July 14, 2009

VIA Federal Express

Ambassador Ron Kirk
United States Trade Representative
600 17th Street, NW
Washington, DC 20508

RE: Announcement of Anti-Counterfeiting Trade Agreement Negotiations

Dear Ambassador Kirk:

The undersigned organizations do not oppose the Office of the United States Trade Representative ("USTR") engaging other countries on combating counterfeiting and widespread infringement of copyrighted works. Rather, we believe the USTR also should be pursuing this objective in a manner that benefits, rather than harms, U.S. technology companies and consumers. Based on negotiating documents that have become public—but not made available by the U.S. government—we have good reason to believe that the ACTA negotiations could harm a significant portion of the economy as well as consumer interests.

The Internet is an essential communications tool for consumers and an engine of economic growth for our Nation. The technology industries represented by the undersigned organizations represent a significant portion of the U.S. economy. A 2007 study by the Computer & Communications Industry Association found that industries depending upon balanced copyright contributed $4.5 trillion in revenues and added $2.2 trillion in value to the economy, one-sixth of total U.S. GDP. In addition, the Interactive Advertising Bureau recently commissioned a study by two Harvard Business School professors that concluded that the advertising-supported Internet alone represents 2.1% of the total U.S. gross domestic product.

Because you already have announced your intention to quickly move forward with ACTA negotiations, we urge you to take the following action to address the concerns we have raised in prior communications with you, the transition team, and your staff:

- **Delete the Internet-specific provisions of ACTA.** Your staff acknowledges that these issues are some of the most controversial and complex in the ACTA

negotiations. The dynamic and rapidly evolving nature of the Internet add to the difficulty of evaluating the likely impact of provisions in this area. Given the potential harm to the Internet economy and to consumers, therefore, we urge you to delete such provisions from the negotiations.

- **Make available negotiating documents.** ACTA concerns enforcement of trademark and copyright law. There is absolutely no reason for the negotiating documents to be secret. Indeed, given the highly technical nature of intellectual property law, and the inconsistent U.S. court decisions in this area, USTR would benefit from broad public input to ensure that U.S. negotiating positions do not stray from U.S. law. These documents should be available prior to sharing with international trade partners so that stakeholders can provide input prior to any negotiation.

- **Establish advisory committees to represent Internet and civil society constituencies.** The issues that confront the Internet differ significantly from those facing other industry sectors, and cleared advisors with expertise in the Internet industry would be able to provide USTR with information and a perspective that it is not presently receiving. Given the potential impact of trade agreements in general, and ACTA in particular, on consumers, USTR should also establish a consumer advisory committee to ensure that the voices of consumers are being heard as well.

We look forward to meeting with you soon to discuss these issues in greater detail. Thank you for consideration of our views.

Sincerely,

American Association of Law Libraries
American Library Association
Association of Research Libraries
Center for Democracy & Technology
Computer & Communications Industry Association (CCIA)
Electronic Frontier Foundation
NetCoalition
Public Knowledge
Special Libraries Association

Attachments

May 19, 2009 Letter from CCIA and NetCoalition to Ambassador Kirk

CC: Chairman and Ranking Member, Senate Judiciary Committee
Chairman and Ranking Member, Senate Finance Committee
Chairman and Ranking Member, House Ways and Means Committee
U.S. Copyright Office
U.S. Department of Commerce, International Trade Admin., Office of IP
U.S. Department of State, Office of the Legal Advisor
U.S. Patent and Trademark Office

NetCoalition.com

Computer & Communications Industry Association

May 12, 2009

Ambassador Ron Kirk
United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Dear Ambassador Kirk:

On behalf of the nation's leading Internet and technology firms, we would like to congratulate you on your confirmation as United States Trade Representative. Your able leadership on trade policy is critical to our economic recovery.

We would like to meet with you at your earliest possible convenience to explain why recent developments in technology, as well as the relatively recent success of U.S. Internet firms, suggest the need for your office and our industry to forge a more robust working relationship. Doing so would enable us to collaborate on promoting a trade policy that reflects the increasing importance of technology and the Internet in the global information economy.

In particular, we would like to discuss our perspective on some of the pending trade negotiations, including the negotiations over the Anti-Counterfeiting Trade Agreement ("ACTA") and the Free Trade Agreements ("FTAs"). While we have made some progress with the past administration in addressing new developments in the marketplace, there is much more that needs to be done to ensure that your office promote positions that benefit – rather than harm – U.S. technology and Internet firms.

The legal, policy, and business frameworks of the technology industries—especially with regard to Internet business models—evolve rapidly. Navigating this difficult terrain domestically is complicated. Adding the complexity of comparing our landscape with that of other countries makes the navigation even that much more challenging. Given these complexities, we have urged that the Administration exercise caution before committing to an ACTA text that might have unintended negative consequences for one of the fastest growing sectors in our economy. If there is to be an ACTA, then it needs to be a good agreement that promotes the interests of all U.S. industries, including the Internet and technology sectors.

Below we set forth a few of the key concepts that USTR should incorporate in future discussions on ACTA, the FTAs, and other trade agreements.

1. *The USTR Should Defend the Healthy Domestic Legal Landscape for U.S. Internet and Technology Firms against Protectionist Applications of Inconsistent Laws by Foreign Courts.* It is no accident that Internet and e-commerce sites have grown so rapidly in the United States. Congress has carefully crafted laws that encourage the rapid innovation and entrepreneurial spirit that is critical to Internet companies, such as Section 230 of the Communications Decency Act and Section 512 of the Digital Millennium Copyright Act ("DMCA"). As the industry expands into overseas markets, however, American companies often find their progress stymied by foreign laws. Foreign states increasingly apply their laws in a protectionist manner, obstructing U.S. Internet businesses' access to markets.

The recent *LVMH v. eBay* case underscores this problem. In this case, a French court imposed damages liability on eBay for sales of authentic (non-counterfeited) Louis Vuitton goods by various small businesses and individuals through eBay's site. These sales were legal under U.S. law and were marketed on eBay's U.S.-facing site. The French court found that eBay "amplified" the unlawful marketing of goods by failing to adopt measures to protect activity that was illegal under French law. Many of these goods were not counterfeit under U.S. law. Rather, these goods were legitimately manufactured, but their manufacturer had not authorized the sale through eBay. Unlike U.S. law, French law allows a manufacturer to prohibit the sale of its products outside of a "selective distribution network."

In short, the French court imposed liability on a U.S. company for sales of authentic, not counterfeit goods that were legal in the U.S. and did not occur in France. The court ordered eBay to pay over $60 million to the plaintiffs for the "harm" that they suffered globally.

From a trade perspective, the USTR should be concerned when French authorities penalize U.S. companies for the conduct of French citizens who find it economically attractive to import goods from U.S. businesses. Moreover, as discussed further in Attachment 1, the result in *LVMH* diverges from the U.S. court opinion handed down two weeks later in the *Tiffany v. eBay* case. In *Tiffany*, the court ruled that eBay had no obligation to proactively police its site to prevent the sale of counterfeit Tiffany products by third parties. The court concluded that so long as eBay responded promptly to Tiffany's identification of auctions of counterfeit goods, eBay did not infringe Tiffany's trademarks.

The USTR should not allow ACTA to be interpreted in any manner that undermines U.S. law on international trademark exhaustion. ACTA must not be used either intentionally or unintentionally to undermine U.S. policy on parallel imports and the ability to sell outside of selective distribution channels.

2. *The USTR Should Promote a Balanced Copyright Framework that Better Reflects U.S. Law by Including a Fair Use Provision in Trade Agreements.* The existing FTA template has long included safe harbor provisions for Internet service providers based on Section 512 of the DMCA. However, these provisions are no longer sufficient

by themselves to protect the new services introduced by Internet and technology companies. Search engines, for example, function by copying millions of World Wide Web pages every few weeks into the memory of computer services, where the search firm can rapidly locate information responsive to search queries. In the absence of our robust principle of fair use, search engines would not be able to provide real time high quality search services.

As discussed in the attached white paper, "Fair Use and the Digital Environment," which we submitted to USTR in 2007, these holdings are crucial to the viability of innovative services provided by Internet and technology industries. *See* Attachment 2. A more recent article published in the Journal of Business and Technology Law specifically discusses the importance of fair use to search engines. *See* Attachment 3, *Google & Fair Use*, 3 Journal of Business & Tech. Law 1 (2008).

Overseas adoption of a fair use provision—or a functional equivalent to our fair use framework—is critical to the ability of U.S. Internet companies to expand internationally. Most foreign copyright laws lack fair use provisions, and thus expose U.S. firms to liability overseas for activities U.S. courts permit. For example, in two cases—the Belgian case *Copiepresse* and the German case *Horn*—courts imposed copyright liability on Google for the operation of its search engine in a manner consistent with U.S. law, as established by cases such as *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003) and *Field v. Google Inc.*, 412 F. Supp. 2d 1106, 1123 (D. Nev. 2006). Attachment 1 discusses the Belgian decision; Attachment 3 reviews the *Kelly* and *Field* decisions.

In connection with consideration of the Peru FTA, Senate Judiciary Committee Chairman Leahy endorsed the concept of including fair use in our free trade agreements on the floor of the Senate, saying "[u]nder our laws, many such new technologies and consumer devices rely, at least in part, on fair use and other limitations and exceptions to the copyright laws. Our trade agreements should promote similar fair use concepts, in order not to stifle the ability of industries relying on emerging technologies to flourish." *See* Attachment 4.

While we acknowledge that exporting a fair use concept overseas is not easy, we strongly disagree with any proposal to avoid this task on the basis that ACTA is intended only to address remedies and enforcement. An asymmetrical agreement that facilitates strong enforcement without encouraging fair use will have the practical effect of promoting a copyright framework that is inconsistent with U.S. law and harmful to U.S. businesses.

3. *The USTR Must Be Careful Not Only to Proceed Consistently with Current Law but to Preserve the Ability of Our Laws to Evolve to Keep Pace with Technologies and Business Models.* As Senators Leahy and Specter discuss in their October 2, 2008 letter to Ambassador Schwab, ACTA must be drafted with sufficient flexibility so as to not limit Congress' ability to make changes to our law in order to adapt to changing business models and technologies. *See* Attachment 5. In addition, typically U.S. courts decide several precedent-setting copyright and trademark cases each year, which can

significantly change the legal landscape. ACTA and other agreements should allow for the continued development of the IP "common law" in these areas and not promote interpretations of copyright and trademark laws that are at odds with U.S. statutory law or case law.

For example, USTR currently promotes in the FTAs language that suggests that all temporary copies of a computer file into a computer's memory qualify as reproductions for purposes of infringement under the Copyright Act. This policy is drawn from an aggressive interpretation of a controversial 1993 case, *MAI v. Peak.* However, last summer the U.S. Court of Appeals for the Second Circuit ruled in *Cartoon Network v. Cablevision*, 536 F.3d 121 (2d Cir. 2008), that temporary "buffer" copies of copyrighted works that lasted 1.2 seconds were not sufficiently fixed to constitute copies for purposes of the Copyright Act.

A recently filed amicus brief by the advocacy group Copyright Alliance urges that the Supreme Court review the *Cablevision* decision precisely because it is inconsistent with the temporary copy language of the FTAs and thus places the U.S. in "potential conflict with our trading partners." The amicus brief, therefore, cites the FTAs as grounds for rejecting improvements in our intellectual property laws. This underscores our position that USTR should not draft an agreement that precludes the ability of our courts to further develop copyright and trademark laws in order to accommodate technological innovation.

4. *The USTR Should Oppose Any Requirement in ACTA or Other Agreements that Signatories Enact Statutory or Pre-Established Damages.* U.S. law does not permit statutory damages for trademark infringement, so we assume that mandating such damages through ACTA is not contemplated. While the U.S. Copyright Act does allow copyright owners to seek statutory damages instead of actual damages and profits, the high upper limit on such damages ($30,000 per work infringed, increasing to $150,000 per work infringed in cases of willful infringement) has enabled copyright owners to seek draconian damage awards from defendants without providing any evidence of actual harm. Additionally, the threat of statutory damages in secondary liability cases has chilled innovation and created litigation opportunities for copyright owners against all manner of intermediaries, including Internet companies and financial services institutions.

