement, these programs need to be covered by subsection (c), but only to the extent that they are automatically reproduced when the machine is turned on. This legislation is not intended to legitimize unauthorized access to and use of such programs just because they happen to be resident in the machine itself and are reproduced with or as part of the operating system when the machine is turned on. According to paragraph (c)(2), if such a program is accessed or used without the authorization of the copyright owner, the initial reproduction of the program shall not be deemed exempt from infringement under subsection (c).

Subsection (d) defines two terms not previously defined by the Copyright Act. Paragraph (1) defines the term "maintenance." These acts can include, but are not limited to, cleaning the machine, tightening connections, installing new components such as memory chips, circuit boards and hard disks, checking the proper functioning of these components, and other similar acts.

**[43]**

Paragraph (2) of subsection (d) defines the term "repair." Acts of repairing the hardware include, but are not limited to, replacing worn or defective components such as memory chips, circuit boards and hard disks, correcting the improper installation of new components, and other similar acts.

Both paragraphs (1) and (2) of subsection (d) are subject to the same limitations, which are intended to clarify that activating a machine in order to perform maintenance or repair does not constitute infringement under subsection (c) if the maintenance or repair is undertaken to make the machine work in accordance with the parameters specified for such a machine and its component parts. Because technological improvements may lead customers to upgrade their machines, the language of both definitions authorizes service providers to maintain those components of the hardware that have been installed since the time the machine was originally acquired, or to install new components. But their acts shall be deemed non-infringing under subsection (c) only if the components being serviced have been lawfully acquired and installed. Finally, the terms "maintenance" and "repair" do not include unauthorized adaptations, modifications, error corrections or any other changes to any software which may be in the machine being serviced.

TITLE IV--MISCELLANEOUS PROVISIONS

SUBTITLE A--ESTABLISHMENT OF THE UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY POLICY

*Section 401: Under Secretary of Commerce for Intellectual Property Policy.*

This section establishes the office of the Under Secretary of Commerce for Intellectual Property Policy. The new position shall be filled through appointment by the President of the United States, by and with the advice and consent of the Senate, consistent with constitutional requirements. The salary of the Under Secretary shall be set at level II of the Executive Schedule, consistent with that of other Under Secretary positions. Until an Under Secretary may qualify for appointment consistent with this subtitle, the President may appoint, immediately upon the effective date of this subtitle, an individual to serve as Acting Under Secretary for Intellectual Property Policy.

The purpose of the creation of this position is to provide the Administration with a high-level officer who can coordinate and formulate intellectual property policy determinations and speak on behalf of the Administration to Congress and to international bodies, consistent with Article II of the Constitution. This position, as indicated in section 402, is not intended to replace or duplicate activities or policy determinations made by legislative entities or agencies; rather, it is intended to aid the Executive departments and agencies in providing expertise, along with those other entities, on intellectual property policy. It should also be noted that this position is limited to policy advice and determinations. The Under Secretary is not granted the power to grant, issue, register, or accept deposits of intellectual property. Such activities are best left to the agencies charged with the expertise in providing those services, along with their other functions, including policy functions.

**[44]**

Subsection (b) establishes the duties of the Under Secretary. He or she, under the direction of the Secretary of Commerce, shall promote exports of goods and services of U.S. industries that rely on intellectual property, in

coordination with the Under Secretary of Commerce for International Trade; advise the President, through the Secretary of Commerce, on U.S. and international issues relating to intellectual property policy; advise the Executive branch on intellectual property protection in other countries; provide guidance with respect to foreign aid proposals relating to intellectual property protection; conduct programs and studies on the effectiveness of intellectual property protection worldwide; advise the Secretary of Commerce on foreign programs and studies; and, with the Department of State, conduct cooperative studies and programs with foreign offices and intergovernmental organizations.

Subsection (c) allows the Under Secretary to appoint a Deputy Under Secretary for Patent Policy and a Deputy Under Secretary for Trademark Policy. The Deputy Under Secretaries shall be members of the Senior Executive Service, in accordance with title 5 of the United States Code.

Subsection (e) establishes that the Office of the Under Secretary shall be funded through funds available to the United States Patent and Trademark Office, subject to prior approval in an appropriations Act. In no case shall the total annual funds available to the Office of the Under Secretary exceed 2 percent of the annual projected revenues of the Patent and Trademark Office.

Subsection (f) requires that on matters of copyright, or other appropriate matters such as those falling within the scope of other chapters of title 17, the Under secretary consult with the Register of Copyrights.

*Section 402: Relationship with Existing Authorities.*

Section 402 clarifies that the establishment of the office of the Under Secretary shall not derogate from the duties of the United States Trade Representative, the Secretary of State, or the duties and functions of the Register of Copyrights, nor shall it alter current authorities relating to copyright matters.

Subsection (b) of section 402 amends section 701 to codify current duties and authority of the Register of Copyrights. In view of the detailed enumeration of the duties and functions of the Under Secretary that section 401 would add to the law, it is appropriate to add a similar enumeration making clear the duties and functions of the Register of Copyrights. The new subsection to be added to *17 U.S.C. § 701* sets forth in express statutory language the functions presently performed by the Register of Copyrights under her general administrative authority under subsection 701(a). It is intended to codify the traditional role of the Copyright Office and to confirm the Register's existing areas of jurisdiction.

New section 701(b)(1) reflects the Copyright Office's longstanding role as advisor to Congress on matters within its competence. This includes copyright and all matters within the scope of title 17.

Paragraph (2) reflects the Copyright Office's longstanding role in advising federal agencies on matters within its competence. For example, the Copyright Office advises the U.S. Trade Representative and the State Department on an ongoing basis on the adequacy of



foreign copyright laws, and serves as a technical consultant to those agencies in bilateral, regional and multilateral consultations or negotiations with other countries on copyright-related issues.

Paragraph (3) reflects the Copyright Office's longstanding role as a key participant in international meetings of various kinds, including as part of U.S. delegations as authorized by the Executive Branch, serving as substantive experts on matters within the Office's competence. Recent examples of the Office acting in the capacity include its central role on the U.S. delegation that negotiated the two new WIPO treaties at the 1996 Diplomatic Conference in Geneva, its ongoing contributions of technical assistance in the TRIPS Council of the World Trade Organization, and the Register's role as a featured speaker at numerous WIPO conferences.

Paragraph (4) describes the studies and programs that the Copyright Office has long carried out as the agency responsible for administering the copyright law and other chapters of title 17. Among the most important of these studies historically was a series of comprehensive reports on various issues produced in the 1960's as the foundation of the last general revision of U.S. copyright law, enacted as the 1976 Copyright Act. Most recently, the Copyright Office has completed reports on the cable and satellite compulsory licenses, legal protection for databases, and the economic and policy implications of term extension. The reference to "programs" includes such projects as the conferences the Copyright Office cosponsored in 1996-1997 on the subject of technology-based intellectual property management, and

the International Copyright Institutes that the Copyright Office has conducted for foreign government officials at least annually over the past decade, often in cooperation with WIPO.

Paragraph (5) makes clear that the functions and duties set forth in this subsection are illustrative, not exhaustive. The Register of Copyrights would continue to be able to carry out other functions under her general authority under subsection 701(a), or as Congress may direct.

SUBTITLE B--RELATED PROVISIONS

*Section 411: Ephemeral Recordings.*

Section 411 of the bill amends section 112 of the Copyright Act to address two issues concerning the application of the ephemeral recording exemption.

The first of these issues is the relationship between the ephemeral recording exemption and the Digital Performance Right in Sound Recordings Act of 1995 ("DPRSRA"). The DPRSRA granted sound recording copyright owners the exclusive right to perform their works publicly by means of digital audio transmission, subject to certain limitations, particularly those set forth in section 114(d). Among those limitations is an exemption for nonsubscription broadcast transmissions, which are defined as those made by terrestrial broadcast stations licensed as such by the FCC. *17 U.S.C. 114*(d)(1)(A)(iii) and (j)(2). The ephemeral recording exemption presently privileges certain activities of a transmitting organization when it is entitled to transmit a performance or display under a



license or transfer of copyright ownership or under the limitations on exclusive rights in sound recordings specified by section 114(a). The ephemeral recording exemption should apply to broadcast radio and television stations when they make nonsubscription digital broadcasts permitted by the DPRSRA. The existing language of the ephemeral recording exemption (redesignated as 112(a)(1)) has therefore been changed to extend explicitly to broadcasters the same privilege they already enjoy with respect to analog broadcasts.

The second of these issues is the relationship between the ephemeral recording exemption and the anticircumvention provisions that the bill adds as section 1201 of the title 17. Concerns were expressed that if use of copy protection technologies became widespread, a transmitting organization might be prevented from engaging in its traditional activities of assembling transmission programs and making ephemeral recordings permitted by section 112 for purposes of its own transmissions within its local service area and of archival preservation and security. To address this concern, a new paragraph has been added to section 112 that permits transmitting organizations to engage in activities that otherwise would violate section 1201(a)(1) in certain limited circumstances when necessary for the exercise of the transmitting organization's privilege to make ephemeral recordings under redesignated section 112(a)(1). By way of example, if a radio station could not make a permitted ephemeral recording from a commercially available phonorecord without violating section 1201(a)(1), then the radio station could request from the copyright owner the necessary means of making a permitted ephemeral recording. If the copyright owner did not then either provide a phonorecord that could be reproduced or otherwise provide the necessary means of making a permitted ephemeral recording from the phonorecord already in the possession of the radio-station, the radio station would not be liable for violating section 1201(a)(1) for taking the steps necessary for engaging in activities permitted under section 112(a)(1). The radio station would, of course, be liable for violating section 1201(a)(1) if it engaged in activities prohibited by that section in other than the limited circumstances permitted by section 112(a)(1).

*Section 412: Limitations on Exclusive Rights: Distance Education.*

Section 412(a) directs the Register of Copyrights to consult with representatives of copyright owners, nonprofit educational institutions, and nonprofit libraries and archives and to submit recommendations to the Congress no later than 6 months after the date of enactment of the bill on how to promote distance education through digital technologies, including interactive digital networks, while maintaining an appropriate balance between the rights of copyright owners and the needs of users. Where appropriate, the Register shall include legislative recommendations to achieve those objectives.

Section 412(b) specifies considerations which the Register shall take into account in formulating such recommendations.

*Section 413: Exemption for Libraries and Archives.*

Section 108 of the Copyright Act *(17 U.S.C. 108)* permits libraries and archives of the type described in that section to make and, in some cases, distribute a limited number of copies of certain types of copyrighted works, without the permission of the copyright holder, for specified purposes relating to these entities' functions as repositories of such works for public reference. Section 413 of the bill updates section 108 to allow these entities to take advantage of digital technologies when engaging in specified preservation activities. Except for the amendment to subsection (a)(3), which deals with the inclusion of copyright notice on all copies or phonorecords of works made or distributed pursuant to section 108, the amendments revise either subsection (b), which addresses the reproduction and distribution of a copy or phonorecord of an unpublished work for purposes of preservation and security or for deposit for research use in another library or archive of the type described; or subsection (c), which addresses the reproduction of a copy or phonorecord of a published work for the purpose of replacement of a copy of that work that is damaged, deteriorating, lost, or stolen, if an unused replacement copy cannot be obtained at a fair price.

The amendment to subsection (a)(3) of section 108 is intended to ease the burden on libraries and archives of the current law's requirement that a notice of copyright be included on copies that are reproduced under section 108. Under this amendment, such notice would be required only where the particular copy that is reproduced by the library or archives itself bears a notice. In other words, a notice appearing on the material copied would still need to be maintained, and could not be deleted. On the other hand, if the copy being reproduced does not bear a copyright notice, the library or archives would fully satisfy its obligation under this section by simply placing on the reproduction a legend that states "this work may be protected by copyright," or words to that effect. This minimal obligation is similar to those found in subsections (e) and (f) of existing section 108, which condition the exemption in those subsections on the display of a general notice or warning of potential copyright protection.

Subsection (b) currently permits a library or archive under this section to make and distribute one copy or phonorecord of an unpublished work solely for purposes of preservation and security or for deposit for research use in another library or archives, provided that the duplication of the work occurs "in facsimile form." The legislative history to that section makes clear that, when this language was enacted more than twenty years ago, Congress intended to permit the copy to be made by microfilm or electrostatic photocopying process, but not in a computerized form i.e., "in machine readable language for storage in an information system." *See* H.R. Rep. No. 1476, 94th Cong., 2d Sess. (1976). The amendment to subsection (b) permits a library or archive to make (for itself or another library or archive of the type described by clause (2) of subsection (a)) up to 3 copies or phonorecords for these purposes, rather than just one, and permits such copies or phonorecords to be made in digital as well as analog formats. In recognition of the risk that uncontrolled public access to the copies or phonorecords in digital formats could substantially harm the interests of the copyright



owner by facilitating immediate, flawless and widespread reproduction and distribution of additional copies or phonorecords of the work, the amendment provides that any copy of a work that the library or archive makes in a digital format must not be otherwise distributed in that format and must not be made available in that format to the public outside the premises of the library or archives. In this way, the amendment permits the utilization of digital technologies solely for the purposes of this subsection.

Similarly, subsection (c) currently permits a library or archives under this section to make one copy of phonorecord of any published work solely for purposes of replacement of a copy or phonorecord that is damaged, deteriorating, lost or stolen, provided that the library or archive has determined after a reasonable effort that an unused replacement cannot be obtained at a fair price, and provided that the duplication of the work occurs "in facsimile form."

As in subsection (b), the amendment to subsection (c) permits a library or archive to make and use three copies or phonorecords for these purposes, rather than just one, and permits such copies or phonorecords to be made in digital as well as analog formats, with the proviso that any copy of a work that the library or archive makes in a digital format must not be made available to the public in that format except for use on the premises of a library or archives in lawful possession of such copy. This proviso is necessary to ensure that the amendment strikes the appropriate balance, permitting the use of digital technology by libraries and archives while guarding against the potential harm to the copyright owner's market from patrons obtaining unlimited access to digital copies from any location.

The amendment to subsection (c) also broadens its coverage to allow the updating of obsolete formats. It permits the making of such copies or phonorecords of a work "if the existing format in which the work is stored has become obsolete." This provision is intended to permit libraries and archives to ensure that copies of works in their collections continue to be accessible and useful to their patrons. In order to ensure that the provision does not inadvertently result in the suppression of ongoing commercial offerings of works in still-usable formats, the amendment explicitly provides that, for purposes of this subsection, a format will be considered obsolete only if the machine or device necessary to render perceptible a work stored in that format is no longer manufactured or reasonably available in a commercial marketplace. Under this language, if the needed machine or device can only be purchased in second-hand stores, it should not be considered "reasonably available."

Finally, these amendments make clear that, just as when section 108 of the Copyright Act was first enacted, the term "libraries" and "archives" as used and described in this provision still refer to such institutions only in the conventional sense of entities that are established as, and conduct their operations through, physical premises in which collections of information may be used by researchers and other members of the public. Although online interactive digital networks have since given birth to online digital "libraries" and "archives" that exist only in the virtual (rather than physical) sense on websites, bulletin boards and homepages across the Internet it is not intended that section 108 as revised apply to such col-

**[49]**

lections of information. The ease with which such sites are established online literally allows anyone to create his or her own digital "library" or "archives." The extension of the application of section 108 to all such sites would be tantamount to creating an exception to the exclusive rights of copyright holders that would permit any person who has an online website, bulletin board or a homepage to freely reproduce and distribute copyrighted works. Such an exemption would swallow the general rule and severely impair the copyright owners' right and ability to commercially exploit their copyrighted works. Consequently, references to "the premises of the library or archives" in amended sections 108 (b)(2) and (c)(2) mean only physical premises.

*Section 414: Fair Use*

Section 414 amends section 107 of title 17, which codifies the "fair use" doctrine. Under this section, 107 is amended by striking the words "including such use by reproduction in copies or phonorecords or by any other means specified in that section" from the general fair use limitation. The sole purpose of this section is to assure that fair use, as defined in section 107 of the copyright Act, will continue to apply as it does today in the digital environment. Some concern has been expressed that because section 107 currently mentions by name the reproduction right and not other exclusive rights contained in section 106 such as the distribution right, that somehow it may not apply equally to all of the exclusive rights contained in section 106. Although there is no case or legislative history that supports this assertion, this provision was added to this legislation to assure all interested parties that fair use applies *equally* to all of the exclusive rights contained in section 106 and that the distribution right is no less limited by fair use in the digial environment than the reproduction right. The deletion of words by this amendment should therefore not be interpreted to imply a lessening of the application of fair use to the reproduction right. All of the exclusive rights contained in section 106 are equally limited by fair use under 107 today, and all of them will continue to be equally limited under these amendments. The changes contained in this section are clarifying only and make no substantive change to the copyright Act.

*Secton 415: Scope of Exclusive Rights in Sound Recordings: Ephemeral Recordings.*

The amendments to sections 112 and 114 of the copyright Act that are contained in this section of the bill are intended to achieve two purposes: first, to further a stated objective of congress when it passed the Digital Performance Right in Sound Recordings Act of 1995 (DPRSRA) to ensure that recording artists and record companies will be protected as new technologies affect the ways in which their creative works are used; and second, to create fair and efficient licensing mechanisms that address the complex issues facing copyright owners and copyright users as a result of the rapid growth of digital audio services. This amendment accomplishes both of these objectives by creating two statutory licenses for certain performances and reproductions of sound recordings in the digital environment.

**[50]**

In the few years since Congress enacted the DPRSRA, there has been a remarkable proliferation of music services offering digital transmissions of sound recordings to the public. The primary area of this growth has been services using

the Internet as a transmission medium. In particular, services commonly known as "webcasters" have begun offering the public multiple highly-themed genre channels of sound recordings on a nonsubscription basis.

Although the DPRSRA's amendments to section 114 were intended to provide a digital performance right for sound recordings subject to specific exemptions, some nonsubscription digital audio services raised questions about that Act's application to them. At the same time, both sound recording copyright owners and webcasters faced the challenge of constructing fair and efficient licensing mechanisms. This amendment to sections 112 and 114 clarifies that the digital sound recording performance right applies to nonsubscription digital audio services such as webcasting, addresses unique programming and other issues raised by Internet transmissions, and creates statutory licensing to ease the administrative and legal burdens of constructing efficient licensing systems. While an impetus for this legislation was the licensing difficulties and legal issues raised by webcasters in particular, it is Congress' intent that this legislation apply generally to otherwise nonexempt nonsubscription digital audio services on the Internet and in other media.

The phenomenal growth of the Internet is having a profound effect on many industries, and the recording industry is certainly no exception. As more and more people turn to the Internet for entertainment, the demand for and use of music is skyrocketing. Whereas just a few years ago the transmission of music on the Internet was limited largely to the time-consuming downloading of music files, today a marketplace for the real-time performance of fulllength recordings is evolving rapidly.

The explosive growth of music services on the Internet can be traced to the many advantages that the Internet offers as a transmission medium. The Internet offers novel ways to deliver music and interact with the public unavailable from other media. Most significantly, the Internet enables a music service to interact with its listeners so that listeners have the ability to hear their favorite music whenever they wish, select certain sound recordings or programs, skip to the recordings of their choice, and to create personalized channels that are customized to their specific tastes.

Webcasters, in particular, have utilized these advantages to offer a diverse range of programming. Webcasters generally offer multiple (sometimes more than one hundred) channels of sound recordings that are programmed by genre, usually broken down by time period, geography, artist or topic. Many webcasters also offer certain types of programming, such as archived and continuous programming, that permit listeners to hear the same recordings repeatedly and anytime the listener chooses. Still others offer an individual music customized to that person's tastes. Other webcasters provide graphic and text information about sound recordings, artists and songwriters, and enable listeners to purchase the recordings they perform through online retailers.

**[51]**

In addition, many of the barriers to entry that exist in other media do not exist on the Internet. Although establishing commercial Internet webcast services may involve considerable expense, a small-scale Internet-based service can be started by an individual with one computer in his or her home.

The Digital Performance Right in Sound Recordings Act of 1995 established a right of public performance for sound recording copyright owners for the first time. Consequently, sound recording copyright owners had little experience in licensing their creative works to a large group of potential licensees and no established institutions, like the performing rights organizations long ago established by songwriters, composers and publishers of musical works, to facilitate such licensing. The use of music on the Internet presented the first need for sound recording copyright owners to license a multitude of copyright users.

Administrative and legal issues have made the licensing of music on the Internet especially challenging. There are a growing number of nonsubscription Internet services, each of which may use thousands of sound recordings. These services have been confronted with the prospect of obtaining licenses company-by-company and recording-by-recording. Like sound recording copyright owners, webcasters and others have expressed interest in efficient blanket licensing mechanisms. However, antitrust laws have constrained efforts by copyright owners and nonsubscription music services to establish more efficient licensing mechanisms in the short term. As a result, virtually all webcasters have come to perform copyrighted sound recordings without licenses.

At the time the DPRSRA was crafted, Internet transmissions of music were not the focus of Congress' efforts. Thus, while the DPRSRA created a statutory license for certain subscription services that existed at the time, not enough was known about how nonsubscription music services would evolve on the Internet or in other digital media. However, given the proliferation and evolution of such services as well as the licensing complexities described above, it is now appropriate to address the licensing of nonexempt nonsubscription digital audio transmitters.

Section 415 creates two statutory licenses: one for performances of sound recordings that meet certain programming and other requirements, and one for certain ephemeral reproductions of sound recordings (generally stored in the hard drives of computers known as "servers") in order to facilitate performances. While it is Congress "intent to create a convenient means for licensing, the existence of these statutory licenses does not preclude voluntary license negotiations between copyright owners and those who perform sound recordings for the same or different rights.

Section 415 amends section 114 of Title 17 by creating a statutory license for certain nonsubscription and new subscription transmissions. Subscription transmissions by services providing service to customers on July 31, 1998, remain subject to the statutory license created by the DPRSRA, with certain exceptions. Section 415 also amends section 114 to clarify that certain types of programming practices should be considered interactive and therefore subject to a sound recording copyright owner's exclusive rights.

**[52]**

Recording artists and record companies were particularly concerned that certain types of programming, without certain limitations, might harm recording artists and record companies. For example, some webcasters offer "artist-only" channels that perform the recordings of one artist continuously 24 hours a day. Yet another example are webcasters which engage in programming techniques that permit listeners to select or hear repeatedly and on-demand particular sound recordings that are part of programs created by the webcasters. In order to address some of these concerns expressed by recording artists and record companies, the new statutory license is conditioned on certain programming limitations and other provisions, as discussed below.