Indeed, copyright statutory damages remain controversial in the United States. Legislation was introduced in the 110th Congress to amend 17 U.S.C. § 504(c) to permit statutory damages only in instances of direct infringement. The initial version of the PRO-IP Act, which was signed into law this year, included a repeal of the so-called "one work" rule in § 504(c) that allows only one award of statutory damages for the infringement of works contained in a compilation or derivative work. As noted in the a attached white paper provided to Congressional staff by numerous trade associations and public interest groups, repeal of this provision would have enabled exorbitant damage demands by copyright "trolls." *See* Attachment 6. After vigorous debate and all day stakeholder discussion, Congress decided to drop the provision, while recognizing the

need to revisit the entire statutory damages framework. Consequently, the USTR should not promote statutory damages while we continue to explore the validity of the current U.S. framework in Congress.

5. *U.S. Trade Policy Could Be Improved with More Formalized Input from Our Industry*. Finally, we urge you to explore the creation of an Internet advisory committee. The issues that confront our industry are largely unique from those facing other industry sectors, and cleared advisors with expertise in the Internet industry would be able to provide USTR with information and a perspective that it is not presently receiving. Moreover, as trade agreements like ACTA increasingly contemplate Internet-related subject matter, trade negotiators should be consulting with experts from the industry sector most likely to be affected by the agreements in question.

We look forward to meeting with you soon to discuss our positions in greater detail. Again, congratulations on your confirmation. We look forward to working with you and your office.

Sincerely,

Edward J. Black
Computer & Communications
Industry Association (CCIA)

Markham C. Erickson
NetCoalition

ATTACHMENT 1

Questions to Inform Internet Discussion with ACTA Participants

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The following questions will help to inform negotiations involving the intersection of Internet and intellectual property issues. Raising these questions with U.S. trading partners will help to establish a better understanding of the global landscape with respect to Internet liability issues.

1) What constitutes direct intellectual property infringement in your IP system? Is a volitional act by the infringer necessary to trigger direct infringement liability?

2) Does temporary copying constitute copyright infringement? How long must the copy exist for it to be considered a reproduction for infringement purposes?

3) What constitutes the use of a trademark that triggers trademark liability? Does the use of marks in keyword advertising constitute trademark infringement? Does use of a mark in comparative advertising lead to trademark liability?

4) Does your IP system provide protection for non-original compilations of facts? What are the standards for such protection?

5) Do you have standards for secondary, contributory, or vicarious liability in intellectual property fields (e.g., copyright, trademark, patents, database protection)? If so, what are they?

6) What is the liability, if any, of an online marketplace that enables third party sales of counterfeit or infringing goods? What is the online marketplace's liability for third party sales of legitimate goods outside of an authorized distribution network?

7) What is the liability, if any, of payment systems that are used to purchase counterfeit or infringing products?

8) Are there exceptions that apply to your direct and secondary liability rules?

9) Do any of the standards for secondary liability apply to conduct that (a) pertains to technological protection measures (TPMs) or rights management infomation (RMI), but (b) does not otherwise implicate authors' rights?

10) Do your courts apply the standards for direct and secondary liability to internet services (hereinafter, "ISPs") that may be accessible in your jurisdiction, but are not based there, and do not specifically target users there?

11) If your courts do apply liability rules to foreign ISPs, do any of the direct and secondary liability standards take into account whether the conduct at issue is legal in the jurisdiction in which the ISP is based?

12) Do your courts consider where servers are located when making decisions about jurisdiction and choice of law? Does the use of the two-letter "country code" ccTLD (*e.g.*, domain.us, or domain.uk) affect your courts' jurisdiction or choice-of-law analyses?

13) Does your legal system provide any specific liability or remedy protections for ISPs or other intermediaries? With respect to intellectual property, do they address conduit, system caching, hosting, and information location functions?

14) What conditions are placed on ISPs in order to qualify for any protections identified in relation to the previous question?

15) Does your legal system impose upon Internet service providers, such as search engines, a duty or obligation to monitor third-party content?

16) Has your government considered whether an environment with internationally-harmonized copyright remedies and enforcement but asymmetrical substantive copyright and trademark law might lead your domestic companies to be subjected to liability overseas for conduct that is legal in your jurisdiction?

ATTACHMENT 2

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Computer & Communications Industry Association

ANALYSIS

Internet Protectionism? *How Foreign Courts Have Applied Domestic Law to the Disadvantage of U.S. Internet and E-commerce Companies*

EXECUTIVE SUMMARY

E-commerce is a vital component of the U.S. and global economies, providing a unique opportunity to leverage American innovation in the global marketplace. According to the U.S. Census, e-commerce accounted for more than ten percent of the U.S. economy in 2006, and grew at more than twice the rate of the economy on the whole.[i] U.S. Internet companies lead the world, dominating audience metrics throughout industrialized nations.[ii]

It is no accident that in the United States Internet and e-commerce businesses flourish more readily than elsewhere. Congress has carefully crafted laws to encourage the rapid innovation and entrepreneurial spirit that is critical to Internet companies. As the industry expands into overseas markets, however, American companies find their progress stymied by foreign law. Foreign states presently apply domestic laws such that they function in a protectionist manner, obstructing U.S. Internet businesses' access to markets.

Until the U.S. government encourages our trading partners to harmonize their Internet laws with our own, foreign states will continue to interpret domestic laws to impose unfair liability on U.S. Internet businesses operating in these overseas markets. To achieve a minimum level of parity, U.S. trading partners must provide service provider safe harbors for user-generated content, permit the use of online materials in relation to providing search functionality, and allow *de minimis*, nominative uses of trademarks.

Foreign courts have already imposed penalties on American companies for engaging in these activities on the World Wide Web, despite their legality under U.S. law. Moreover, foreign laws discourage Internet companies from affirmatively improving the safety and security of their websites, penalizing those that strive to be good corporate citizens. Without prompt action, these legal disparities could dissolve the early lead that U.S. companies have established in online trade and cause irrevocable harm to U.S. trade interests.

The U.S. government has failed to respond to these threats. Instead of responding to recent protectionist decisions in Europe – particularly France – the Office of the U.S. Trade Representative (USTR) has courted Europe with a trade agreement on intellectual property (IP) issues, rewarding these governments even as their courts punish U.S. businesses. USTR should instead advocate for common sense Internet laws overseas and focus on protecting the interests of U.S. Internet and e-commerce industries from foreign protectionism.

HOW TO OPEN OVERSEAS MARKETS

The global success of American Internet companies has caused knee-jerk reactions from foreign politicians intent on protecting domestic industries from Internet competition. The head of the French National Library once publicly attacked a Google project as being a "confirmation of the risk of crushing American domination in the way future generations conceive the world."[iii] French President Nicolas Sarkozy opened his nation's presidency of the European Union by stating that Europe "must

not be afraid of the word protection" and promised to protect Europeans from globalization.[iv] European states have found ample room within existing legal frameworks to impair U.S. Internet business interests.

In order to guard against these threats to U.S. companies, the United States Trade Representative should aggressively encourage trading partners to adopt analogs to those aspects of U.S. laws that are most critical for free trade and innovative business practices online. The most important of these are:

1) Safe Harbors for User-Generated Content

Since the early days of the Internet, Congress has recognized that holding Internet and e-commerce businesses liable for the wrongful conduct of their users would jeopardize the growth of this vital industry and place unreasonable burdens on these companies. Many Internet businesses thrive by helping users connect to each other. For some, facilitating this form of networking is the company's sole purpose. Such networking may be achieved by creating a forum for users to post information or offer sales, such as eBay or Craigslist, by creating search tools to find or gather information, such as Google or Wikipedia, or by acting merely as an information conduit, such as an ISP. Because these businesses connect users to each other, they grow quickly but lack the control that brick-and-mortar businesses have over individual content, due to the extraordinary volume of communications that they make possible. These businesses are, therefore, unusually vulnerable to laws that impose upon them strict liability for the misdeeds of any users. Worse still, legal regimes may impose liability upon companies that make good faith efforts to prevent illegal conduct but which are not always 100% successful.

Congress responded to this problem with two statutes designed to limit Internet businesses' liability for the wrongdoing of others. First, § 230 of the Communications Decency Act provided categorical immunity from non-intellectual property-related liability for user wrongdoing, thus allowing Internet companies to combat undesirable or potentially illegal activity without fear of additional liability. This "preserve[s] the vibrant and competitive free market that presently exists for the Internet and other interactive computer services."[v] Second, § 512 of the Digital Millennium Copyright Act provided limitations on remedies available against online intermediaries whose users are implicated in copyright infringement, provided that the service provider complies with a notice and takedown regime specified by statute.

2) Fair Use in Internet Search

In order for search engines to effectively sift through the contents of the World Wide Web, they must make copies of these websites' code for indexing purposes. Additionally, in order to make the results intelligible to a human user, they need to show the user something representative of the page so that the user can judge its relevance. Most search engines give a sample sentence for text searches, and a thumbnail version of a picture for image searches. If the user thinks the link is relevant, he can follow the link to the original webpage.

If rights-holders' entitlements were interpreted too broadly, the copying described above might be construed to violate copyright. Thus, American law holds this practice to be non-infringing "fair use."[vi] U.S. courts have reasoned that this practice does not damage the market for a work and is of significant social utility. This development is critical for the search engine business, as clearing the rights to the tens of billions of webpages on the Internet would be an impossible task.[vii] Moreover, because copyright is a strict liability offense, the lack of a fair use determination would mean search engines would be liable simply for indexing the website of an infringer, even if they had no way to know of the infringement.

3) Nominative Fair Use of Trademark

U.S. law permits the use a trademark without the mark-holder's authorization when it is necessary to describe the goods, or for comparative advertising. Thus, a person reselling a legitimate "Louis Vuitton" handbag may legally describe it as such, even if the

French bag maker would prefer to prevent that sale in order to drive up demand for its new products. This policy exists to prevent anti-competitive use of trademark, which could otherwise be used to prevent the advertising and sale of used goods.

Internet companies have need of this protection because the Web has spawned a thriving market for used goods. EBay alone estimates $8.8 to $9 billion in revenue this year.[viii] Without this exception, Internet companies are vulnerable to attacks by rights-holders who wish to use trademark to obtain complete control over all sales of their goods.

CASES

Several recent cases have illustrated that U.S. Internet companies are vulnerable to protectionist enforcement of domestic law in foreign venues. Internet companies, both thriving giants and small start-ups, have found themselves sued in foreign jurisdictions regarding practices encouraged by U.S. law. Worse still, the global nature of the Internet means that these companies may face liability not only for the websites crafted for that foreign market, but for all websites that the company maintains. Consequently, U.S. companies are being forced to choose between forsaking foreign markets completely or abandoning legal, innovative, and profitable practices at home to satisfy the whims of foreign courts.

Google

Google operates an Internet search engine and web portal, and provides related services. In 2007, Google generated over $16.5 billion in revenue and employed approximately 16,800 people.[ix] Google has had tremendous success overseas and is the top Internet company in Australia, France, Germany, Italy, Spain, Switzerland, and the United Kingdom.[x]

Like most search providers, Google provides short quotes from indexed websites along with its search results in order to help users determine which results are relevant. Recently, however, a Belgian court found this practice to infringe upon Belgian copyright law. A Belgian rights management company, Copiepresse, sued Google, which was quoting excerpts from articles in its news search engine. Despite the fact that users had to access the owners' websites in order to read the entire story, the court found Google's use to infringe copyright.[xi] This holding jeopardizes the ability of companies like Google to do business overseas, since automated indexing cannot verify that the person creating a webpage is in fact the rights-holder.

Mere liability to rights-holders is not the limit of exposure for U.S. Internet companies, who face even greater dangers from operating overseas. The Wall Street Journal reports that Italian prosecutors intend to file criminal charges against four Google executives over an incident in which Italian youths posted a video of themselves taunting a disabled student to Google Video.[xii] Despite the fact that Google itself did not post the video, and deleted the video within hours of being alerted to its content, Italy has proceeded with charges against these executives merely "because they had position of authority over the operations involved."[xiii] Even if these charges ultimately fail in court, the mere threat of criminal sanctions may be enough to cause American executives to abandon innovative practices.

eBay

EBay operates an online auction site. This site puts sellers in touch with buyers through the Internet. EBay is particularly iconic of the rapid growth and success of American Internet businesses. It has grown dramatically from its inception in 1995, and as of 2007, eBay generated $7.67 billion in revenue and employed 15,500 people.[xiv] It now maintains specialized sites for thirty-three foreign nations.

Unfortunately, this dramatic success has attracted some dishonest sellers as well as legitimate sellers. In response, eBay spends $20 million annually to develop new tools to combat these harms, and one quarter of eBay's employees are dedicated to promoting trust and safety on its website. EBay's software automatically scans for and removes auctions listing facially counterfeit items. Ebay's employees suspend any listing suspected of infringement, and eBay maintains a program for

rights-holders to report suspected infringing postings. Moreover, eBay reimburses consumers who are victims of counterfeiting on its website.[xv]

Under these circumstances, U.S. law does not hold eBay responsible for the actions of those criminals it fails to stop.[xvi] Because eBay does not assist these wrongdoers, and withdraws their listings once it is aware of suspected infringement, sound policy and common sense dictate that the criminals themselves should be held accountable. Indeed, one U.S. court has recognized that eBay itself is a victim of these activities, and that eBay has a strong interest in stopping those who would take advantage of its reputation.[xvii]

French courts, however, has been far less reasonable. A French court has recently used French trademark law to find eBay liable for the actions of all counterfeiters who use its service.[xviii] The court concluded that it had jurisdiction over all sales through eBay, even those taking place in other countries, because the plaintiff was a French company and all eBay's websites are visible by the French public.

In finding against eBay, the court broadly prohibited *any* reference to certain trademarks on eBay websites, even for purposes of comparative advertising. Worse still, the French court imposed liability on eBay for sales of legitimate goods sold without the approval of the mark-holder, and fined the company over $60 million.[xix] U.S. trademark law does not recognize such a cause of action, as it would allow a mark holder to prevent the sale of used goods and thus hinder legitimate competition. These sales are essential to the operation of a site like eBay, which deals substantially in secondary markets. Yet eBay was held liable for this conduct even when it occurred entirely within the U.S. This has been criticized as an especially protectionist use of French law.[xx]

Yahoo!

The phenomenon of targeting U.S. Internet companies to impose domestic policy goals on the Internet at large is not a wholly recent one. As early as 2000, advocacy groups brought suit against Yahoo in France because auctions of Nazi memorabilia occurring in the United States could be accessed in France. Despite obvious jurisdictional and technological impediments, a French judge ordered Yahoo to prevent French users from accessing such content on Yahoo's U.S. site. In addition, it fined Yahoo nearly $13,000 for each day the content remained available in France. In 2001, a U.S. federal court refused to enforce the judgment, noting the direct conflict with the First Amendment.

Smaller Companies

While the cases against larger Internet companies have received the most attention, small Internet businesses are not immune from these dangers. The threat of extraterritorial litigation places a disproportionate burden on small Internet startups, which may find themselves subject to suit in foreign jurisdictions under laws with which they are unfamiliar and which contravene U.S. policy.

Viewfinder, a small U.S.-based Internet fashion magazine operates a fashion news website that lawfully displayed photographs from fashion shows all over the world. Several French fashion houses sued Viewfinder in France for "parasitism" and copyright infringement, alleging that simply by revealing the look of upcoming fashions, the site's photos were infringing. U.S. law provides no copyright protection for the designs in question, however,[xxi] and routinely considers news reporting to be fair use. When Viewfinder failed to appear in France to defend the suit, the French court entered a judgment of 500,000 francs per plaintiff and ordered Viewfinder to remove the photographs from its servers in New York or face penalties of 50,000 francs per day.[xxii]

DISINCENTIVES TO SELF-POLICE

Internet companies find it in their best interests to prevent illegal activity on their services, regardless of whether they are required by law to do so. Policing one's own services and enforcing policies provides a company with a reputation for reliability and helps to shield users from malicious conduct. Google, for example, provides tools to warn users before they visit sites that have been compromised by viruses. EBay strives to prevent fraud and

counterfeiting on its website. EBay, Yahoo, and many other sites have implemented policies against hate speech.

U.S. law has recognized that this sort of self-regulation can be jeopardized by legal regimes that penalize acts of good corporate citizenship. Congress recognized in the Communications Decency Act that it would be bad policy if businesses that tried to protect their users were at greater risk of liability for those crimes they failed to stop. This policy is mirrored by the Federal Rules of Evidence, which prohibit admission of evidence of improved safety measures after an accident so as not to discourage businesses from taking steps to improve safety.

Certain U.S. trading partners do not share these policies, and good faith efforts by American businesses to improve website safety are being used against them by foreign courts. The French court explicitly held that eBay's improvements to its anti-fraud measures "show its past negligence... and, therefore, the awareness of its full responsibility." This shortsighted policy puts businesses in the intolerable position of choosing between improving safety and security and protecting themselves against liability in foreign courts.

This schism in international law particularly prejudices U.S. Internet companies, which generally view improving anti-fraud measures as good business. Yet, the French rule has turned this aggressive pre-consumer approach into a *disadvantage*, discouraging technological improvements and penalizing the competitive drive that has led American Internet businesses to dominate the global market.

NEED FOR ACTION

American Internet businesses have enjoyed great success due largely to a carefully crafted legal framework that promotes innovative and aggressive competition. Foreign Internet law, however, is serving a protectionist role by penalizing American companies for their innovative businesses. U.S. policymakers must be more proactive in ensuring open markets for U.S. Internet and e-commerce businesses. In the absence of a prompt response by USTR to cases such as those described above, this protectionist trend will continue to harm U.S. businesses operating in foreign markets, widening the trade deficit and imperiling American jobs.

Presently, USTR is not effectively confronting laws that penalize U.S. Internet and e-commerce companies. Rather, it is rewarding the same European states noted above by engaging them in an effort to negotiate a free trade agreement on IP issues – the Anti-Counterfeiting Trade Agreement (ACTA). Instead of courting governments with trade agreements when their courts unfairly punish U.S. businesses, USTR should insist that negotiating partners commit to extending common sense protections to Internet companies as a pre-requisite to negotiations. The U.S. government should devote at least as much effort to protecting U.S. Internet and e-commerce industries as it does to other major industry sectors. Until this occurs, however, U.S. Internet and e-commerce companies can expect a hostile environment overseas.

SOURCES

[i] U.S. Census Bureau, 2006 E-Commerce Multi-Sector Report (2008).

[ii] *See* http://www.nielsen-netratings.com/resources.jsp?section=pr_netv&nav=1.

[iii] Scott Lamb, *What Does France Have Against Google?* Der Spiegel, March 25, 2005.

[iv] Elitsa Vucheva, *Sarkozy Offers More Protectionist Europe as French EU Presidency Opens*, Ezilon Infobase, July 1, 2008 *available at* http://www.ezilon.com/information/article_19578.shtml; *see also* Ian Traynor, *Sarkozy Pledges to Restore Trust in EU as France Takes Over Presidency*, The Guardian, July 1, 2008.

[v] 47 U.S.C. § 230(b)(2).

[vi] *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007); *Field v. Google Inc.*, 412 F. Supp. 2d 1106, 1123 (D. Nev. 2006).

[vii] As early as 2005, researchers estimated that the indexable web exceeded 11.5 billion pages. A.Gulli & A. Signoriri, *The Indexable Web is more than 11.5 billion pages*; Univ. di Pisa, Informatica/Univ. of Iowa, Comp. Sci.; *available at* http://www.cs.uiowa.edu/~asignori/web-size/size-indexable-web.pdf.

[viii] Associated Press Report, *EBay Profits Jump 22%*, July 16, 2008.

[ix] Google SEC Form 10-K (for FY ending Dec. 31, 2007).

[x] http://www.nielsen-netratings.com/resources.jsp?section=pr_netv&nav=1.

[xi] Court of First Instance in Brussels, Feb. 15, 2007, Ref. no. 7964.

[xii] Alessandra Galloni, *Italy is to File Charges Against Google Executives*, Wall St. J., July 25, 2008.

[xiii] *Id.*

[xiv] eBay SEC Form 10-K (for FY ending Dec. 31, 2007).

[xvi] *Id.*

[xvii] *Id.*

[xviii] Tribunal De Commerce De Paris, June 30, 2008, Geronimi.

[xix] *Id.*

[xx] *See, e.g.*,Therese Poletti, *EBay Ruling in France Reeks of Protectionism*, Market Watch, July 1, 2008.

[xxi] *Jane Galiano & Gianna Inc. v. Harrah's Operating Co., Inc.*, 416 F.3d 411 (5th Cir. 2005).

[xxii] *Sarl Louis Feraud Int'l v. Viewfinder Inc.*, 489 F.3d 474 (2d Cir. 2007).

ATTACHMENT 3

NetCoalition.com

FAIR USE AND THE DIGITAL ENVIRONMENT

The fair use doctrine plays a central role in the U.S. copyright system. But for fair use, a range of activities critical to the digital environment would infringe copyright. The absence of fair use in foreign legal systems interferes with the global expansion of U.S. technology companies. Accordingly, the fair use doctrine should be included in the template of Free Trade Agreements.

I. Introduction

Strong copyright protection has long been one of the United States' primary objectives in international trade negotiations. As copyrighted products such as software represented an increasing share of the United States' exports, U.S. trade policy sought to preserve those exports by ensuring effective copyright protection in foreign markets. GATT-TRIPS, for example, requires copyright protection for computer programs as well as adequate judicial procedures for enforcing copyrights.

The growth of the Internet as an important platform for communications and commerce in the years after the completion of the Uruguay Round has prompted U.S. trade negotiators to seek additional copyright provisions reflecting this new medium. Thus, the free trade agreements contain provisions requiring signatories to adopt prohibitions on the circumvention of technological measures similar to those found in Title I of the Digital Millennium Copyright Act (DMCA). At the same time, the U.S. government recognized that Internet service providers (ISPs) need relief from liability from the infringing activities of their users if they are to invest in the development and

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deployment of new services. Accordingly, Congress enacted safe harbors for ISPs in Title II of the DMCA, and the free trade agreements require contracting parties to adopt similar provisions limitations and exceptions.

As U.S. technology companies have expanded globally, they have become more aware of the challenges posed by the diverse legal systems they confront. Internet companies, for example, have learned that DMCA-style safe harbors, by themselves, are insufficient to permit the full range of new services introduced by these dynamic firms. The DMCA works well in the U.S. because it operates against the backdrop of the fair use doctrine. The DMCA provides Internet companies with relief from certain copyright remedies when they engage in a specific set of activities. Fair use, by contrast, permits a court to exercise its judgment to permit otherwise infringing content. The DMCA is definite, rigid, and relatively narrow; fair use is indefinite, flexible, and accommodating. Together, the DMCA and fair use create a legal environment with both a degree of certainty and flexibility. This combination of attributes encourages Internet companies to invest in innovative products and services.

The Internet is an integral part of a new digital environment in which we all live. Users connect to this environment via a diverse array of devices including desktop and laptop computers, personal digital assistants (PDAs), cell phones, MP3 players, and digital video recorders (DVRs). These devices all enable their users to make hundreds, if not thousands, of digital copies each day. Many of these copies exist only temporarily in a computer's random access memory; other copies persist for longer periods in hard-drive. While users often employ these devices for personal entertainment purposes, they also use them at the workplace. The copies made by these devices typically do not

infringe copyright because they are permitted by the fair use doctrine. The knowledge that these devices have substantial noninfringing uses allows technology companies to invest in their development without incurring liability as secondary copyright infringers.

Although the U.S. Copyright Act contains both a fair use provision and the DMCA's safe harbors, the copyright laws of most other countries possess neither. Through the free trade agreement process, some countries have started to adopt DMCA-type safe harbors. But even in these countries, a flexible fair use provision is missing. The absence of such an exception exposes U.S. technology companies to potential copyright liability for activities permitted in the U.S., and thus inhibits the expansion of their activities abroad. Accordingly, U.S. trade negotiators should urge other countries to adopt broad fair use provisions, both in free trade agreements and other fora.