These amendments are fully subject to all the existing provisions of section 114. Specifically, these amendments and the statutory licenses they create are all fully subject to the safeguards for copyright owners of sound recordings and musical works contained in sections 114(c), 114(d)(4), and 114(i). In addition, the Congress does not intend to affect any of the rights in section 115 that were clarified and confirmed in the DPRSRA.

Section 415 also amends section 112 of title 17 by offering a statutory license for certain types of reproductions made to facilitate transmissions subject to the statutory licenses in section 114 or which qualify for certain exemptions from a sound recording copyright owner's performance right. Such reproductions are referred to as "ephemeral recordings" by section 112 because, *inter alia*, they are made specifically for the purpose of facilitating a transmission and generally must be destroyed within six months of the first transmission to the public. The statutory license created by section 112(f) facilitates the licensing that is necessary for the making of ephemeral recordings by Internet music services.

It should be noted that the section 112(f) statutory license applies to reproductions, while the section 114 statutory license applies to public performances. A copyright owner's reproduction and performance rights are separate, distinct and capable of being independently licensed or infringed. The fact that an ephemeral reproduction is authorized does not mean or imply that any transmissions made from the ephemeral recording are authorized performances. That is the subject of section 114. Conversely, the fact that a particular transmission is authorized by section 114 does not mean or imply that any phonorecord from which the transmission is made is authorized by section 112(f). In any particular case, acts implicating the reproduction or performance rights must be considered separately under sections 112(f) or 114, as applicable, and any other relevant provisions of the Copyright Act.

Furthermore, the grant of a statutory license in section 112(f) covers only phonorecords used solely for transmissions made under a statutory license in accordance with section 114(f) or an exemption in section 114(d)(1) (B) or (C). If a phonorecord is used for any other transmissions, the statutory license in section 112(f) does not apply to the making of that phonorecord.

Ephemeral recordings of sound recordings made by certain transmitting organizations under section 112(f) may embody copyrighted musical compositions. The making of an ephemeral recording by such a transmitting organization of each copyrighted musical com-

**[53]**

position embodied in a sound recording it transmits is governed by existing section 112(a) (or section 112(a)(1) as revised by the Digital Millenium Copyright Act), and, pursuant to that section, authorization for the making of an ephemeral recording is conditioned in part on the transmitting organization being entitled to transmit to the public the performance of the musical composition under a license or transfer of the copyright.

Concern was expressed that the statutory licenses in sections 112 and 114 might be construed to affect the rights of copyright owners with respect to international transmissions. For example, the transmission of a sound recording from the United States to another country may implicate the rights of the copyright owner of that sound recording in the country where the transmission is received. The Committee does not intend to affect any rights with respect to public performance in any such foreign country by virtue of the fact that the transmission commences in the United States and is licensed pursuant to the statutory license in section 114 or the phonorecord used to transmit a sound recording abroad is licensed pursuant to the statutory license in section 112. Likewise, the Committee does not intend to affect any rights of U.S. copyright owners with respect to transmissions that originate abroad.

Section 415 of the Digital Millenium Copyright Act contains amendments to sections 112 and 114 of Title 17 as follows.

*Section 114(d)(1). Exempt Transmissions and Retransmissions.*

Section 114(d)(1)(A) is amended to delete two exemptions that were either the cause of confusion as to the application of the DPRSA to certain nonsubscription services (especially webcasters) or which overlapped with other exemptions (such as the exemption in subsection (A)(iii) for nonsubscription broadcast transmissions). The deletion of these two exemptions is not intended to affect the exemption for nonsubscription broadcast transmissions.

*Section 114(d)(2). Statutory Licensing of Certain Transmissions.*

The amendment to subsection (d)(2) extends the availability of a statutory license for subscription transmissions to cover certain eligible nonsubscription transmissions. "Eligible nonsubscription transmission are defined in subsection (j)(6). The amendment subdivides subsection (d)(2) into three subparagraphs ((A), (B), and (C)), each of which contains conditions of a statutory license for certain nonexempt subscription and eligible nonsubscription transmissions.

Subparagraph (A) sets forth three conditions of a statutory license applicable to all nonexempt subscription and eligible nonsubscription transmissions. These three conditions are taken directly from previous subsection (d)(2). The conditions in subparagraph (iii) apply to retransmissions of broadcast transmissions by a transmitting entity that does not have the right or ability to control the programming of the broadcast station making the broadcast transmission, to the extent that such identifying information was included in the original broadcast transmission and to the extent that it is technically feasible for the transmitting entity to retransmit that information.

Subparagraphs (B) and (C) are alternatives: a service is subject to the conditions in one or the other in addition to those in subparagraph (A). Subparagraph (B) contains conditions applicable



only to nonexempt subscription transmissions made by a preexisting subscription service in the same transmission medium as was used by the service on July 31, 1998. A preexisting subscription service is defined in subsection (j)(10). The purpose of distinguishing preexisting services making transmissions in the same medium as on July 31, 1998, was to prevent disruption of the existing operations by such services. There are only three such services that exist: DMX (operated by TCI Music), Music Choice (operated by Digital Cable Radio Associates), and the DiSH Network (operated by Muzak). As of July 31, 1998, DMX and Music Choice made transmissions via both cable and satellite media; the DiSH Network was available only via satellite.

The two conditions contained in subparagraph (B) are taken directly from previous subsection (d)(2). Thus, the historical operations of these preexisting subscription services are subject to the same five conditions for eligibility for a statutory license, as set forth in subparagraphs (A) and (B), as have applied previously to these services.

Subparagraph (C) sets forth additional conditions for a statutory license applicable to all transmissions not subject to subparagraph (B), namely all eligible nonsubscription transmissions, subscription transmissions made by a new subscription service, and subscription transmissions made by a preexisting subscription service other than those made in the same transmission medium. Subparagraph (C) contains nine conditions.

Subparagraph (C)(i) requires that transmissions subject to a statutory license cannot exceed the sound recording performance complement defined in subsection (j)(12), which is unchanged by this amendment. Subparagraph (C)(i) eliminates this requirement for retransmissions of over-the-air broadcast transmissions by a transmitting entity that does not have the right or ability to control the programming of the broadcast station making the initial broadcast transmission, subject to two limitations.

First, the retransmissions are not eligible for statutory licensing if the retransmitted broadcast transmissions are in digital format and regularly exceed the sound recording performance complement. Second, the retransmissions are not eligible for statutory licensing if the retransmitted broadcast transmissions are in analog format and a substantial portion of the transmissions, measured on a weekly basis, violate the sound recording performance complement. In both cases, however, the retransmitter is disqualified from making its transmissions under a statutory license only if the sound recording copyright owner or its representative notifies the retransmitter in writing that the broadcast transmissions exceed the sound recording performance complement. Once notification is received, the transmitting entity making the retransmissions must cease retransmitting those broadcast transmissions that exceed the sound recording performance complement.

Subparagraph (C)(ii) imposes limitations on the types of prior announcements, in text or audio, that may be made by a service under the statutory license. Services may not publish advance program schedules or make advance announcements of the titles of specific sound recordings or the featured artists to be performed on the service. Moreover, services may not induce or facilitate the ad-

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vance publication of schedules or the making of announcements, such as by providing a third party the list of songs or artists to be performed by the transmitting entity for publication or announcement by the third party.

However, services may announce, up to three times per hour, the names of two artists whose sound recordings will be performed by the service within an unspecified future time period. In addition, services may generally use the names of several featured recording artists to illustrate the type of music being performed on a particular channel. This limitation of advance announcements is not intended to prohibit services that use audio announcements from engaging in the common broadcast practice of identifying the names of specific sound recordings at the time they are transmitted.

Subparagraph (C)(iii) addresses limitations for archived programs and continuous programs, which are defined in subsections (j)(2) and (j)(4), respectively. Subparts (I) and (II) address archived programs. Archived programs often are available to listeners indefinitely or for a substantial period of time, thus permitting listeners to hear the same songs on demand any time the visitor wishes. Transmissions that are part of archived programs that are less than five hours long are ineligible for a statutory-license. Transmissions that are part of archived programs more than five hours long are eligible only if the archived program is available on the webcaster's site or a related site for two weeks or less. The two-week limitation is to be applied in a reasonable manner to achieve the objectives of this subparagraph, so that, for example, archived programs that have been made available for two weeks are not removed from a site for a short period of time and then made available again. Furthermore, altering an archived program only in insignificant respects, such as by replacing or reordering only a small number of the songs comprising the program, does not render the program eligible for statutory licensing.

Subparagraph (C)(iii) also limits eligibility for a statutory license to transmissions that are not part of a continuous program of less than three hours duration (subparagraph (C)(iii)(III)). A listener to a continuous program hears that portion of the program that is being transmitted to all listeners at the particular time that the listener accesses the program, much like a person who tunes in to an over-the-air broadcast radio station.

Finally, subparagraph (C)(iii) limits eligibility for a statutory license to transmissions that are not part of a program, other than an archived or continuous program, that is transmitted at a scheduled time more than three additional times in a two-week period following the first transmission of the program and more than four additional times for an additional two-week period at least one month following the end of the first two-week period. In other words, this subpart limits programs to three repeat performances within two weeks of the initial performance and an additional four repeat performances within a two-week period more than one month after the first two-week period. It is the Committee's intention that the two-week limitation in subpart IV be applied in a reasonable manner consistent with its purpose so that, for example, a transmitting entity does not regularly make all of the three repeat performances within several days.

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Subparagraph (C)(iv) states that the transmitting entity may not avail itself of a statutory license if it knowingly performs a sound recording in a manner that is likely to cause a listener to believe that there is an affiliation or association between the sound recording copyright owner or featured artist and a particular product or service advertised by the transmitting entity. This would cover, for example, transmitting an advertisement for a particular product or service every time a particular sound recording or artist is transmitted; it would not cover more general practices such as

targeting advertisements of particular products or services to specific channels of the service according to user demographics. If, for example, advertisements are transmitted randomly while sound recordings are performed, this subparagraph would be satisfied.

Subparagraph (C)(v) provides that, in order to qualify for a statutory license, a transmitting entity must cooperate with sound recording copyright owners to prevent a transmission recipient from scanning the transmitting entity's transmissions to select particular sound recordings. In the future, a device or software may be developed that would enable its user to scan one or more digital transmissions to select particular sound recordings or artists requested by its user. Such devices or software would be the equivalent of an on demand service that would not be eligible for the statutory license. Technology may be developed to defeat such scanning, and transmitting entities taking a statutory license are required to cooperate with sound recording copyright owners to prevent such scanning, provided that such cooperation does not impose substantial costs or burdens on the transmitting entity.

Subparagraph (C)(vi) requires a transmitting entity to take reasonable steps within its control to ensure that recipients of its transmissions do not make digital phonorecords of the data constituting those transmissions. The Committee notes that some software used to "stream" transmissions of sound recordings enables the transmitting entity to disable such direct digital copying of the transmitted data by transmission recipients. In such circumstances the transmitting entity must take reasonable steps to disable that direct copying function. Likewise, a transmitting entity may not take affirmative steps to cause or induce the making of any copies by a transmission recipient. For example, a transmitting entity may not encourage a transmission recipient to make either digital or analog copies of the transmission such as by suggesting that recipients should record copyrighted programming transmitted by the entity.