II. What Is Fair Use?

The term "fair use" often is employed to describe the full range of exceptions and limitations found in the Copyright Act. Technically, however, the fair use doctrine is embodied in one specific provision, 17 U.S.C. 107. This paper will employ the term "fair use" in this technical sense. Section 107 in its entirety provides:

> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—
>
> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
> (2) the nature of the copyrighted work;
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

Congress first codified the fair use doctrine in the 1976 Copyright Act, but courts had been applying fair use at least since the Supreme Court's 1841 decision in *Folsom v. Marsh*. Judges and scholars have struggled to categorize fair use. It has been called an affirmative defense, a user privilege, and even an affirmative right. Some scholars have viewed it as a solution to market failure – as a means of permitting a use when the transaction costs were too great relative to the use, *e.g.*, a short quotation, or the copyright owner refused to license the use, *e.g.*, a parody.

Regardless of its categorization, fair use has a constitutional dimension. Scholars have long noted a tension between the Constitution's Intellectual Property Clause, which authorizes Congress to provide copyright protection to authors, and the First Amendment, which prohibits Congress from restraining speech. Litigants have attempted to exploit this tension in an effort to convince courts to declare various provisions of the Copyright Act unconstitutional. The U.S. Supreme Court recently rejected such an effort on the grounds that the "copyright scheme ... incorporates its own speech-protective ... safeguards." *Eldred v. Ashcroft*, 123 S.Ct. 769, 788 (2003). In *Eldred*, Justice Ginsburg specifically identified fair use as one of copyright law's "built-in First Amendment accommodations...." *Id.* at 788-89.

In other words, fair use is not simply an exception created by Congress during the course of the political process that led to the 1976 Copyright Act, nor is it just an enactment of a long standing judicial principle of equity. Rather, fair use is a

constitutionally required structural element of the copyright law that harmonizes the copyright law with the First Amendment. As the Eleventh Circuit's Judge Stanley Birch recently argued in the Brace Lecture sponsored by the Copyright Society of the U.S.A., fair use is essential to the constitutionality of the Copyright Act.[1]

Fair use also plays another constitutional role: it helps achieve the stated objective of the IP Clause – promoting the progress of science and the useful arts – by permitting socially beneficial uses that do not unreasonably prejudice the copyright owner. The Supreme Court explains that fair use is an "equitable rule of reason which permits courts to avoid rigid application of the copyright statute when, on occasion, *it would stifle the very creativity which that law is designed to foster.*" *Stewart v. Abend*, 495 U.S. 207, 237 (1990)(emphasis supplied). Judge Kozinski writes that fair use, along with the idea/expression and fact/expression dichotomies, are "necessary to maintain a free environment in which creative genius can flourish." *White v. Samsung Electronics*, 989 F.2d 1512 (9th Cir.)(Kozinski, J., dissenting), *cert. denied*, 113 S. Ct. 2443 (1993). Judge Kozinski observes that these limitations allow "much of the fruit of a creator's labor may be used by others without compensation." *Id.* Paraphrasing the Supreme Court's decision in *Feist v. Rural Telephone*, 111 S. Ct. 1282, 1289-90 (1991), Judge Kozinski stresses that this reuse "is not some unforeseen byproduct of our intellectual property system; it is the system's very essence." 989 F.2d at 1517. Judge Kozinski explains that "culture, like science and technology, grows by accretion, each new creator building on the works of those who came before." *Id.* The intellectual property system provides authors with an incentive to create, but at the same time permits other authors to build on

[1] Stanley Birch, *Copyright Fair Use: A Constitutional Imperative*, Brace Lecture, November 1, 2006.

this creativity. This "is the means by which intellectual property law advances the progress of science and art." *Id.*

In sum, fair use is part of the constitutional fabric of the copyright law. It harmonizes the IP clause with the First Amendment, and it promotes the progress of science and the useful arts by allowing new authors to build on the work of earlier authors.

U.S. trading partners, of course, do not possess the same constitutional framework as the U.S. However, the tension between the goals of promoting free expression and protecting copyright exist in any legal system with those two goals, and thus a fair use provision can play an important role in alleviating that tension. Similarly, all copyright laws seek to encourage creativity. A fair use provision would further that objective, regardless of the legal system.

III. What Activities Related to the Digital Environment Fall Within Fair Use?

By definition, fair use is open-ended. Applying the four statutory factors, and other considerations it deems relevant, a court can excuse any otherwise infringing conduct. There have been hundreds of reported decisions concerning fair use, and, not surprisingly, they are far from consistent with one another because they reflect a judge's weighing of the fact-specific equities before him. Courts have not hesitated to apply fair use to new circumstances, resulting in a gradual expansion of fair use over time. Traditionally, the uses approved by courts (or the Congressional reports relating to the 1976 Copyright Act) tend to fall into three categories. *See* Birch at 26. First, a wide range of **educational uses** are considered fair use, including for example photocopying newspaper articles for use in a classroom. Second, courts have treated certain **personal**

uses as fair, most notably the time shifting of television programs permitted by the Supreme Court in *Sony v. Universal,* 464 U.S. 417 (1984). Third, courts have allowed **creative uses** of works, such as rap goup 2 Live Crew's parody of Roy Orbison's "Pretty Woman" in *Campbell v. Acuff-Rose,* 510 U.S. 569 (1994). More recently, courts have expanded the boundaries of these categories to accommodate the technonogical needs of the digital environment.[2]

Below we provide a few examples of activities critical to the digital environment that fair use permits.

A. Fair Use and Search Engines

Search engines, the basic tool that allows users to find information on the Internet, rely on fair use in their daily operations. A search engine firm sends out software "spiders" that crawl publicly accessible websites and copy vast quantities of data into the search engine's database. As a practical matter, each of the major search engine companies copies a large (and increasing) percentage of the entire World Wide Web every few weeks to keep the database current and comprehensive. When a user issues a query, the search engine searches the websites stored in its database for relevant information. The response provided to the user typically contains links both to the original site as well as to the "cache" copy of the website stored in the search engine's database.

Significantly, the search engines conduct this vast amount of copying without the authority of the website operators. Although the search engines will respect an exclusion

[2] For example, courts have enlarged the category of transformative uses to include the automatic translation of object code into source code or the storing of thumbnail images in a search database. These examples will be discussed below in greater detail.

header, a software "Do Not Enter Sign" posted by a website operator, the search engines does not ask for permission before they enter websites and copy their contents. Rather, the search engine firms believe that the fair use doctrine permits their activities. In 2003, the Ninth Circuit in *Kelly v. Arriba Soft*, 336 F.3d 811 (9th Cir. 2003), confirmed that search firms were correct in this belief. The court found that the caching of reduce-sized images copied from websites, and the display of these images in response to search queries, constituted a fair use. Relying on *Kelly*, the district court in *Field v. Google*, 412 F. Supp. 2d 1106 (D. Nev. 2006), excused Google's display of text cached in its search database as a fair use.[3]

Thus, the billions of dollars of market capital represented by the search engine companies are based primarily on the fair use doctrine. Moreover, the hundreds of billions of dollars of commerce on the Internet facilitated by search engines rely heavily on fair use.

To be sure, Section 512(d) of the DMCA creates a safe harbor for providers of information location tools such as search engines. However, the specific terms of the safe harbor apply to infringement occurring "by reason of the provider referring or linking users to an online location containing infringing material or activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link." While search firms take the position that this safe harbor applies to all the copies a search engine makes in the course of its provision of information location services, to

[3] The district court in *Perfect 10 v. Google*, 416 F. Supp. 2d 828 (C.D. Cal. 2006), rejected Google's fair use defense with respect to its display of thumbnails in its image search results on the grounds that Google's use of the thumbnails was "more commercial" than Arriba's and would harm an emerging market for the licensing of adult images to cellphone users. The decision is on appeal to the Ninth Circuit.

date no court has interpreted Section 512(d) in this manner. Furthermore, two district courts have construed the system caching safe harbor in Section 512(b) as applying to the caching performed by a search engine, *see Field v. Google, supra, and Parker v. Google*, 422 F. Supp. 2d 492 (E.D. Penn. 2006), but so far no appellate court has ratified this construction.

Yet, even if sections 512(b) and (d) unquestionably applied to the full range of search engine activities, search engines would still be subject to injunctions relating to the reproductions they make during the course of performing their search function. Sections 512(b) and (d) prohibit monetary relief against an eligible service provider, but still permit injunctive relief. Moreover, a search engine is eligible for the Section 512(d) safe harbor only if it expeditiously removes material at the request of the copyright owner, and meets a variety of other conditions. As a result, even with the DMCA's protection, a search engine could still be required to remove information relating to vast numbers of legitimate websites, to the extent that the search engine indexed that information without the express permission of those websites' operators.

For this reason, fair use remains critical to the efficient operation of search engines. And for the same reason, the ISP safe harbor provisions in the FTAs are insufficient. Like the DMCA on which they were modeled, at most they only provide a safe harbor against money damages, not injunctive relief.

It is worth noting that EU law is much more hostile to search engines than U.S. law. No court has interpreted the EU Copyright Directive's exception in Article 5(1) for temporary and incidental copies of no economic significance as shielding search engines from liability for the copies they make. The EU E-Commerce Directive has safe harbors

for mere-conduit, caching, and hosting functions, but not for information location tools. Additionally, it is far from clear that the caching safe harbor would apply to the kind of caching performed by search engines. The U.K. copyright law has a fair dealing exception, but it is narrower than fair use; it is limited to noncommercial uses for research or study. Finally, and perhaps most significantly, several European courts have found search engines' gathering of information from websites to violate national implementations of the EU Database Directive.

It is no accident that the world's leading search engines are all based in the United States; fair use provides a far more fertile legal environment for innovation than regimes with a handful of specific exceptions.[4] However, as U.S. search engines expand their operations globally, they expose themselves to infringement liability.

B. Fair Use and Software Development

Fair use is also critical to the inner workings of digital network technology. A user's computer can access information stored on a distant server only because the software on the user's computer, on the server, and on all the computers in between, can communicate with one another. This interoperability often can be achieved only if the software developer can reverse engineer the products with which it seek to communicate. And because of the nature of software, this reverse engineering, this studying of the operation of an existing product, can require the making of temporary copies or translations of the existing program. Several courts have concluded that fair use permits the copying that occurs during the course of software reverse engineering. *See Sega v.*

[4] British Commonwealth countries have adopted the U.K. concept of "fair dealing," which typically is much narrower than the U.S. concept of "fair use."

Accolade, 977 F.2d 1510 (9th Cir. 1992); *Atari v. Nintendo*, 975 F.2d 832 (Fed. Cir. 1992); *Sony v. Connectix*, 203 F.3d 596 (9th Cir. 2000).

The EU Software Directive contains exceptions for reverse engineering, as does Australia's copyright law. But these exceptions were the result of a lengthy, hard fought legislative process. For example, "Australia debated the issue of software reverse engineering for over a decade."[5] According to the Australian Attorney-General, the Hon. Daryl Williams QC, the reverse engineering exception to copyright law was vital in order for Australia to maintain its competitive edge in the world economy.[6] The decision making process to create an exception to copyright for software reverse engineering allowed for extensive input from concerned parties, jurists, and other experts. However, the delay between the start of discussions and the final passing of legislation creating this exception allowed other countries a long head start in technological innovation. Significantly, Australia's fair dealing provisions failed to adapt to the changing environment of software development without a statutory amendment.

The FTAs permit parties to fashion exceptions to the prohibition on circumvention of technological protection measures to permit

> noninfringing reverse engineering activities with regard to a lawfully obtained copy of a computer program, carried out in good faith with respect to particular elements of that computer program that have not been readily available to that person, for the sole purpose of achieving interoperability of an independently created computer program with other programs.

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[5] Jonathan Band, *Software Reverse Engineering Amendments in Singapore and Australia*, J. Internet L., Jan. 2000, at 17, 18.
[6] *Id.*

U.S.-Chile Free Trade Agreement, Article 17.7(5)(d)(ii). However, the FTAs do not require parties to create exceptions to the copyright law to permit the copying necessary to perform reverse engineering essential for interoperability. Thus, an FTA might require a country to create a reverse engineering exception to the circumvention law, but that act of reverse engineering might still infringe the country's copyright law. This, of course, makes absolutely no sense. Inclusion of fair use in the FTAs would resolve this absurdity.

C. Fair Use and Creativity on the Internet.

The Internet allows every user to publish her creativity globally through blogs, bulletin boards, listserv, and websites. Much of this creative output is commentary on the news or culture of the day. Frequently, this commentary involves quotation from an article or another commentator. It may consist of a parody of a speech or a song. Or it could entail assembling a collage of small pieces of audio, visual, and textual material. Fair use makes this vital form of political and artistic speech lawful in the U.S.

Distinguishing between user-generated content that is infringing or fair use is a complex and uncertain process. Fortunately for web-hosts, Section 512(c) of the DMCA and the parallel provisions of the FTAs provide safe harbors for the entities hosting the user content. With these safe harbors, the web-host does not need to make the difficult determination of whether a specific user-posted item is infringing or not. But these safe harbors provide no shelter for the user. While a creative user in the U.S. receives some protection from the fair use doctrine, a creative user abroad typically lacks an exception

permitting transformative uses.[7] This absence of immunity from copyright liability drives down the supply of user-generated content internationally, which in turn limits the ability of U.S. web hosts to penetrate global markets.

D. Fair Use and End-User Copies.

Fair use permits three at least different kinds of end-user copies enabled by digital technology. First, it permits time shifting, where a user records content such as a broadcasted television program to view it at a more convenient time. Digital video recorders such as the TiVo have made time shifting easier and more pervasive than ever. With the press of a button, a user can program a DVR to record a season's worth of episodes of a favorite television program. As noted above, the Supreme Court in *Sony v. Universal* concluded that a user's recording of a television broadcast for later viewing constituted a fair use.

Second, fair use permits "space shifting" – the ability to move content from one device to another so that the user can use the content in different locations. For example, a user can transfer a copy of a song on a compact disc to her MP3 player so that she can listen to the song while exercising at the gym. In *Recording Industry Association of America v. Diamond Multimedia Systems*, 180 F.3d 1072, 1079 (9th Cir. 1999), the Ninth Circuit considered the lawfulness of the Rio MP3 player. The court analogized space shifting to time shifting, stating that:

> The Rio merely makes copies in order to render portable, or "space-shift," those files that already reside on a user's hard drive. *Cf. Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 455 (1984) (holding that "time-shifting" of copyrighted television shows with VCR's constitutes

[7] Foreign copyright laws may provide an exception for short quotations or parodies, but these exceptions may be too narrow to permit the copying of audio-visual clips for satire or political commentary.

> fair use under the Copyright Act, and thus is not an infringement). Such copying is paradigmatic non-commercial personal use entirely consistent with the purposes of the [Audio Home Recording] Act.

Third, fair use permits the wide range of temporary copies necessary to the digital environment, where even the most basic operations require computers to make copies. For example, for a user to view a website, the user's computer must make a temporary copy of the website in its random access memory. Courts have found these temporary copies permitted by fair use. *See, e.g., Perfect 10 v. Google*, 416 F. Supp. 2d 828, 852 n. 17 (C.D. Cal. 2006).[8]

Significantly, these uses have become essential to the conduct of business. Workers access the Internet to locate important information throughout the work-day, making temporary copies of the websites they visit. If an employee finds an item of interest, he might time-shift it by copying it onto his hard-drive so that he can read it later. He also might space-shift it by printing it out or making a digital copy that he forwards to colleagues as an attachment to an email.

Fair use is flexible enough to permit these end-user copies even in the business context. To be sure, a few foreign jurisdictions have adopted explicit exceptions for temporary copies. Thus, Article 5(1) of the European Union's Copyright Directive specifically exempts:

> [t]emporary acts of reproduction ... which are transient or incidental and an integral and essential part of a technological process and whose sole purpose is to enable:
>
> (a) a transmission in a network between third parties by an intermediary, or
> (b) a lawful use

[8] Additionally, high definition televisions store images in memory, and then change only the pixels that need to be altered to change the image on the screen.

> of a work or other subject matter to be made, and which have no independent economic significance ....

Similarly, the Australian Copyright Amendment Bill 2006 permits temporary copies made in the course of telecommunications or "incidentally made as a necessary part of a technical process of using a copy of the work." *See* Sections 43A and43B. However, most foreign jurisdictions have no exemption for temporary copies.

With respect to time-shifting and space-shifting, the Copyright Directive permits reproductions "by a natural person for private use and for ends that are neither directly or indirectly commercial," only if "the rightsholders receive fair compensation." Article 5(2)(b). This "fair compensation" typically is accomplished by means of a levy on the sale of devices or storage media. The levy amounts to a tax on new technology, and it inhibits the technology's adoption.

The Australian Copyright Amendment Bill 2006 contains several sections that permit specific kinds of time-shifting and space-shifting under specific circumstances. For example, one may digitize a photograph in analog format, or make a hard copy of a digital photograph, but one may not make a digital copy of a digital photograph. *See* Section 47J. Likewise, the exception for the reproduction of books and articles appears to permit only digitizing materials originally in analog format, but not making digital copies of digital works. *See* Section 47C.

In addition, the private use exception in the Copyright Directive and the time- and space-shifting provisions in the Australian Copyright Amendment Act 2006 apply only to copies for personal use, and not to copies made in the workplace. Accordingly, the

copies routinely made in the workplace, *e.g.*, forwarding by email an item of interest to a colleague, would not be permitting in the EU or Australia.

In sum, fair use permits end-users in the United States to engage in time-shifting, space-shifting, and the making of temporary copies. The lawfulness of these activities, in turn, stimulates a robust market for the provision of devices that enable these copies. Conversely, the uncertain legal status of these activities in foreign markets, or the taxes imposed upon them, has a chilling effect on the market for these products.

IV. The FTAs Should Include a Fair Use Provision.

The FTAs require parties to provide authors with "the right to authorize or prohibit all reproductions of their works, in any manner or form, permanent or temporary (including temporary storage in electronic form)." U.S.-Chile FTA at Article 17.5(1). While giving authors these broad and precise rights, the FTAs vaguely instruct parties to "confine limitations or exceptions to rights to certain special cases which do not conflict with a normal exploitation of the work, performance or phonogram, and do not unreasonably prejudice the legitimate interests of the right holder." *Id.* at 17.7(3). However, almost every activity on the Internet involves the making of a copy: viewing a website; printing out an interesting article; responding to an email; compiling a search index. Thus, in the absence of robust exceptions, Internet service providers are large-scale direct and secondary infringers. Likewise, the providers of the devices employed by users to make these copies are secondary infringers if these copies are treated as infringements.

Given the FTAs' broad grant of rights, and the inevitability of copying on the Internet, the FTAs' exception language based on the Berne Convention's three-step test is

too ambiguous. The safe harbors for ISPs are helpful, but they do not go far enough to permit the full range of activities in which Internet and other technology firms routinely engage.[9] Only a broad, flexible exception similar to the fair use doctrine will provide a country's copyright law with sufficient flexibility to respond to evolving technology. The inclusion of fair use language in future FTAs will provide this flexibility, thereby facilitating the global competitiveness of U.S. technology companies.

[9] For this reason, the language contained footnote n. 17 of the U.S.-Chile FTA, inspired by Article 5(1) of the EU Copyright Directive, is too narrow: "Article 17.7(3) permits a Party to carry forward and appropriately extend into the digital environment limitations and exceptions in its domestic laws which have been considered acceptable under the Berne Convention. Similarly, these provisions permit a Party to devise new exceptions and limitations that are appropriate in the digital network environment. For works, other than computer software, and other subject-matter, such exceptions and limitations may include temporary acts of reproduction which are transient or incidental and an integral and essential part of a technological process and whose sole purpose is to enable (a) a lawful transmission in a network between third parties by an intermediary; or (b) a lawful use of a work or other subject-matter to be made; and which have no independent economic significance."

ATTACHMENT 4

JONATHAN BAND*

Google and Fair Use

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GOOGLE AND FAIR USE

I. INTRODUCTION

GOOGLE IS ONE OF THE MOST VISIBLE AND SUCCESSFUL U.S. COMPANIES in the new millennium. Its growth has been staggering, whether measured by market capitalization, revenue, profits, or the number of employees. It has been the subject of countless newspaper and magazine articles, television news reports, blogs, and even books.[1] Notwithstanding all this attention and scrutiny, the public and policymakers have little awareness that the company's crown jewel—its search engine—is heavily reliant on the fair use doctrine.[2]

This Article will explain the centrality of fair use to current search engine technology.[3] This Article will then discuss how the fair use doctrine will be litigated in the Google Library Project.[4] Lastly, the Article will discuss Europe's contrasting hostility towards the copyright issues presented by Google.[5]

II. SEARCH ENGINE TECHNOLOGY

The first generation of Internet search technology involved directories. The Yahoo directory, for example, was created by an army of human beings who surfed websites and classified them based on their content.[6] While such directories had the virtue of reflecting human judgment,[7] they were expensive to assemble and could not keep pace with the explosive growth of the Internet.[8]

The second generation of search technology involved software "spiders" sent out to "crawl" websites and copy metadata concerning the website's contents.[9] A search firm could compile a search database containing website metadata more quickly and less expensively than it could create a directory reflecting human categorizations.[10] However, website operators could easily deceive search engines dependent on metadata by manipulating the metadata.[11]

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1. *See, e.g.*, JOHN BATTELLE, THE SEARCH: HOW GOOGLE AND ITS RIVALS REWROTE THE RULES OF BUSINESS AND TRANSFORMED OUR CULTURE (2005); Kevin J. Delaney, *Google's Finance Chief to Resign*, WALL ST. J., Aug. 29, 2007, at B8; *Who's Afraid of Google?*, ECONOMIST, Sept. 1, 2007, at 9, 56–58.

2. *See infra* Parts III–V.

3. *See infra* Parts II–IV.

4. *See infra* Part VI.

5. *See infra* Part VII.

6. Yahoo! Small Business, What's the Difference Between a Search Engine and a Directory?, http://help.yahoo.com (last visited Sept. 6, 2007); *see also* PETER MORVILLE ET AL., THE INTERNET SEARCHER'S HANDBOOK 95–97 (1996).

7. S. REP. NO. 105-190, at 49 (1998).

8. *See* Search Engine History.com, History of Search Engines: From 1945 to Google 2007, http://www.searchenginehistory.com (last visited Sept. 13, 2007).

9. *See generally* NAT'L INFO. STANDARDS ORG., UNDERSTANDING METADATA (2004) (discussing metadata and how it is used). *See also* BATTELLE, *supra* note 1, at 20–21.

10. *See generally* BATTELLE, *supra* note 1, at 39–63 (discussing the shift from directories to search engines).

11. *See* Google Corporate Information: Technology Overview, http://www.google.com/corporate/tech.html (last visited Sept. 7, 2007).

This deficiency, and the steadily dropping cost of computer storage, led to the third and current generation of search technology. Now, the software spiders copy much of the content of the websites they crawl, rather than just the metadata.[12] In order for search engine companies to remain at the forefront of their industry, each must copy a large (and increasing) percentage of the entire World Wide Web every few weeks.[13] When a user enters a query into a search engine, the user receives back relevant information based on the websites stored in the search engine's database.[14] The search engine then produces a list of responsive sites ranked by an algorithm that determines relevancy.[15] The list of responsive sites that the user receives contains links to the original site and to a "cache" copy stored in the search engine's database.[16] Searching the webpages, rather than just the metadata, allows search firms to provide users with far more accurate responses.[17]

III. SEARCH ENGINES AND COPYRIGHT INFRINGEMENT

Because neither the first nor the second generation search engine copied expression protected by copyright, the search engine firm could not incur direct infringement liability.[18] At most, the search engine firm could be secondarily liable by virtue of linking to infringing material.[19] The information location tool safe harbor of the Digital Millennium Copyright Act[20] (DMCA) provided a notice and takedown regime that adequately protected first and second generation search engines from this liability risk.[21]

However, as noted above, third generation search firms copy the actual webpages into their search indices.[22] Significantly, the search engines conduct this vast amount of copying without the authority of the website operators.[23] Although the search engines will respect an exclusion header—a software "Do Not Enter" sign posted by a website operator—the search engines do not ask for permission before

12. *See id.*

13. JONATHAN BAND, AM. LIBRARY ASS'N, THE GOOGLE LIBRARY PROJECT: THE COPYRIGHT DEBATE 13 (2006).

14. *Id.*; *see also* Perfect 10, Inc. v. Amazon.com, Inc., 487 F.3d 701, 711–13 (9th Cir. 2007) (providing an overview of current search engine technology).