Subparagraph (C)(vii) requires that each sound recording transmitted by the transmitting entity must have been distributed to the public in the United States under authority of the copyright owner or provided to the transmitting entity with authorization that the transmitting entity may perform such sound recording. The Committee recognizes that a disturbing trend on the Internet is the unauthorized performance of sound recordings not yet released for broadcast or sale to the public. The transmission of such pre-released sound recordings is not covered by the statutory license unless the sound recording copyright owner has given explicit authorization to the transmitting entity. This subparagraph also requires that the transmission be made from a phonorecord law



fully made under this title. A phonorecord provided by the copyright owner or an authorized phonorecord purchased through commercial distribution channels would qualify. However, the transmission of bootleg sound recordings (e.g., the recording of a live musical performance without the authority of the performer, as prohibited by Chapter 11) is ineligible for a statutory license.

Subparagraph (C)(viii) conditions a statutory license on whether a transmitting entity has accommodated and does not interfere with technical measures widely used by sound recording copyright owners to identify or protect their copyrighted works. Thus, the transmitting entity must ensure that widely used forms of identifying information, embedded codes, encryption or the like are not removed during the transmission process, provided that accommodating such measures is technologically feasible, does not impose substantial costs or burdens on the transmitting entity, and does not result in perceptible degradation of the digital audio or video signals being transmitted.

Subparagraph (C)(ix) requires transmitting entities eligible for the statutory license to identify the title of the sound recording, the title of the album on which the sound recording appears (if any), and the name of the featured recording artist. These titles and names must be made during, but not before, the performance of the sound recording. A transmitting entity must make the identifying information available audibly or ensure that the identifying information is easily seen by the transmission recipient in visual form. For example, the information might be displayed by the software player used on a listener's computer to decode and play the sound recordings that are transmitted. Many webcasters already provide such information, but in order to give those who do not adequate time to begin doing so this obligation does not take effect until one year after the effective date of the amendment. This requirement does not apply to the retransmission of broadcast transmissions by a transmitting entity that does not have the right or ability to control the programming of the broadcast station making the broadcast transmissions.

*Section 114(f). Licenses for Certain Nonexempt Transmissions.*

Section 114(f) is amended to set forth procedures for determining reasonable rates and terms for those transmissions that qualify for statutory licensing under section 114(d)(2). Section 114(f) is divided into two parts: one

applying to transmissions by preexisting subscription services (subsection (f)(1)), and the other applying to transmissions by new subscription services (including subscription transmissions made by a preexisting subscription service other than those that qualify under the definition in subsection (j)(10)) as well as eligible nonsubscription transmissions (subsection (f)(2)).

Subsection (f)(1) provides for procedures applicable to subscription transmissions by preexisting subscription services. The Committee notes that this subsection applies only to the three services considered preexisting subscription services: DMX, Music Choice and the DiSH Network. The procedures in this subsection remain the same as those applicable before the amendment, except that the rate currently in effect is extended from December 31, 2000 until December 31, 2001. Likewise, the initiation of the next voluntary negotiation period shall take place in the first week of Jan-



uary 2001 instead of January 2000 (subsection (f)(1)(C)(I)). These extensions are made purely to facilitate the scheduling of proceedings.

Subparagraph (f)(1)(B), which sets forth procedures for arbitration in the absence of a negotiated license agreement, continues to provide that a copyright arbitration royalty panel should consider the objectives set forth in section 801(b)(1) as well as rates and terms for comparable types of subscription services.

Subsection (f)(2) addresses procedures applicable to eligible nonsubscription transmissions and subscription transmissions by new subscription services. The first such voluntary negotiation proceeding is to commence within 30 days after the enactment of this amendment upon publication by the Librarian of Congress of a notice in the Federal Register. The terms and rates established will cover qualified transmissions made between the effective date of this amendment and December 31, 2000, or such other date as the parties agree.

Subsection (f)(2) directs that rates and terms must distinguish between the different types of eligible nonsubscription transmission services and new subscription services then in operation. The Committee recognizes that the nature of qualified transmissions may differ significantly based on a variety of factors. The Committee intends that criteria including, but not limited to, the quantity and nature of the use of sound recordings, and the degree to which use of the services substitutes for or promotes the purchase of phonorecords by consumers may account for differences in rates and terms between different types of transmissions.

Subsection (f)(2) also directs that a minimum fee should be established for each type of service. A minimum fee should ensure that copyright owners are fairly compensated in the event that other methodologies for setting rates might deny copyright owners an adequate royalty. For example, a copyright arbitration royalty panel should set a minimum fee that guarantees that a reasonable royalty rate is not diminished by different types of marketing practices or contractual relationships. For example, if the base royalty for a service were a percentage of revenues, the minimum fee might be a flat rate per year (or a flat rate per subscriber per year for a new subscription service).

Also, although subsection (f)(1) remains silent on the setting of a minimum fee for preexisting subscription services, the Committee does not intend that silence to mean that a minimum fee may or may not be established in appropriate circumstances when setting rates under subsection (f)(1) for preexisting subscription services. Likewise, the absence of criteria that should be taken into account for distinguishing rates and terms for different services in subsection (f)(1) does not mean that evidence relating to such criteria may not be considered when adjusting rates and terms for preexisting subscription services in the future.

Subparagraph (f)(2)(B) sets forth procedures in the absence of a negotiated license agreement for rates and terms for qualifying transmissions under this subsection. Consistent with existing law, a copyright arbitration proceeding should be empanelled to determine reasonable rates and terms. The test applicable to establishing rates and terms is what a willing buyer and willing seller



would have arrived at in marketplace negotiations. In making that determination, the copyright arbitration royalty panel shall consider economic, competitive and programming information presented by the parties including, but not limited to, the factors set forth in subparts (i) and (ii).

Subparagraph (f)(2)(C) specifies that rates and terms for new subscription and eligible nonsubscription transmissions should be adjusted every two years, unless the parties agree as to another schedule. These two-year intervals are based upon the Committee=s recognition that the types of transmission services in existence and the media in which they are delivered can change significantly in a short period of time.

Subsection (b)(4) amends section 114(j) of title 17 to add or modify the following definitions:

*Subsection (j)(2)--"archived program"*

A program is considered an "archived program" if it is prerecorded or preprogrammed, available repeatedly on demand to the public and is performed in virtually the same order from the beginning.

*Subsection 114(j)(4)--"continuous program"*

A "continuous program" is one that is continuously performed in the same predetermined order. Such a program generally takes the form of a loop whereby the same set of sound recordings is performed repeatedly; rather than stopping at the end of the set, the program automatically restarts generally without interruption. In contrast to an archived program (which always is accessed from the beginning of the program), a transmission recipient typically accesses a continuous program in the middle of the program. Minor alterations in the program should not render a program outside the definition of "continuous program."

*Subsection 114(j)(6)--"eligible nonsubscription transmission"*

An "eligible nonsubscription transmission" is one that meets the following criteria. First, the transmission must be noninteractive and nonsubscription in nature. Second, the transmission must be made as part of a service that provides audio programming consisting in whole or in part of performances of sound recordings. Third, the purpose of the transmission service must be to provide audio or entertainment programming, not to sell, advertise or promote particular goods or services. Thus, for example, an ordinary commercial Web site that was primarily oriented to the promotion of a particular company or to goods or services that are unrelated to the sound recordings or entertainment programming, but that provides background music would not qualify as a service that makes eligible nonsubscription transmissions. The site's background music transmissions would need to be licensed through voluntary negotiations with the copyright owners. However, the sale or promotion of sound recordings, live concerts or other musical events does not disqualify a service making a nonsubcription transmission. Furthermore, the mere fact that a transmission service is advertiserbased or may promote itself does not disqualify it from being considered an eligible nonsubscription transmission service.

*Subsection 114(j)(7)--"interactive service"*

The definition of "interactive service" is amended in several respects. First, personalized transmissions--those that are specially



created for a particular individual--are to be considered interactive. The recipient of the transmission need not select the particular recordings in the program for it to be considered personalized; for example, the recipient might identify certain artists that become the basis of the personal program.

Second, a transmission of a particular sound recording on request is considered interactive "whether or not [the sound recording is] part of a program." This language clarifies that if a transmission recipient is permitted to select particular sound recordings in a prerecorded or predetermined program, the transmission is considered interactive. For example, if a transmission recipient has the ability to move forward and backward between songs in a program, the transmission is interactive. It is not necessary that the transmission recipient be able to select the actual songs that comprise the program. Additionally, a program consisting only of one sound recording would be considered interactive.

Third, the definition of "interactive service" is amended to clarify that certain channels or programs are not considered interactive provided that they do not substantially consist of requested sound recordings that are performed within one hour of the request or at a designated time. Thus, a service that engaged in the typical broadcast programming practice of including selections requested by listeners would not be considered interactive, so long as the programming did not substantially consist of requests regularly performed within an hour of the request, or at a time that the transmitting entity informs the recipient it will be performed.

*Subsection 114(j)(8)--"new subscription service"*

A "new subscription service" is any service that is not a preexisting subscription service as defined in subsection (j)(10).

*Subsection 114(j)(10)--"preexisting subscription service"*

A "preexisting subscription service" is a noninteractive, subscription service that was in existence and was making transmissions to the public on or before July 31, 1998, and which is making transmissions similar in character to such transmissions made on or before July 31, 1998. Only three services qualify as a preexisting subscription service--DMX, Music Choice and the DiSH Network. As of July 31, 1998, DMX and Music Choice made transmissions via both cable and satellite media; the DiSH Network was available only via satellite.

In grandfathering these services, the Committee's objective was to limit the grandfather to their existing services in the same transmission medium and to any new services in a new transmission medium where only transmissions similar to their existing service are provided. Thus, if a cable subscription music service making transmissions on July 31, 1998, were to offer the same music service through the Internet, then such Internet service would be considered part of a preexisting subscription service.

If, however, a subscription service making transmissions on July 31, 1998, were to offer a new service either in the same or new transmission medium by taking advantages of the capabilities of that medium, such new service would not qualify as a preexisting subscription service. For example, a service that offers video programming, such as advertising or other content, would not qualify as a preexisting service, provided that the video programming is



not merely information about the service itself, the sound recordings being transmitted, the featured artists, composers or songwriters, or an advertisement to purchase the sound recording transmitted.

*Section 112(f) Statutory License.*

Section 112(f) creates a statutory license for the making of an "ephemeral recording" of a sound recording by a transmitting organization that is entitled to perform publicly that sound recording under statutory license or an exemption in section 114(d)(1) (B) or (C). The term "ephemeral recording" is a term of art referring to certain phonorecords made for the purpose of facilitating certain transmissions of sound recordings, the reproduction of which phonorecords is privileged by the provisions of section 112.

The conditions listed in section 112(f)(2), most of which are also found in section 112(a), must be met before a transmitting organization is eligible for statutory licensing in accordance with section 112(f). First, paragraph (2)(A) provides that the transmitting organization may reproduce and retain only one phonorecord, solely for its own use (unless the terms and conditions of the statutory license allow for more). Thus, trafficking in ephemeral recordings, such as by preparing prerecorded transmission programs for use by third parties, is not permitted. This paragraph provides that the transmitting organization may reproduce and retain more than one ephemeral recording, in the manner permitted under the terms and conditions as negotiated or arbitrated under the statutory license. This provision is intended to facilitate efficient transmission technologies, such as the use of phonorecords encoded for optimal performance at different transmission rates or use of different software programs to receive the transmissions.