15. *See* Google Corporate Information, *supra* note 11.

16. BAND, *supra* note 13; *see also Amazon.com*, 487 F.3d at 711–13.

17. *See* Google Corporate Information, *supra* note 11.

18. *See, e.g.*, Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340 (1991).

19. *See Amazon.com*, 487 F.3d at 725–29.

20. 17 U.S.C. § 512(d) (2000).

21. *See* Jonathan Band, Taro Isshiki & Anthony Reese, *The Digital Millennium Copyright Act*, 12 WORLD INTELL. PROP. REP. 412, 415–18 (1998) (outlining the copyright infringement safe harbor principles of 17 U.S.C. § 512).

22. *See supra* Part II.

23. BAND, *supra* note 13, at 13–14.

they enter websites and copy the contents.[24] Thus, the search engines potentially are liable for direct infringement, not just secondary infringement.[25]

Moreover, this wholesale copying of websites might not fall within the four corners of the § 512(d) information location tool safe harbor.[26] Section 512(d) applies to infringement occurring "by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link."[27] This list of activities does not explicitly include copying expression into a search database.[28]

Yet, even if § 512(d) unquestionably applied to the full range of search engine activities, search engines would still be subject to injunctions relating to the reproductions they make during the course of performing their search function.[29] Section 512(d) prohibits monetary relief against an eligible service provider, but still permits injunctive relief.[30] Furthermore, a search engine is eligible for the § 512(d) safe harbor only if it expeditiously removes material at the request of the copyright owner, and meets a variety of other conditions.[31] As a result, even with the DMCA's protection, a search engine could still be required to remove information relating to vast numbers of legitimate websites, to the extent that the search engine indexed that information without the express permission of those websites' operators.[32] For this reason, search engines have relied upon another privilege afforded by the Copyright Act: the fair use doctrine.[33]

IV. FAIR USE

The fair use doctrine is codified in section 107 of the Copyright Act, which provides:

> *Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determin-*

24. *Id.* at 7.

25. *See, e.g.*, Jesse M. Feder, *Is Betamax Obsolete?:* Sony Corp. v. Universal City Studios, Inc. *in the Age of Napster*, 37 CREIGHTON L. REV. 859 (2004).

26. BAND, *supra* note 13, at 3–4.

27. 17 U.S.C. § 512(d) (2000).

28. *Id.* While search firms take the position that the § 512(d) safe harbor provision applies to all the copies a search engine makes in the course of its provision of information location services, to date no court has interpreted § 512(d) in this manner. BAND, *supra* note 13, at 14.

29. 17 U.S.C. § 512(d), (j).

30. *Id.* § 512(d).

31. *Id.*

32. BAND, *supra* note 13, at 13–14.

33. *See infra* Parts IV–V.

ing whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.[34]

Congress first codified the fair use doctrine in the Copyright Act of 1976,[35] but courts had been applying fair use at least since Supreme Court Justice Joseph Story's 1841 decision in *Folsom v. Marsh*.[36] Judges and scholars have struggled to categorize fair use. It has been called an affirmative defense,[37] a user privilege,[38] and even an affirmative right.[39] Some scholars have viewed it as a solution to market failure—as a means of permitting a use when the transaction costs were too great relative to the use, e.g., a short quotation, or the copyright owner refused to license the use, e.g., a parody.[40]

Regardless of its categorization, fair use has a constitutional dimension. Scholars have long noted a tension between the Constitution's intellectual property clause[41] and the First Amendment.[42] After all, the intellectual property clause authorizes Congress to provide copyright protection to authors, but the First Amendment prohibits Congress from restraining speech.[43] Litigants have attempted to exploit this tension in an effort to convince courts to declare various provisions of the

34. 17 U.S.C. § 107.

35. Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C. §§ 101–18 (1976)).

36. 9 F. Cas. 342 (C.C.D. Mass. 1841) (No. 4901).

37. *See, e.g.*, Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 590 (1994) (citing Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 561 (1985)); *see also* H.R. REP. No. 102-836, at 3 (1992).

38. *See* Charles R. McManis, *The Privatization (or "Shrink-Wrapping") of American Copyright Law*, 87 CAL. L. REV. 173, 175 (1999); *see also* ASS'N OF RES. LIBR., CONF. ON FAIR USE JOINT STATEMENT, CONFERENCE ON FAIR USE OF COPYRIGHTED WORKS CONCLUDES WITHOUT CONSENSUS, http://www.arl.org/pp/ppcopyright/copyresources/confu.shtml.

39. *See, e.g.*, Suntrust Bank v. Houghton Mifflin Co., 268 F.3d 1257, 1260 n.3 (11th Cir. 2001); David Nimmer, *A Riff on Fair Use in the Digital Millennium Copyright Act*, 148 U. PA. L. REV. 673, 714 n.227 (2000).

40. *See* Dan L. Burk & Julie E. Cohen, *Fair Use Infrastructure for Rights Management Systems*, 15 HARV. J.L. & TECH. 41, 43–47 (2001) (discussing the social functions of fair use). *See generally* Stanley F. Birch, *Copyright Fair Use: A Constitutional Imperative*, 54 J. COPYRIGHT SOC'Y U.S.A. 139 (2007) (providing an overview of fair use scholarship).

41. U.S. CONST. art. I, § 8, cl. 8.

42. U.S. CONST. amend. I.

43. *See, e.g.*, MARJORIE HEINS, FREE EXPRESSION POLICY PROJECT, "THE PROGRESS OF SCIENCE AND USEFUL ARTS": WHY COPYRIGHT TODAY THREATENS INTELLECTUAL FREEDOM 8 (2d ed. 2003), *available at* http://www.fepproject.org/policyreports/copyright2d.pdf; Birch, *supra* note 40, at 12 n.6.

Copyright Act unconstitutional. The U.S. Supreme Court recently rejected such an effort on the grounds that the "copyright scheme . . . incorporates its own speech-protective . . . safeguards."[44] In *Eldred v. Ashcroft*, Justice Ginsburg specifically identified fair use as one of copyright law's "built-in First Amendment accommodations."[45]

In other words, fair use is not simply an exception created by Congress during the course of the political process that led to the Copyright Act of 1976, nor is it just an enactment of a long-standing judicial principle of equity. Rather, fair use is a constitutionally required structural element that harmonizes the copyright law with the First Amendment. As the Eleventh Circuit's Judge Stanley Birch recently argued in the Brace Lecture sponsored by the Copyright Society of the U.S.A., fair use is essential to the constitutionality of the Copyright Act.[46]

Fair use also plays another constitutional role: it helps achieve the stated objective of the intellectual property clause—promoting the progress of science and the useful arts[47]—by permitting socially beneficial uses that do not unreasonably prejudice the copyright owner.[48] The Supreme Court explains that fair use is an "'equitable rule of reason' which 'permits courts to avoid rigid application of the copyright statute when, on occasion, *it would stifle the very creativity which that law is designed to foster.*'"[49] Judge Kozinski writes that fair use, along with the idea/expression and fact/expression dichotomies, are "necessary to maintain a free environment in which creative genius can flourish."[50] Paraphrasing the Supreme Court's decision in *Feist v. Rural Telephone*,[51] Judge Kozinski explains that these limitations allow "much of the fruit of a creator's labor [to] be used by others without compensation."[52] Judge Kozinski continues by stressing that this reuse "is not some unforeseen byproduct of our intellectual property system; it is the system's very essence."[53] Judge Kozinski explains that "[c]ulture, like science and technology, grows by accretion, each new creator building on the works of those who came before."[54] The intellectual property system provides authors with an incentive to create, but at the same time permits other authors to build on this creativity. This "is the means by which intellectual property law advances the progress of science and art."[55]

44. Eldred v. Ashcroft, 537 U.S. 186, 219 (2003).
45. *Id.*
46. Birch, *supra* note 40.
47. U.S. CONST. art. I, § 8, cl. 8.
48. Maureen A. O'Rourke, *Toward a Doctrine of Fair Use in Patent Law*, 100 COLUM. L. REV. 1177, 1188 (2000).
49. Stewart v. Abend, 495 U.S. 207, 236 (1990) (emphasis added) (citations omitted).
50. White v. Samsung Elecs. Am., Inc., 989 F.2d 1512, 1516 (9th Cir. 1993) (Kozinski, J., dissenting).
51. 499 U.S. 340 (1991).
52. *White*, 989 F.2d at 1517 (Kozinski, J., dissenting).
53. *Id.*
54. *Id.* at 1513.
55. *Id.* at 1517.

In sum, fair use is part of the constitutional fabric of the copyright law. Fair use harmonizes the intellectual property clause with the First Amendment, and promotes the progress of science and the useful arts by allowing new authors to build on the work of earlier authors.

V. CASE LAW ADDRESSING FAIR USE AS IT APPLIES TO GOOGLE

A. Kelly v. Arriba Soft Corp.

Google went public on August 19, 2004.[56] But July 7, 2003 might be an even more important date in Google's history. On that day, the U.S. Court of Appeals for the Ninth Circuit issued its decision in *Kelly v. Arriba Soft Corp.*[57] The *Kelly* court was the first appellate court to consider the lawfulness of a third generation search engine. By concluding that the fair use doctrine permitted the copying performed by search engines, the court gave a legal green light to the public's enormous investment in Google a year later.[58]

Arriba Soft operated a search engine for Internet images.[59] Arriba compiled a database of images by copying pictures from websites, without the express authorization of the website operators.[60] Arriba reduced the full size images into thumbnails, which it stored in its database.[61] In response to a user query, the Arriba search engine displayed responsive thumbnails.[62] If a user clicked on one of the thumbnails, she was linked to the full size image on the original website from which the image had been copied.[63] Kelly, a photographer, discovered that some of the photographs from his website were in the Arriba search database, and he sued for copyright infringement.[64] The lower court found that Arriba's reproduction of the photographs was a fair use, and the Ninth Circuit affirmed in part.[65]

With respect to the first of the four fair use factors, "the purpose and character of the use, including whether such use is of a commercial nature,"[66] the Ninth Circuit

56. *See* Google Corporate Information, *supra* note 11; *see also* Editorial, *Google Goes Public*, N.Y. TIMES, Aug. 20, 2004, at A22; Gary Rivlin, *After Months of Hoopla, Google Debut Fits the Norm*, N.Y. TIMES, Aug. 20, 2004, at C2 (discussing the first day of trading of Google stock).

57. 336 F.3d 811 (9th Cir. 2003).

58. *Id.* at 822.

59. *Id.* at 815.