Second, paragraph (2)(B) requires that the phonorecord be used only for the transmitting organization's own transmissions in the United States, and such transmissions must be made under statutory license pursuant to section 114(f) or an exemption in section 114(d)(1) (B) or (C). In this context, "in the United States" is intended to mean originating in the United States. Third, paragraph (2)(C) mandates that, unless preserved exclusively for archival purposes, the phonorecord be destroyed within six months from the time that the sound recording was first performed publicly by the transmitting organization. Fourth, paragraph (2)(D) limits the statutory license to reproductions of sound recordings that have been distributed to the public or authorized by the copyright owner to transmit.

Subsection 112(f)(3) clarifies the applicability of the antitrust laws to the use of common agents in negotiations and agreements relating to statutory licenses and other licenses. Under this subsection, the copyright owners of sound recordings and transmitting organizations entitled to obtain the statutory license in this section may negotiate collectively regarding rates and terms for the statutory license or other licenses. This subsection provides that such copyright owners and transmitting organizations may designate common agents to represent their interests to negotiate

or administer such license agreements. This subsection closely follows the language of existing antitrust exemptions in copyright law, including the exemption found in the statutory licenses for transmitting

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sound recordings by digital audio transmission found in section 114(f).

Subsections 112(f) (4) and (5) address the procedures for determining rates and terms for the statutory license provided for in this section. These procedures are parallel to the procedures found in section 114(f)(2) for public performances of sound recordings by digital audio transmission by new subscription services and services making eligible nonsubscription transmissions.

Subsection 112(f)(4) provides that the Librarian of Congress should publish notice of voluntary negotiation proceedings 30 days after enactment of this amendment. Such voluntary negotiation proceedings should address rates and terms for the making of ephemeral recordings under the conditions of this section for the period beginning on the date of enactment and ending on December 31, 2000. This subsection requires that a minimum fee be established as part of the rates and terms.

In the event that interested parties do not arrive at negotiated rates and terms during the voluntary negotiation proceedings, paragraph (f)(5) provides for the convening of a copyright arbitration royalty panel to determine reasonable rates and terms for the making of ephemeral recordings under this subsection. This paragraph requires the copyright arbitration royalty panel to establish rates that reflect the fees that a willing buyer and seller would have agreed to in marketplace negotiations. In so doing, the copyright arbitration royalty panel should base its decision on economic, competitive and programming information presented by the parties, including, but not limited to, such evidence as described in subparts (e)(5) (i) and (ii).

Subsection 112(f)(7) states that rates and terms either negotiated or established pursuant to arbitration shall be effective for two-year periods, and the procedures set forth in subsections 112(f) (4) and (5) shall be repeated every two years unless otherwise agreed to by the parties.

*Section 416: Assumption of Contractual Obligations*

Section 416 contains provisions which already passed the House as part of H.R. 2589. The writers, screen actors, and directors guilds have expressed concern about their inability to obtain residual payments that are due to their members in situations where the producer of the motion picture fails to make these payments, for example where the producer/company no longer exists or is bankrupt. The guilds may be unable to seek recourse against the exclusive distributors, the transferees of rights in the motion picture, because those parties are not subject to the collective bargaining agreement or otherwise in privity with the guilds. Although the collective bargaining agreements generally require the production company to obtain assumption agreements from distributors that would effectively create such privity, some production companies apparently do not always do so.

Section 416 would address this problem without interfering with the collective bargaining process and the ability of the parties to determine the terms of their relationships. It would, in certain circumstances, impose on distributors the obligations to make residual payments and provide related notices that are currently re-

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quired by the collective bargaining agreements governing the motion picture. It does so by making the distributor subject to the applicable obligations under the assumption agreements, incorporating the applicable terms into the transfer instrument by operation of law. The provision would not affect broadcast and cable licensees because it excludes transfers that are limited to public performance rights.

The "reason to know" language is intended to be interpreted in light of common sense and industry practice. Because many motion pictures made in the United States are produced subject to one or more collective bargaining agreements, the distributor would ordinarily perform some check on whether the motion picture is subject to such an agreement, for example by inquiring of the producer. The provision would not, however, require a burdensome or exhaustive investigation. Publicly available information that indicates a work's status, such as records of a guild's security interest in the motion picture filed with the Copyright Office, would ordinarily provide "reason to know" within the meaning of the Act. The guilds may wish to provide an easily accessible source of information, such as a world

Wide Web Site, that identifies which motion pictures are subject to a collective bargaining agreement. If the existence of such a site is made known in the industry, the listing of a particular motion picture would clearly give reason to know of that picture's status.

In order to protect distributors who have negotiated transfers based on misrepresentations, the provision makes the producer who fails to inform distributors of its collective bargaining agreement obligations liable to those distributors for any resulting damages. Disputes about the application of the provision and claims for damages from misrepresentation would be resolved in federal district court, with the court having discretion to award costs and reasonable attorneys" fees.

*Section 417: First Sale Clarification*

Section 417 is a clarifying amendment that addresses a recent interpretation by the Supreme Court of the interaction of sections 109 and 602 of the Copyright Act. In *Quality King Distribs., Inc. v. L'Anza Research Int'l., Inc., 118 S. Ct. 1125 (1998),* the Court held that the first sale doctrine codified in section 109 of the Copyright Act is applicable to copies of a work protected under the Act where the copies were made in the United States, exported, then imported back into the United States, notwithstanding section 602 of the Act which grants copyright owners the right to prohibit the unauthorized importation of copies.

Section 109(a) of the Copyright Act allows an owner of a particular lawfully made copy of a work to sell or otherwise dispose of the possession of that copy without the authorization of the copyright owner. Section 602(a) grants the copyright owner the right to prohibit the unauthorized importation of copies. The Court found the provisions ambiguous and concluded that the ambiguity could be resolved by construing the right granted in section 602 as subject to the limitation contained in section 109.

The Court ruled that because importation under section 602 is an infringement of the exclusive right to distribute copies under



section 106, and because the exclusive rights contained in section 106, including the right to distribute, are subject to the first sale limitations provided in section 109, section 602 is subject to section 109 as to copies made in the United States. In reaching this conclusion, the Court made no determination as to the policy justifications for prohibiting parallel imports.

The facts of the *Quality King* case involved the efforts of the owner of a copyright in labels attached to goods intended solely for sale abroad, but purchased and imported back into the United States and subsequently sold for substantially lower than domestic prices, to prevent the importation of those goods based on section 602. The importers made the argument that the Court adopted, namely that the language of the statute subjects the importation right to the first sale limitation. The lower court decision, which held that such a statutory construction would nullify the purpose of 602, was rejected based on the Court's reading of the language of the statute.

In enacting section 602, it was not Congress "intent that the first sale doctrine would allow the practice of importing copies of works without the authorization of the copyright owner, regardless of where the copies were manufactured. As a public policy matter, it may not be advisable to allow a business to rely on its ownership of copyright in labels on goods to block parallel importation when trademark law fails to provide such a right. Such a public policy determination has not been debated in Congress, however, and as a result of the Court's reading of ambiguous language in the Copyright Act, the *Quality King* case puts in jeopardy the right of any U.S. copyright owner to prevent the purchase of American made copyrighted works such as movies, software, books, or sound recordings overseas with the intent to import those goods back into the United States for purposes of undermining the market for such goods domestically. Indeed, the decision states that "[a]lthough the labels themselves have only a limited creative component, our interpretation of the relevant statutory provisions would apply equally to a case involving more familiar copyrighted materials such as sound recordings or books."

While the decision is limited to copies manufactured in the United States, and its practical impact is thus fairly small, the statutory ambiguity relied on by the Court should be corrected to give full effect to Congress' intent to grant copyright owners the exclusive right to authorize or prohibit importation of copies of their works. This section clarifies congressional intent by limiting the first sale doctrine to copies authorized for distribution in the United States, thus restoring the intended meaning to section 602 of the Copyright Act. While a carve-out for copyrighted labels attached to

goods may be appropriate, and should be debated and considered, it should not delay the expeditious clarification of Congress' intent.

TITLE V--COLLECTIONS OF INFORMATION ANTIPIRACY ACT

Title V contains provisions which have already passed the House under suspension of the Rules as H.R. 2652.

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*Section 501: Short Title.*

The short title of the act will be the "Collections of Information Antipiracy Act"

*Section 502: Prohibition Against Misappropriation.*

This Section creates a new chapter 13 of the Copyright Act to prevent the misappropriation of another's collection of information where market harm results. Section 1302 sets out the central prohibition of the Act. It states that any person who extracts, or uses in commerce, all or a substantial part of a collection of information of another so as to cause harm to that other person's actual or potential market for a product or service is liable for the remedies established in this act. To be eligible for protection, the collection of information must be gathered, organized, or maintained through the investment of substantial monetary or other resources. The maintenance that is referred to may include updating or ongoing verification of the information collected. In order to qualify, the investment must be substantial, whether it consists of money, time, or effort. The protection would extend to any successor in interest of the person that produced the collection of information.

The use of a substantial part of a collection of information cannot be unlawful under this act unless it is a use made in commerce. Accordingly, the use of information for purely private purposes, without a nexus to commerce such as dissemination to others, would not be prohibited. The intent of the Committee is to ensure that those with lawful access to a collection have the ability freely to use its contents for purposes of noncommercial internal study, research or analysis. In contrast, the act of extraction itself could fall within the prohibition of the bill even if it is noncommercial and private, in order to safeguard against the destruction of a market from the members of the intended market simply downloading a collection for their own use without authorization or payment.

The prohibition of the Act applies only if either the entire collection, or a substantial part of the collection, is taken. The intent is to prohibit piratical takings that misappropriate the value of the collection itself, rather than particular items of information it contains. Since the taking of a substantial part of a collection may seriously harm the collection's market, the prohibition cannot be limited to the taking of the entire collection. Only portions of the collection that are substantial in amount or importance to the value of the collection as a whole would be covered. Qualitative harm may occur through the extraction of a quantitatively small but valuable portion of a collection of information. For example, the Physician's Desk Reference, a work that compiles generally available information about every prescription drug approved by the FDA, contains some several thousand drugs and is available to both consumers and medical professionals. If a second comer extracted information about the thousand most commonly prescribed medications and offered it for sale to the general public--for example under the title "Drugs Every Consumer Should Know"--that extraction and use, although a fraction of the total collection of information, would cause the kind of market harm that the Committee intends H.R. 2652 to prevent. Similarly, the extraction or use of real-time quotes for all technology stocks from a securities database, while constitut-

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ing a relatively small portion of actively traded or volatile securities, may be of such "qualitative" importance to the value of the database that it creates the type of commercial harm that the Committee intends section 1302 to prevent.

Under the misappropriation approach of this bill, liability is premised on harm to the actual or potential market for the collection of information. The element of market harm is therefore critical, and should be properly understood. Misappropriation under the chapter occurs only if the extraction or use in commerce directly causes harm to the actual or potential market for a collection of information produced by the aggrieved person. Clearly, extracting information from a database and using it in a new database which competes with the first database causes harm to the actual market for the first database. Similarly, if a person extracts so much of an online database that the person would be able, in the future, to avoid paying a subscription fee for access to the data it contains, that person has harmed the market for the database.

The prohibition is written so as to avoid preventing consumer, scientific, or educational uses of information which has been acquired through lawful access. It would not, for example, prevent scientists from sharing data sets, or publishing the results of their analysis of data, since such acts do not ordinarily involve use in commerce that would harm the market for the database. Nor is the Act intended to cover indirect harm to the market for a product. For example, a chemical company which uses the information in a database (for which it paid) to create a new chemical which revolutionizes a segment of the industry, and thereby diminishes demand for the database by decreasing the number of companies in the industry, has not misappropriated information within the meaning of this chapter. The harm to the market was not directly caused by the use of the information, but by the changes to the industry that came about through the effect of the use of the information.

Section 1301 provides several definitions. It defines "collection of information" to mean information that has been collected and has been organized for the purpose of bringing discrete items of information together in one place or through one source so that users may access them. The definition is intended to avoid sweeping too broadly, particularly in the digital environment, where all types of material when in digital form could be viewed as collections of information. It makes clear that the statute protects what has been traditionally thought of as a database, involving a collection made by gathering together multiple discrete items with the purpose of forming a body of material that consumers can use as a resource in order to obtain the items themselves. This is in contrast to elements of information combined and ordered in a logical progression or other meaningful way in order to tell a story, communicate a message, represent something, or achieve a result. Thus, a novel would not be considered a "collection of information" even if it appears in electronic form, and therefore could be described as made up of elements of information that have been put together in some logical way. Similarly, material such as interface specifications would not ordinarily be covered, although a collection of such specifications created in order to provide consumers access to the individual specifications could be covered. The term "in one place or



through one source" denotes the availability of the information to consumers in a single material object or through a specific address, location or other source. It does not require that all of the information be present at any particular physical site.

The section also contains a definition of "potential market," which means "any market that a person claiming protection under section 1302 has current and demonstrable plans to exploit or that is commonly exploited by persons offering similar products or services incorporating collections of information." This definition, which is drawn from judicial interpretations of the fair use doctrine under copyright law, is intended to clarify that "potential market" is not to be interpreted in a circular way, so that any market that the producer of the collection could someday exploit is deemed a potential market sufficient to lead to liability.

"Information" is defined to mean facts, data, works of authorship, or other intangible material capable of being collected and organized in a systematic way. It is important to ensure that databases made through substantial investments in collecting and organizing copyrightable works of authorship, which will be a critical source of entertainment and educational material for consumers on the Internet, may be protected under this Chapter.

Paragraph (4) defines "commerce" as all commerce which may be lawfully regulated by the Congress. Given the breadth of this definition, a collection of information that is utilized within a particular organization or group of customers, but not made available to the general public, may qualify for protection under this Chapter as "offered or intended to be offered for sale or otherwise ... in commerce." Since many collections will be disseminated through licensing mechanisms, the relevant offer is not limited to one made for sale.

(3) SECTION 1303: PERMITTED ACTS

Section 1303 sets out a list of acts that are permitted despite the language of the prohibition in section 1302. These permitted acts are designed for public policy purposes, to ensure that the statute does not have the unintended effect of providing ownership of information itself, or impeding appropriate and beneficial types of uses.

Subsection (a) makes clear that the extraction or use of individual items of information is not prohibited. This is crucial in establishing that this legislation does not allow the producer of a collection to "lock up" individual pieces of information contained in the collection. The second sentence ensures that a single item in a collection cannot be considered either quantitatively or qualitatively substantial so as to give rise to liability under section 1302, even if it is in itself a valuable copyrighted work. On the other hand, this subsection would not excuse the extraction or use of many

individual items in a repeated or systematic way, in order to evade the prohibition against extraction of a substantial portion.

Subsection (b) further clarifies that the act does not grant protection of the information itself, despite its inclusion within a collection. Others remain free to independently gather and use the same information which is contained in another's collection of information, whether for their own use or to produce a competing collection.

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Subsection (c) exempts the use of information for purposes of verifying the accuracy of information independently gathered by the verifier. This concept stems from the early "sweat of the brow" copyright cases, which permitted subsequent compilers to use earlier compilations to verify the fruits of their own independent labor.n3 Potential abuse is avoided by the limitations in the subsection requiring the information to be used only internally, not for distribution to others, and for the sole purpose of verifying accuracy rather than adding to or supplementing the information in the verifier's own collection. The exemption will be particularly important for scientists and other researchers, permitting them to use collections of information produced by others to check the results of their research.

It will also be important for the securities and commodities industries, where it is a common practice to verify the current market as part of placing an order for a security or commodity. For example, investors frequently decide to purchase investments through an online securities trading system that they have followed by means of a delayed data service. Typically, the online trading system will allow the investor to verify electronically the last sale price or prevailing quote for the investment as a last step before the investor places the buy order--called a "market check" or "market verification" service. In today's marketplace, providers of these services distribute millions of real-time quotations each month, aiding individuals by allowing them to attain easy and quick access to accurate information on which to decide whether to invest or trade in without unduly burdening them with the costs that would be associated with accessing a continual stream of real-time data. This subsection seeks to maintain the status quo and not to supercede any agreements with market verification services concerning the use of market quotation information. This provision permits the extraction of information for verification purposes unless it harms the market for those collections of information. Nothing in this subsection would permit delayed data subscribers to avoid fees when they verify delayed data by retrieving a real time price, a practice which is widespread within the industry.

This subsection is not intended to allow unscrupulous pirates to extract and use real-time quotations of securities and commodities markets and clearing organizations without the permission of the securities and commodities markets that gather, organize and maintain that information. Such activities are not undertaken for legitimate accuracy verification purposes.

Subsection (d) seeks to alleviate the concerns expressed by members of the research, scientific, and university communities that any new protection for collections of information would hinder their ability to carry on basic research. The subsection recognizes the value and importance of nonprofit educational, scientific and research purposes, permitting the extraction or use of information for such purposes as long as doing so does not directly harm the actual market for the original product or service. Ordinarily such uses will not cause market harm; it is typically where the user is a member

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of the intended market for the collection that the bill's prohibition would be called into play. The act also supplements this limitation by providing special relief for nonprofit educational, scientific or research institutions, libraries and archives, from substantial civil and criminal liability under the Act. As described below, such an institution is exempt from criminal liability and entitled to a reduction or remittal of monetary relief for good faith conduct, and may also obtain attorney's fees and costs when sued in bad faith.

This provision seeks to maintain the status quo in relation to how academic institutions use market quotations. Security and futures markets and clearing organizations have traditionally made available unprecedented portions of their collections of information available to academics and researchers and will continue to do so under the belief that such activity is in the pubic interest to do so. For example, a university professor could not open an account with a brokerage firm which grants access to real time quotations and subsequently disseminate those quotations university wide to the extent that he or she replicate a real time service. Such activity would fall outside of the permitted acts under this subsection.

Section 1303(e) is premised on the Committee's cognizance of the essential role that the press plays in our constitutional system. This subsection reflects the Committee's intent that the act neither inhibit legitimate news gathering activities nor permit the labeling of conduct as "news reporting" as a pretext for usurping a compiler's investment in collecting information.n4

For purposes of this subsection, "news reporting" should be construed to mean dissemination of news to the public, including sports scores and statistics, without regard to the means through which it is disseminated, whether by print media such as newspapers, by television news programs, or online.

The Committee expects that news reporting will seldom fall within the prohibition of section 1302, and therefore this exemption will rarely need to be invoked. News articles typically use particular items of information from a collection rather than the collection as a whole. Even if substantial portions of a collection are used, the use often will not affect the market for the collection and therefore will not implicate section 1302.

Section 1303(e) is applicable only if the extraction or use of all or a substantial part of another's collection of information is "for the sole purpose of news reporting or comment." Courts should be "chary of deciding what is and what is not news,"n5 and should examine, on a case-by-case basis, whether a claim under this provision is justified. In some circumstances, the amount taken from the collection may be relevant to a determination of whether the defendant's sole purpose was in fact news reporting. For example, the republication of an entire collection of information as an insert to a newspaper would not usually be excused by the mere fact that the newspaper as a whole is engaged in news reporting, or by the inclusion of an article related to the subject matter of only one distinct portion of the collection. Courts should, however, avoid sec-



ond-guessing how much information is appropriate to use for a valid news reporting purpose.

This provision seeks to maintain the status quo in relation to how news operations use market quotations. While security and futures markets and clearing organizations have traditionally allowed news organizations to use market data in a reasonable manner that legitimately contributes to the news functions, this section would not allow news organizations to replicate real time quote services which harm the market for those collections of information. For example, an entity which establishes itself as a news service and opens an account with a brokerage firm which grants access to real time quotations and subsequently disseminates those quotations to the public to such an extent that it would replicate a real time service would not be protected from the prohibition contained in section 1302 by this subsection.

The final clause of this subsection, excepting from its application a consistent pattern of competitive takings of time-sensitive information, is intended to preserve the holding in *International News Service* v. *Associated Press*,n6 and is therefore tailored to the specific facts in that case. It should not be interpreted to have any other meaning, including any implication as to the permissibility of conduct not falling within its narrow scope.

Subsection (f) establishes the principle permitting resale or other sharing of a physical copy of a collection of information once that copy has been lawfully obtained. It does so by using language similar to that of the "first sale doctrine" in the Copyright Act, stating that the owner of a particular lawful copy of all or part of a collection of information may sell or otherwise dispose of that copy.

(4) SECTION FOUR: EXCLUSIONS

Subsection (a) rules out protection for government collections of information. It provides that the act's protection does not extend to collections of information gathered, organized or maintained by or for governmental entities, their employees, agents, or exclusive licensees. It is designed to ensure that information collected by the government at taxpayer expense will be made available for public knowledge and basic research. The provision responds to concerns that the bill would thwart access to government information currently available to the public, especially to the scientific, research and educational communities. The exclusion is broader than the similar provision in section 105 of the Copyright Act; it applies to state and local governments as well as the federal government, and covers collections prepared for the government by independent contractors and exclusive licensees as well as employees.

This subsection does not apply, however, to collections of information gathered, organized or maintained by agents or licensees of the government created outside the scope of their agency or license, or by Federal or State educational

institutions in the course of engaging in education or scholarship. When a party retained by the government to perform one particular task also invests in producing databases that add value to the information it has produced or collected for the government, it should not be precluded from pro-

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tection. Similarly, educational institutions that happen to be government owned should not be disadvantaged relative to private institutions when producing databases unrelated to the provision of regulatory government functions.

Nor does the exclusion apply to information required to be collected and disseminated by securities, futures exchanges and clearing organizations operating under the Securities and Exchange Act of 1934 or the Commodity Exchange Act. Under the authority of both Acts, the dissemination of market data and price quotes in collections of information supplied by securities and commodities markets are regulated by the SEC and the CFTC, respectively. Because of the fact that the Securities Exchange Act of 1934 requires securities exchanges, securities associations, securities information processors and clearing organizations to register with the SEC, and the fact that the Commodity Exchange Act requires commodities markets to register with the CFTC, might cause the financial markets to be deemed agents or exclusive licensees of the SEC and CFTC, this language clarifies that the unique relationship between government regulatory authorities and the securities and commodities markets does not bar protection under this chapter for the collections of information those markets produce.

Subsection (b) rules out protection under this chapter for computer programs. Computer programs are already closely linked with collections of information, and in the future will be even more so. The search engine for a large collection of information stored on CD-ROM is a type of computer program. Similarly, computer programs referred to as "intelligent agents" can gather information from the World Wide Web and create a collection of information. Section 1304(b)(1) is intended to make clear that notwithstanding the often close relationship between a program and a collection of information, computer programs are not protected under this chapter, including programs that are used in the manufacture, production, operation, or maintenance of a collection of information, or any elements of the program that are necessary for the program's operation.