60. *Id.*

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.*

66. Copyright Act of 1976, 17 U.S.C. § 107(1) (2000).

acknowledged that Arriba operated its site for commercial purposes.[67] However, Arriba's use of Kelly's images

> *was more incidental and less exploitative in nature than more traditional types of commercial use. Arriba was neither using Kelly's images to directly promote its web site nor trying to profit by selling Kelly's images. Instead, Kelly's images were among thousands of images in Arriba's search engine database. Because the use of Kelly's images was not highly exploitative, the commercial nature of the use weighs only slightly against a finding of fair use.*[68]

The court then considered the transformative nature of the use—whether Arriba's use "merely superseded the object of the originals or instead added a further purpose or different character."[69] The court concluded that

> *the thumbnails were much smaller, lower-resolution images that served an entirely different function than Kelly's original images. [While] Kelly's images are artistic works intended to inform and to engage the viewer in an aesthetic experience[,] . . . Arriba's search engine functions as a tool to help index and improve access to images on the internet . . . .*[70]

Further, users were "unlikely to enlarge the thumbnails" to use them for aesthetic purposes because they were of lower resolution and thus could not be enlarged without significant loss of clarity.[71] In distinguishing other judicial decisions, the Ninth Circuit stressed that "[t]his case involves more than merely a retransmission of Kelly's images in a different medium. Arriba's use of the images serves a different function than Kelly's use—improving access to information on the internet versus artistic expression."[72] The court closed its discussion of the first fair use factor by concluding that "Arriba's use of Kelly's images promotes the goals of the Copyright Act and the fair use exception" because the thumbnails "do not supplant the need for the originals" and "they benefit the public by enhancing information-gathering techniques on the internet."[73]

With respect to the second fair use factor, the nature of the copyrighted work, the Ninth Circuit observed that "'[w]orks that are creative in nature are closer to the core of intended copyright protection than are more fact-based works.'"[74] Moreover, "[p]ublished works are more likely to qualify as fair use because the first

67. *Kelly*, 336 F.3d at 818.
68. *Id.* (citation omitted).
69. *Id.* (citing Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 (1994)).
70. *Id.*
71. *Id.*
72. *Id.* at 819.
73. *Id.* at 820.
74. *Id.* (quoting A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1016 (9th Cir. 2001)).

appearance of the artist's expression has already occurred."[75] Kelly's works were creative, but published.[76] Accordingly, the Ninth Circuit concluded that the second factor weighed "only slightly in favor of Kelly."[77]

The third fair use factor is "the amount and substantiality of the portion used in relation to the copyrighted work as a whole . . . ."[78] The Ninth Circuit recognized that "copying an entire work militates against a finding of fair use."[79] Nonetheless, the court stated that "the extent of permissible copying varies with the purpose and character of the use."[80] Thus, "[i]f the secondary user only copies as much as is necessary for his or her intended use, then this factor will not weigh against him or her."[81] In *Kelly*, this factor weighed in favor of neither party:

> *[A]lthough Arriba did copy each of Kelly's images as a whole, it was reasonable to do so in light of Arriba's use of the images. It was necessary for Arriba to copy the entire image to allow users to recognize the image and decide whether to pursue more information about the image or the originating web site. If Arriba only copied part of the image, it would be more difficult to identify it, thereby reducing the usefulness of the visual search engine.*[82]

The Ninth Circuit decided that the fourth factor, "the effect of the use upon the potential market for or value of the copyrighted work,"[83] weighed in favor of Arriba.[84] The court found that the Arriba "search engine would guide users to Kelly's web site rather than away from it."[85] Additionally, the thumbnail images "would not harm Kelly's ability to sell or license his full-sized images" because the low resolution of the thumbnails effectively prevented their enlargement.[86]

B. Field v. Google Inc.

The Ninth Circuit's decision in *Kelly* in July 2003, obviously provided the search industry in general, and Google in particular, with legal confidence concerning its

75. *Id.* (citing Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 564 (1985)).

76. *Id.*

77. *Id.*

78. Copyright Act of 1976, 17 U.S.C. § 107(3) (2000).

79. *Kelly*, 336 F.3d at 820 (quoting Worldwide Church of God v. Phila. Church of God, Inc., 227 F.3d 1110, 1118 (9th Cir. 2000)).

80. *Id.* (citing Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 586–87 (1994)).

81. *Id.* at 820–21.

82. *Id.* at 821.

83. Copyright Act of 1976, 17 U.S.C. § 107(4).

84. *Kelly*, 336 F.3d at 882.

85. *Id.* at 821.

86. *Id.* at 821–22.

method of operation.[87] But it was not until January 2006 that a court ruled that Google's own search activities fell within the fair use privilege.[88]

In *Field v. Google*,[89] an attorney named Blake Field brought a copyright infringement lawsuit against Google after it automatically copied and cached fifty-one copyrighted stories he posted on his website.[90] The court found that Field posted the stories for the purpose of bringing copyright claims against Google: "Field decided to manufacture a claim for copyright infringement against Google in the hopes of making money from Google's standard practice" of caching the content it spiders and presenting users with links to the cached copies.[91] "Field created a robots.txt file for his site and set the permissions within this file to *allow* all robots to visit and index . . . the site."[92] Field intentionally chose not to use a "no archive" metatag, which would have prevented Google from providing users with links to the cache, because he wanted to "entrap" Google.[93]

In his suit, Field argued that the Google Cache feature infringed his copyrights because it allowed Google users to link to an archival copy of websites indexed by Google.[94] Field did not argue that Google infringed by copying his stories into its index in the first place; he probably recognized that under *Kelly v. Arriba Soft Corp.*, which is binding precedent on the federal court in Nevada, the copying and storing of the stories was a fair use.[95] Rather, Field's complaint centered on Google's serving the cache copy to users.[96] In *Kelly*, by contrast, the user had "to go to Kelly's site to see the full-sized image."[97] The court granted summary judgment in favor of Google on five independent bases, including fair use.[98]

87. *See supra* Part V.A.

88. *See* Field v. Google Inc., 412 F. Supp. 2d 1106, 1123 (D. Nev. 2006).

89. *Id.* at 1106.

90. *Id.* at 1110.

91. *Id.* at 1113.

92. *Id.* at 1114.

93. *Id.*

94. *Id.* at 1109.

95. 336 F.3d 811 (9th Cir. 2003); *see also supra* Part V.A.

96. Complaint for Copyright Infringement at 2–4, Field v. Google Inc., 412 F. Supp. 2d 1106 (D. Nev. 2006) (No. CV-S-04-0413-RCJ-LRL).

97. *Kelly*, 336 F.3d at 821.

98. *Field*, 412 F. Supp. 2d at 1109, 1123. The court relied on four additional bases for granting summary judgment in favor of Google. First, the court found that serving a webpage from the Google Cache did not constitute direct infringement by Google because it did not engage in any volitional activity with respect to serving the cached webpage. *Id.* at 1115. Rather, the user initiated the serving of the cached copy by clicking on the cache link. *Id.* Google's servers merely display the copy to the user by an automatic process. *Id.* Second, by posting an "allow all" robot.txt header and then failing to set a "no archive" metatag, Field indicated that he impliedly licensed search engines to permit users to access the cached copy. *Id.* at 1114–16. Third, Field was estopped from asserting a copyright claim because he induced Google to infringe by using software code that invited Google to scan and cache his website and then intentionally failed to instruct Google not to serve the cached copies. *Id.* at 1116–17. Fourth, the Google Cache qualifies for the Digital Millennium Copyright Act's section 512(b) caching "safe harbor" for online service providers. *Id.* at 1123–25.

The *Field* court's fair use holding is significant in several respects. Most importantly, the court extended *Kelly* from the presentation of thumbnail images to the presentation of the complete text of web sites.[99] The court found that the display of cached copies served a different purpose from the original work and therefore did not supersede the original.[100] The cache copy allows users to access the work when it no longer is available on the original site.[101] This is particularly significant for academics and journalists. The cache copy allows users to detect changes to a website.[102] This can be important for political, educational, and legal reasons. The cache copy also allows a user to understand why a page is responsive to a query, because the queried term is highlighted in the copy.[103] The court concluded that the use is transformative (even though the copy is identical to the original) because it serves a different purpose from the original.[104] The court dismissed the argument that Google was a commercial entity by stressing that there was no evidence that Google profited from its use of Field's stories.[105] The court observed that his "works were among *billions* of works in Google's database."[106]

With respect to the market impact of the cache copy, the court noted that Field made his work available for free on the Internet, and thus there was no market harm.[107] Further, the court found that "there is no evidence . . . of any market for licensing search engines the right to allow access to Web pages through 'Cached' links, or evidence that one is likely to develop."[108]

Finally, the *Field* court considered a fifth fair use factor: "whether an alleged copyright infringer has acted in good faith."[109] The court found that because Google was following industry practice when serving up cached copies, and disabled the links to the cache as soon as Field filed his complaint, it acted in good faith.[110]

C. *The District Court Decision in* Perfect 10, Inc. v. Google, Inc.

Google and other search engines encountered a major road block when the federal district court in *Perfect 10 v. Google, Inc.*[111] rejected Google's assertion of fair use.[112]

99. *Id.* at 1114.
100. *Id.* at 1118–19.
101. *Id.* at 1118.
102. *Id.*
103. *Id.* at 1119.
104. *Id.*
105. *Id.* at 1120.
106. *Id.*
107. *Id.* at 1121.
108. *Id.* at 1122.
109. *Id.*
110. *Id.* at 1122–23.
111. 416 F. Supp. 2d 828 (C.D. Cal. 2006), *aff'd in part and rev'd in part*, Perfect 10, Inc. v. Amazon.com, Inc., 487 F.3d 701 (9th Cir. 2007).
112. *Id.* at 851.

Perfect 10 published erotic photographs in a magazine and a website.[113] It claimed that other websites copied and displayed its photographs without permission.[114] In the course of its search engine operations, Google automatically scanned the photographs on the infringing websites, stored them in its search database, displayed thumbnails of these infringing images in response to search queries, and provided links to the infringing sites.[115] Additionally, Google provided the AdSense service.[116] If a website was an AdSense partner, Google served ads to the website.[117] Although AdSense and Google Search are distinct services, Google Search could lead a user to a website that was an AdSense partner.[118] Perfect 10 alleged that some of the infringing sites to which Google linked were AdSense partners.[119] A final fact: a company called Fonestarz Media Limited licenses photos and makes them available for download on cell phones.[120] Perfect 10 alleged that it had licensed its images to Fonestarz for download onto cell phones.[121] It further alleged that cell phone users could download thumbnail Perfect 10 images from Google's site rather than from Fonestarz.[122]

Perfect 10 sued Google both for displaying thumbnail images of Perfect 10 photographs in response to search queries and for linking to sites where infringing images were displayed.[123] Perfect 10 filed a motion for preliminary injunction, which the court granted in part.[124] In ruling on the display of the thumbnail images

113. *Id.* at 831–32.
114. *Id.* at 837.
115. *Id.* at 833–34.
116. *Id.* at 834.
117. *Id.*
118. *See id.*
119. *Id.* at 846–47.
120. *Id.* at 832.
121. *Id.*
122. *Id.* at 832, 838.
123. *Id.* at 831.
124. *Id.* at 831, 859. The court's rulings on the linking to infringing sites touched on issues other than fair use. *Id.* at 837–54. Perfect 10 argued that linking to an infringing site constituted both direct and secondary infringement. *Id.* at 837. After all, Google's "in-line" link incorporated the content from the linked site, and thus Google was engaging in an unlawful display of the content. *Id.* at 838–39. Google, on the other hand, argued that it was just pointing to the linked site, and that the linked site, not Google, was displaying the content. *Id.* After discussing the underlying technology, the court agreed with Google. *Id.* at 843.