At the same time, Section 1304(b)(2) makes clear that a collection of information does not lose protection by virtue of its inclusion within a computer program. For example, a set of engineering constants contained in a program which performs mathematical calculations using those constants remains a protected collection of information, assuming it meets the criteria of the Act. Section 1304(b)(2) recognizes that the information in a data-file is distinct from the instructions that perform operations on that information.

(5) SECTION FIVE: RELATIONSHIP TO OTHER LAWS

Section 1305 deals with the relationship of the Act to existing legal rights or obligations relating to information. Subsection (a) clarifies that nothing in this act will affect the rights, limitations or remedies available to a party under current law, other than state rights preempted under subsection (b). For example, nothing in this act would negate the ability of a party to receive copyright protection for a collection of information should that collection qualify for protection as a "compilation" under the Copyright Act. Similarly, other laws that may provide affirmative rights of access

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to information would remain unaffected. This subsection establishes the general principle of non-interference; subsequent subsections provide specific examples of areas of law particularly relevant to the coverage of this Chapter.

Subsection (b) provides for preemption of state law to the extent it provides equivalent rights in the same subject matter. This subsection makes clear that federal law controls in this specific area, with state common law or statutes dealing with misappropriation of collections of information, as defined in section 1301, preempted by this Act. On the other hand, state law providing different rights in collections of information are not preempted. The Act specifies that state laws regarding trademark, design rights, antitrust, trade secrets, privacy, access to public documents and the law of contract shall not be deemed to provide equivalent rights.

Subsection (c) addresses the relationship between the protection provided by this Act and by copyright law. The first sentence clarifies that protection under this chapter is independent of, but complementary to, any copyright

protection that may subsist in a work of authorship that is contained in or consists in whole or in part of a collection of information. In evaluating a claim under this chapter, it is not relevant whether copyright protection exists in the collection of information or any component thereof. Rather, a court's task is to determine whether the defendant has misappropriated all or a substantial portion of the plaintiff's collection of information in violation of this chapter--irrespective of whether or not part or all of the contents of such collection of information consists of copyrighted material. When a defendant's use or extraction is also alleged to constitute copyright infringement, the court should determine that issue exclusively under the Copyright Act.

The second sentence of subsection (c) amplifies this principle. Because a collection of information protected under this chapter can consist, in whole or part, of one or more copyrighted works, this sentence affirms that an original work of authorship that is one of the items contained in a collection of information does not receive greater protection under this Act than it does under the copyright law. A work that is itself a collection of information, however, may receive greater protection against misappropriation under this chapter than it would receive against infringement as a compilation protected by copyright. Because the nature of the protection is distinct, a court evaluating a claim under this chapter need not distinguish between copyrightable and uncopyrightable components of collections of information. If the use or extraction of all or a substantial part of a collection of information violates this chapter, it is irrelevant whether copyright subsists in any part of that collection.

Subsection (d) deals with the relationship to antitrust law. It states that this chapter will not limit application of antitrust laws, including those laws regarding single suppliers of products and services. The subsection is intended to address the so-called "sole source" issue, involving situations where the information within a collection is not available elsewhere for others to obtain, giving the producer of the collection a *de facto* monopoly over the facts contained therein. The Committee believes that an appropriate response to potential abuse, to the extent it is not dealt with by exist



ing regulatory authorities overseeing certain industries, can be found in the antitrust laws, which are specifically designed to deal with such monopoly concerns. The essential facilities doctrine in particular may be particularly relevant to this issue.

Subsection (e) reaffirms the basic principle of freedom of contract. It makes clear that nothing in this Act prevents the producer of the collection of information from entering into any licensing agreements or contracts concerning the use of the collection. In today's marketplace, licensing and other contractual mechanisms are widely relied upon in disseminating collections of information. The Committee intends to preserve the ability to structure and enforce contractual arrangements tailored to the particular circumstances of a transaction. The enforceability of such licenses was recently upheld in *Procd, Inc.* v. *Zeidenberg*,n7 which recognized the important role that private arrangements play in the efficient exploitation of information-based products to the benefit of both producers and users of these products.

Subsection (f) provides that nothing in this chapter shall affect the operation of provisions of the Communications Act of 1934, as amended. Consequently, nothing in this bill shall affect the operations of sections 251, 252, 271 or 272 of the Communications Act of 1934, as amended, and this bill shall not have any effect on any existing right contained in the Communications Act to extract or use information from a collection of information for the purpose of obtaining access to a network element, as such term is defined in section 153(29) of the Communications Act of 1934, as amended, *(47 U.S.C. 153*(29)), or otherwise to provide a telecommunications service as provided for under the Communications Act of 1934, as amended. Nor shall anything in this chapter affect the operation of section 222(e) of the Communications Act of 1934, as amended, *(47 U.S.C. 222*(e)), or shall restrict any person from extracting or using subscriber list information, as such term is defined in section 222(f)(3) of the Communications Act of 1934 *(47 U.S.C. 222*(f)(3)), for the purpose of publishing telephone directories in any format. This provision addresses the concerns of companies which presently use such information to publish independent directories separate from those published by the telephone service provider.

(6) SECTION SIX: CIVIL REMEDIES

This section sets out the civil penalties which may be imposed for a violation of the act. Subsection (a) establishes exclusive subject matter jurisdiction in United States district courts. Subsection (b) gives courts the power to grant permanent and temporary injunctions to prevent violations of section 1302. An injunction may be served on a party anywhere in the United States and may be enforced by any district court having jurisdiction over the party.

Subsection (c) allows the appropriate court to impound copies of contents of a collection of information extracted or used in violation of this act. The court may also, as part of a final judgement or decree, order the remedial modification or destruction of all contents of a collection of databases extracted or used in violation of this act. Both the injunction and order of destruction may extend to all mas-

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ters, tapes, disks, diskettes, or other articles by means of which copies may be produced.

Subsection (d) authorizes monetary damages for a violation of this act. The plaintiff is entitled to recover any damages it sustained as well as the defendant's profits not taken into account in computing damages. The plaintiff is required to prove the defendant's gross revenue only, while the defendant has the burden of proving all elements of cost or deduction claimed. The court may assess treble damages up to three times the amount of actual damages. The court may also award reasonable costs and attorney's fees to the prevailing party, and shall award such costs and fees if the action was brought in bad faith against a nonprofit educational, scientific or research institution, library or archives.

Subsection (e) requires a court to reduce or remit entirely monetary relief in any case where a defendant believed and had reasonable grounds for believing that his or her conduct was permissible under this Act, if the defendant was acting within the scope of his or her employment by a nonprofit educational, scientific, or research institution, library or archives.

The injunction and impoundment provisions of this act do not apply to any action against the Union State Government. The relief provided under this section is available against a state entity only to the extent permitted by law.

(7) SECTION SEVEN: CRIMINAL PENALTIES

Any person who willfully violates this Act for direct or indirect commercial advantage or financial gain, or causes loss or damages aggregating $ 10,000 or more in any one-year calendar period is criminally liable. Such an offense is punishable by a fine of not more than $ 250,000 or imprisonment for not more than five years, or both. A second or subsequent offense is punishable by a fine of not more than $ 500,000 or imprisonment for not more than 10 years, or both-Section 1307 does not apply to an employee or agent of a nonprofit educational, scientific, or research institution, library or archives, acting within the scope of his or her employment. Like the similar limitations on civil remedies, this exception is intended to avoid the chilling effect these substantial penalties might have on legitimate public interest uses of collections of information.

(8) SECTION EIGHT: LIMITATIONS ON ACTIONS.

Section 1308 establishes a two-prong statute of limitations. First, no criminal or civil proceedings may be maintained unless it is commenced within three years after the cause of action arises. Additionally, no action can be maintained more than fifteen years after the investment of resources that qualified for protection that portion of the collection of information that is extracted or used. This language means that new investments in an existing collection, if they are substantial enough to be worthy of protection, will themselves be able to be protected, ensuring that producers have the incentive to make such investments in expanding and refreshing their collections. At the same time, however, protection will not be perpetual; the substantial investment that is protected under the Act cannot be protected for more than fifteen years. By focusing on that investment that made the particular portion of the collec-

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tion that has been extracted or used eligible for protection, the provision avoids providing ongoing protection to the entire collection every time there is an additional substantial investment made in its scope or maintenance.

(9) NINE: EFFECTIVE DATE

The provisions of this Act take effect upon enactment and are applicable to acts committed on or after that date, with respect to collections of information existing on that date or produced after that date. However, no person can be liable for the use of information from a collection of information where the information was lawfully extracted prior to the date of enactment of this Act.

*Section 503: Conforming Amendment*

This section amends the table of chapters for title 17 to reflect the addition of chapter 13.

*Section 504: Conforming Amendments to Title 28*

This section amends *28 USC 1338* to allow for original jurisdiction in federal courts for actions brought under new chapter 13.

*Section 505: Effective Date.*

The provisions of this title take effect upon enactment and are applicable to acts committed on or after that date. However, no person or successor is liable for use or reuse of database contents lawfully extracted prior to the date of enactment of this act.

TITLE VI--PROTECTION OF CERTAIN ORIGINAL DESINGS

This title contains provisions which previously passed the House under suspension of the Rules as H.R. 2696.

*Section 601: Short Title*

Section 601 creates the short title of this title as the "Vessel Hull Design Protection Act."

*Section 602: Protection of Certain Original Designs*

This section establishes a new chapter 14 to title 17 for the protection of certain original designs. Subsection (a)(1) of new section 1401 states that the "... designer or other owner of an original design of a "useful article" which makes the article more attractive or distinctive in appearance to the purchasing or using public may [receive protection under the bill]." A "useful article" is defined as a "... vessel hull ..., including a plug or mold. ..."

Subsection (a)(2) of section 1401 specifies that "... the design of a vessel hull ..., including a plug or mold, is subject to protection notwithstanding [the general utility exclusion set forth in Section 1402(4)]. In other words, it is intended that original designs of vessel hulls will be subject to protection whether those designs are a function of creative endeavor or utility.

Subsection (b)(1) of section 1401 specifies that a design is "... 'original' if it is the result of the designer's creative endeavor that provides a distinguishable variation over prior work pertaining to similar articles which is more than merely trivial and has not been copied from another source."

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Finally, since the problems of the marine manufacturing industry giving rise to the legislation are directly related to hull splashing, it is intended that this activity is proscribed by the bill.

*Designs not Subject to Protection (New Section 1402)*. Section 1402 enumerates seven descriptive elements, any on of which will disqualify a design from protection under (new) Chapter 14. This includes any design which is:

A. not original;

B. staple or commonplace, such as a standard geometric figure, familiar symbol, emblem, or motif, or other shape, pattern, or configuration which has become standard, common, prevalent, or ordinary;

C. different from a design excluded by the second listed element only in insignificant details or in attributes which are variants commonly used in the relevant trades;

dictated solely by a utilitarian function of the article that embodies it; or

D. embodied in a useful article that was made public by the designer or owner in the United States or a foreign country more than one year before the date of application for registration under Chapter 14.

*Revisions, Adaptions, and Rearrangements (New Section 1403)*. This section protects a design that is a "... substantial revision, adaptation, or rearrangement of ... subject matter [that is excluded from protection under Section 1402]." Even so, the excluded subject matter itself does not receive any additional protection under the Chapter.

*Commencement of Protection (New Section 1404)*. Design protection under Chapter 14 begins the earlier of the date or publication [Section 1413(a)] or the date the design is first made public [Section 1410(b)].

*Term of Protection (New Section 1405)*. Term for an appropriate vessel hull design is 10 years, with a term running to the end of the calendar year in which it would otherwise expire.

*Design Notice (New Section 1406)*. This section requires the owner of a protected design to mark it with a design notice consisting of the words "Protected Design" (or a prescribed abbreviation thereof), the year on which protection commenced, and the name of the owner (or a prescribed abbreviation thereof). The registration number (*see* Section 1414), once acquired, is an appropriate substitute for the last two requirements.

*Effect of Omission of Notice (New Section 1407)*. In general, failure to supply notice pursuant to Section 1406 will not cause loss or protection or prevent recovery for infringement against any person who, "... after receiving written notice of the design protection, begins an undertaking leading to infringement. ..."

Moreover, the owner of a protected design who has not complied with the notice requirements of Section 1406 may still bring an action against an infringer even if the latter had not received written notice prior to his or her undertaking. Under these circumstances, the owner may not obtain an injunction with respect to the infringing activity until he or she has reimbursed the infringer for reasonable expenses incurred before receiving written notice of protection. The buden of providing written notice is no the owner.

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*Exclusive Rights (New Section 1408)*. The owner of a protected design for a vessel hull has the exclusive right to make, have made, or import, for sale or for use in trade, any vessel hull embodying the design. The owner may also sell or distribute for sale or for use in trade any vessel hull embodying the design.

*Infringement (New Section 1409)*. In general, infringement occurs when a third party other than the owner of the protected design performs any of the activities set forth in Section 1408.

Pursuant to Subsections (b) (1) and (2), a seller or distributor will only be held liable if he or she colluded with a manufacturer or an importer to infringe; or if he or she refused or failed, upon the owner's request, to disclose promptly and fully the source of the infringing product, and then proceeded to order or reorder infringing product after receiving written notice of protection.

It is not an act of infringement for a person to make, have made, import, sell, or distribute any article embodying a design that was created without knowledge that it was copied from a protected design.

Similarly, a person who incorporates into his or her product of manufacture an infringing article acquired from a third party in the ordinary course of business; or who, without knowledge of protection, makes or processes an infringing article for the use of another shall not be deemed to have infringed *except* under a condition set forth in Subsections (b) (1) or (2), *id.*

Subsection (e) defines an "infringing article" as "... any article, the design of which has been copied from a design protected under ... [C]hapter 14], without the consent of the owner. ..." Illustrations or pictures of a protected design in a book, newspaper, magazine, broadcast, motion picture, or "similar medium" do *not* constitute infringing articles. Further, a design that "... is original and not substantially similar in appearance to a protected design" will be deemed *not* to have been copied from a protected design.

Subsection (f) places the burden on that party asserting a right of protection in an infringement action to establish the originality of his or her design whenever the other party introduces an earlier work that is identical or highly similar to the design, thereby suggesting that the design was copied from the work.

Subsection (g) permits a third party "... to reproduce the design in a vessel hull or other form for the purpose of teaching, analyzing, or evaluating the appearance, concepts, or techniques embodied in the design. ..."

Finally, it is intended that the knowledge requirements set forth in Section 1409 may be satisfied by actual or constructive knowledge. Registration of a design should suffice to establish this level of knowledge. A design notice that conforms to the requirements of Section 1406 should also suffice to establish this level of knowledge, or at least raise a presumption of actual knowledge.

*Application for Registration (New Section 1410)*. Section 1410 states that protection is lost if the application for design registration is not made within one year after the date the design is first made "public" (meaning, when a vessel hull embodying the design is publicly exhibited, displayed, or offered by sale with the owner's consent).

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Subsection (d) of this Section prescribes relevant information that must appear on the application form, and notes that it may include "... a description setting forth the salient features of the design. ..." Failure to include a description, however, shall not preclude registration from occurring.

Subsection (e) requires the owner to submit a sworn statement along with the application attesting, *inter alia*, to the originality of the design and the identity of the designer(s). Good faith errors contained in the statement will not render if defective.

*Benefit of Earlier Filing Date in a Foreign Country (New Section 1411)*. A person who registers for design protection in a foreign country that extends design protection (similar to that contained in *Chapter 14*) to U.S. citizens shall receive the benefit of the earlier filing date when applying for registration in the United States.

*Oaths and Acknowledgement (New Section 1413)*. This section establishes the miscellaneous terms by which any oaths required under the Act may be delivered, including by a written declaration.

*Issue or Refusal of Application for Registration (New Section 1413)*. Section 1413 sets forth the process by which the "Administrator" in charge of registration (*see* Section 1413) examines an application, registers a design, refuses to register one, and reconsiders a rejected application.

Of special note is that language in Paragraph (a) which directs the Administrator to determine whether or not an application "... relates to a design which on its face appears to be subject to protection ...," and if so, to register the design. It is the intended that this directive does not oblige the Administrator to compare the design with registered and other known designs.

*Certification of Registration (New Section 1414)*. Section 1414 lists the duties of the Administrator when recording a registration certificate, as well as the contents of the certificate.

*Publication of Announcements and Indexes (New Section 1415)*. Section 1415 confers upon the Administrator the authority to publish lists and indexes of registered as well as canceled designs, along with drawings or other pictorial representations of registered designs for sale or distribution. Such drawings and pictorial representations shall be filed and available for public use. Online publication is permitted under this Section.

*Fees (New Section 1416)*. The Administrator, by regulation, shall set reasonable fees for the filing of applications and other administrative services under Chapter 14.

*Regulations (New Section 1417)*. This Section authorizes the Administrator to establish regulations for the administration of Chapter 14.

*Copies of Records (New Section 1418)*. Section 1418 enables anyone, upon payment of a prescribed fee, to obtain certified copies of official records kept by the Administrator.

*Correction of Errors in Certificates (New Section 1419)*. This section empowers the Administrator to correct errors in registration made by the Copyright Office or by the applicant (if the error is clerical in nature and made in good faith).

*Ownership and Transfer (New Section 1420)*. Property rights in design registered with the Copyright Office shall vest in the designer his or her legal representative, the employer of the designer

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(if the design was created within the regular scope of the designer's employment), or a person to whom the rights of the designer or the employer have been transferred.

The rights may be assigned, granted, conveyed, mortgaged, or bequeathed. This the exception of a bequest, any such transter shall be void as against any subsequent purchaser or mortgagee for valuable consideration, unless it is recorded by the Administrator within three months after its date of execution or before the date of such subsequent purchase or mortgage.

*Remedy for Infringement (New Section 1421)*. The owner of a design may seek judicial review of a final refusal by the Administrator to register the design by bringing a civil action. Parties to a registration dispute may determine it by arbitration.

*Injunctions (New Section 1422)*. Any court having jurisdiction over actions under Chapter 14 may grant injunctive relief. At the same time, a seller or distributor who suffers damage as a result of injunctive relief wrongfully granted may bring a cause of action against the applicant for injunctive relief, and may be awarded reasonable damages.

*Recovery for Infringement (New Section 1423)*. A court of jurisdiction may award adequate compensatory damages to a claimant in an infringement action. In addition, the court may increase the damages "... to such amount, not exceeding $ 50,000 or $ 1 per copy, whichever is greater, as the court determines to be just."

As an alternative to compensatory damages, the court may award the claimant the infringer's profits resulting from the sale of infringing copies "... if the court finds that the ... sales are reasonably related to the use of the claimant's design."

Attorney's fees may also be awarded, and a court may order any infringing articles destroyed.

No recovery may be had for an infringement committed more than three years before the date on which the complaint is filed.

*Power of Court Over Registration (New Section 1424)*. This section empowers a court with jurisdiction to order registration or cancellation of a design.

*Liability for Action on Registration Fraudulently Obtained (New Section 1425)*. Any person who brings an infringement action knowing that registration was obtained by false or fraudulent representation materially affecting Chapter 14 rights shall be liable for $ 10,000 or less as a court of jurisdiction may determine, and shall be awarded to the defendant as compensation, along with costs and attorney's fees.

*Penalty for False Marketing (New Section 1426)*. Any person who, for the purpose of deceiving the public, uses notice (Section 1406) for a design not registered under Chapter 14 shall pay a civil fine of not more than $ 500 for each offense.

Any person may sue for and receive one-half of the fine assessed; the remainder shall be awarded to the United States.

*Penalty for False Representation (New Section 1427)*. Any person who knowingly makes a false representation materially affecting Chapter 14 rights for purpose of obtaining registration shall pay penalty of not less than $ 500 but not more than $ 1,000, and shall forfeit any rights or privileges he or she may otherwise have in the relevant design.

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*Enforcement by Treasury and Postal Service (new Section 1428)*. The Secretary of the Treasury and The U.S. Postal Service shall separately or jointly issue regulation for the enforcement of Section 1408 rights with respect to importation. Prescribed actions leading to the exclusion of imported articles are established. Any article imported in violation of Section 1408 rights are subject to seizure and forfeiture under the customs laws.

*Relation to Design Patent and Copyright Law (New Section 1429)*. The issuance of a design patent for an article of manufacture or a copyright registration for an original design shall terminate any protection of the original design under Chapter 14.

*Common Law and Other Rights Unaffected (New Section 1430)*. Nothing in Chapter 14 annuls or limits common law or other rights or remedies available to person for a design not registered, or any rights under trademark or unfair competition statutes.

*Administrator (New Section 1431)*. The "Administrator" and "Office of the Administrator" referred to in Chapter 14 are the Register of Copyrights and the U.S. Copyright Office, respectively.

It is the intended that the Administrator will possess wide discretion to perform his or her duties under by the bill in a cost-efficient manner, including the right to publish registrations exclusively online.

*No Retroactive Effect (New Section 1432)*. Protection under Chapter 14 is unavailable for any design not made public pursuant to Section 1409 before the effective date set forth in Section Four.

*Section 603: Conforming Amendments*.

This section makes appropriate conforming amendments to the U.S. Code.

*Section 604: Effective Date.*

The amendments set forth in Sections 602 and 603 of this title shall take effect one year after the date of enactment.

FOOTNOTES:

[n1] Footnote 1. Either phrase must be distinguished from "standard technical measure," as that phrase is used in Title II of the bill.

[n2] Footnote 2. *See MAI Sys. Corp. v. Peak Computer, 991 F.2d 511 (9th Cir. 1993),* cert, dismissed, *114 S.Ct. 671 (1994).*

[n3] Footnote 3. *See Illinois Bell Tel. Co. v. Haines & Co., 683 F. Supp. 1304 (N.D. III. 1988),* aff'd, 905 F.2d § 1081 (7th Cir. 1990), vacated and remanded, *499 U.S. 944 (1991); Rural Tel. Serv. Co. v. Feist Publications, Inc., 916 F.2d 718 (10th Cir. 1990).*

[n4] Footnote 4. *Cf. Wainwright Sec. v. Wall Street Transcript Corp., 558 F.2d 91 (2d Cir. 1977).*

[n5] Footnote 5. *Harper & Row, Publishers, Inc. v. Nation Enterprises, Inc., 723 F.2d 197, 215 (2d Cir. 1983)* (Meskill, J., dissenting), rev'd on other grounds, *471 U.S. 539 (1985).*

[n6] Footnote 6. *248 U.S. 215 (1918).*

[n7] Footnote 7. *86 F.3d 1447 (7th Cir. 1996).*