Additionally, the court rejected Perfect 10's argument that Google was secondarily liable for providing links to sites with infringing content. *Id.* at 852. With respect to contributory infringement, the court concluded that providing an audience for the infringement—providing users a means of finding these infringing sites—did not constitute material contribution to infringing activity. *Id.* at 856. The court observed that "Google has *not* actively encouraged users to visit infringing third-party websites, and it has not induced or encouraged such websites to serve infringing content in the first place." *Id.* The court stated that the "websites existed long before Google Image Search was developed and would continue to exist were Google Image Search shut down." *Id.*

Turning to vicarious liability, the court found that Google did not have the right and ability to control the infringing activity on the third party sites. *Id.* at 856–58. Google did not control the environment in which the websites operated, and could not render them inaccessible by means of other search engines. *Id.*

in the search results, the court distinguished *Kelly* and found that Google's display was likely not a fair use.[125]

Specifically, the court identified two features that differentiated this case from *Kelly*: AdSense and Fonestarz.[126] In *Kelly*, Arriba Soft received no direct financial benefit from the display of Kelly's photograph.[127] Here, by contrast, Google received a financial benefit from the display of the Perfect 10 thumbnails because the thumbnails led users to infringing sites from which Google profited via the AdSense program.[128] The court concluded that this made Google's use "more commercial" than Arriba Soft's.[129]

Moreover, in *Kelly*, the court found that Arriba Soft's display of thumbnails did not harm the market for Kelly's work, in part because there was no market for the licensing of thumbnail images of Western scenery, the subject of Kelly's photos.[130] But there appears to be an emerging market for thumbnail images of naked women.[131] Fonestarz licenses photos and makes them available for download on cell phones, where they are the same size as the thumbnails that Google displays.[132] The court found that it was possible that Google's display of the thumbnails would interfere with the success of the Fonestarz service because cell phone users could see the thumbnails through a Google image search for free.[133] Because of these factors, the court concluded that Google was unlikely to prevail on its fair use defense.[134]

The district court's ruling concerning the display of thumbnails could have created serious problems for search engines. The district court's analysis called into question any search business model that relied on advertising tied to search results.[135] The district court distinguished *Kelly* by citing Google's AdSense program, where Google serves advertising on websites that in theory users could access by clicking on Google search results.[136] The district court evidently believed that advertising revenue tied in any manner to search results rendered Google's use far more commercial than Arriba Soft's.[137] After all, AdSense and Google Search were separate and distinct programs offered by Google, and it was merely coincidence that a Google search result would lead a user to a website enrolled in the AdSense

125. *Id.* at 842, 851.
126. *Id.* at 846–47, 849.
127. Kelly v. Arriba Soft Corp., 336 F.3d 811, 818 (9th Cir. 2003).
128. *Perfect 10*, 416 F. Supp. 2d at 846–47.
129. *Id.* at 847.
130. *Kelly*, 336 F.3d at 818, 821–22.
131. *Perfect 10*, 416 F. Supp. 2d at 851.
132. *Id.* at 849.
133. *Id.*
134. *Id.* at 851.
135. *See id.* at 845–51.
136. *Id.* at 846–47.
137. *See id.*

program.[138] If any linkage between advertising revenue and search results, no matter how tenuous, rendered the copying performed by search engines unfair, then advertising-based commercial search engines, which provide free access to users, would be in serious jeopardy.

The district court also distinguished *Kelly* by pointing to the Fonestarz service, which for a fee provided Perfect 10 images to cell phone users.[139] The district court concluded that Google's display of Perfect 10 thumbnails undermined the market for Fonestarz, thus tilting the fourth fair use factor against Google.[140] This analysis casted doubt on an all image search. In the future, firms may seek to provide specialized image download services to cell phones, e.g., images of entertainers, athletes, politicians, art, architecture, and animals. Each firm could claim that image search results competed with its service.

D. The Ninth Circuit Decision in Perfect 10, Inc. v. Amazon.com, Inc.

Fortunately for the search industry, on May 16, 2007, in *Perfect 10, Inc. v. Amazon.com, Inc.*[141] the U.S. Court of Appeals for the Ninth Circuit reversed the district court's rejection of Google's fair use defense.[142] The Ninth Circuit strongly reaffirmed its holding in *Kelly*, and rejected the district court's holding that *Kelly* was distinguishable due to the AdSense program and the cell phone downloads.[143] The

138. How Do Your Crawler and Site Diagnostic Reports Work?, https://www.google.com/adsense/support/bin/answer.py?answer=43995&ctx=en:search&query=separate&topic=&type=f (last visited Sept. 6, 2007).

139. *Perfect 10*, 416 F. Supp. 2d at 849, 851.

140. *Id.* at 851.

141. 487 F.3d 701 (9th Cir. 2007). The case name is styled *Perfect 10, Inc. v. Amazon.com, Inc.* because an appeal in a related case involving Amazon was consolidated with Google's appeal. *Id.* at 712–13. Perfect 10 sued Amazon for providing users with a link to Google search results. *Id.*

142. The Ninth Circuit affirmed the district court ruling that Google did not display or distribute the full sized images when it linked to them. *Id.* at 732–33. The Ninth Circuit, like the district court before it, looked closely at the actual technology involved. *Id.* at 715–19. It noted that Google did not store a full-sized copy in its server. *Id.* at 717. Instead, it provided HTML instructions that directed the user's browser to the third party site that stored the full-sized image. *Id.* The Ninth Circuit concluded that "[p]roviding these HTML instructions is not equivalent to showing a copy." *Id.*

With respect to vicarious liability, the Ninth Circuit affirmed the district court's holding that Google did not have the right and ability to supervise the infringing activity on the third-party websites. *Id.* at 729–31. The court found that "Google cannot terminate those third-party websites or block their ability to 'host and serve infringing full-size images' on the Internet." *Id.* at 731 (citation omitted).

However, the Ninth Circuit reversed the district court's finding that Google's linking to third party sites containing infringing content did not materially contribute to the infringement of the content. *Id.* at 729. The Ninth Circuit stated:

> There is no dispute that Google substantially assists websites to distribute their infringing copies to a worldwide market and assists a worldwide audience of users to access infringing materials. We cannot discount the effect of such a service on copyright owners, even though Google's assistance is available to all websites, not just infringing ones. Applying our test, Google could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps.

Id.

143. *Id.* at 720, 722–23.

Ninth Circuit found that there was no evidence that the Google thumbnails superseded the Fonestarz cell phone downloads.[144] Further, the court found no evidence that AdSense revenue derived from infringing sites was commercially significant.[145] At the same time, the court held that Google's use of the thumbnails was "highly transformative."[146] In fact, the court went so far as to say that "a search engine may be more transformative than a parody," the quintessential fair use, "because a search engine provides an entirely new use for the original work, while a parody typically has the same entertainment purpose as the original work."[147]

Accordingly, the Ninth Circuit "conclude[d] that the significantly transformative nature of Google's search engine, particularly in light of its public benefit, outweighs Google's superseding and commercial uses of the thumbnails in this case."[148] The Ninth Circuit stated that in reaching this conclusion, it was mindful that the Supreme Court stressed "the importance of analyzing fair use flexibly in light of new circumstances[,] . . . especially during a period of rapid technological change."[149]

As noted above, the district court's rejection of Google's fair use defense on account of its AdSense program threatened the advertisement-based business models of search engines.[150] Likewise, the district court's focus on the hypothetical harm caused to the emerging adult cell phone download market endangered the entire image search market because any photographer or visual artist could make the same kind of assertion. The Ninth Circuit's reversal of the district court's fair use holding, therefore, is critical to the future of search engines.

The Ninth Circuit made another important fair use holding. The district court found that the cache copy made by a user's browser whenever he viewed a webpage is likely a fair use.[151] The issue only arose because to prove secondary liability for Google, Perfect 10 needed to show that there was an underlying direct infringement by a third person.[152] Perfect 10 argued that there were three possible direct infringements: the third party websites' unauthorized display of Perfect 10's images; users printing out images from these websites; and users making temporary copies of these images in the random access memory (RAM) of their computers while

144. *Id.* at 722–23. The court found that "the significantly transformative nature of Google's search engine, particularly in light of its public benefit, outweighs Google's superseding and commercial uses of the thumbnails." *Id.* at 723.

145. *Id.*

146. *Id.* at 721.

147. *Id.*

148. *Id.* at 723.

149. *Id.* (quoting Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 431–32 (1984)).

150. *See supra* Part V.C. Without a viable defense to copyright infringement, search engines may be forced to seek revenue by charging users. This would dramatically change internet users' expectations.

151. Perfect 10 v. Google, Inc., 416 F. Supp. 2d 828, 852 n.17 (C.D. Cal. 2006), *aff'd in part and rev'd in part*, Perfect 10, Inc. v. Amazon.com, Inc., 487 F.3d 701 (9th Cir. 2007).

152. *Id.* at 851.

viewing these sites.[153] The Ninth Circuit agreed that the unauthorized display of the images was infringing, but found that there was no evidence that users printed out the images.[154] Further, the Ninth Circuit agreed with the district court that the RAM copies were a fair use.[155] While observers have long assumed that the RAM copies made by users browsing the Internet was a fair use, this is the first time a circuit court has so held. As with its ruling that a link is not a display, and that a search engine's display of thumbnails is a fair use, the Ninth Circuit here has given the green light to a basic Internet activity.

VI. LOOKING FORWARD TO THE GOOGLE LIBRARY PROJECT

Google has undertaken an ambitious project of scanning into its search database the full text of millions of books in library collections around the world.[156] Publishers and authors have sued Google for copyright infringement, and fair use will be Google's main defense.[157]

The Google Book Search Project (formerly the Google Print Project) has two facets: the Partner Program (formerly the Publisher Program) and the Library Project.[158] Under the Partner Program, a publisher controlling the rights in a book can authorize Google to scan the full text of the book into Google's search database. In response to a user query, the user receives bibliographic information concerning the book as well as a link to relevant text.[159] By clicking on the link, the user can see the full page containing the search term, as well as a few pages before and after that page.[160] Links would enable the user to purchase the book from booksellers or the publisher directly, or visit the publisher's website.[161] Additionally, the publisher would share in contextual advertising revenue if the publisher has agreed for ads to be shown on their book pages.[162] Publishers can remove their books from the

153. *Id.* at 837.

154. *Amazon.com*, 487 F.3d at 718–19.

155. *Id.* at 726.

156. Google Book Search Library Project, http://books.google.com/googlebooks/library.html (last visited Sept. 6, 2007).

157. *See, e.g.*, Complaint, The McGraw-Hill Cos., Pearson Educ., Inc., Penguin Group (USA) Inc., Simon & Schuster, Inc., and John Wiley & Sons, Inc. v. Google Inc., No. 05 CV 8881, 2005 WL 2778878 (S.D.N.Y. Oct. 19, 2005) [hereinafter Complaint]; Class Action Complaint, The Author's Guild, Associational Plaintiff, Herbert Mitgang, Betty Miles and Daniel Hoffman, Individually and on Behalf of All Others Similarly Situated v. Google Inc., No. 05 CV 8136, 2005 WL 2463899 (S.D.N.Y. Sept. 20, 2005) [hereinafter Class Action Complaint]. For a more detailed discussion of the Google Library Project and related fair use issues, see Jonathan Band, *The Google Library Project: Both Sides of the Story*, 1 PLAGIARY: CROSS-DISCIPLINARY STUDIES IN PLAGIARISM, FABRICATION, AND FALSIFICATION (Advance Online Copy) 1 (2006), *available at* http://quod.lib.umich.edu/p/plag/images/5240451.0001.002.pdf.

158. Google Book Search, http://books.google.com/googlebooks/about.html (last visited Sept. 6, 2007).

159. Google Book Search Tour, http://books.google.com/googlebooks/book_search_tour/books3.html (last visited Sept. 6, 2007).

160. Google Book Search, *supra* note 158.

161. Google Book Search Library Project, *supra* note 156.

162. Google Book Search Tour, *supra* note 159.

Partner Program at any time.[163] The Partner Program raises no copyright issues because it is conducted pursuant to an agreement between Google and the copyright holder.

A. The Library Project

Under the Library Project, Google plans to scan into its search database materials from an ever-growing list of research libraries.[164] In response to search queries, users will be able to browse the full text of public domain materials.[165] However, for books still under copyright, users will be able to see only a few sentences on either side of the search term—what Google calls a "snippet" of text.[166] Users will *not* see a few pages, as under the Partner Program, *nor* the full text, as for public domain works. Indeed, users will never see even a single page of an in-copyright book scanned as part of the Library Project.[167]

Moreover, if a search term appears many times in a particular book, Google will display no more than three snippets, thus preventing the user from viewing too much of the book for free.[168] Finally, Google will not display any snippets for certain reference books, such as dictionaries, where the display of even snippets could harm the market for the work.[169] The text of the reference books will still be scanned into the search database, but in response to a query the user will only receive bibliographic information.[170] The page displaying the snippets will indicate the closest library containing the book, as well as where the book can be purchased, if that information is available.[171]

Because of non-disclosure agreements between Google and the libraries, many details concerning the project are not available. It appears that Google will scan only public domain materials from several of the participating libraries, while it will scan both public domain and in-copyright books at Michigan, California, and Stanford.

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163. Google Book Search Help Center, http://books.google.com/support/bin/answer.py?answer=43756&topic=9011 (last visited Sept. 6, 2007).

164. The research libraries, as of September 18, 2007, include Bavarian State Library, Committee on Institutional Cooperation, Cornell University Library, Ghent University Library, Harvard University, Keio University Library, Oxford University, Princeton University, Stanford University, The National Library of Catalonia, The New York Public Library, University of California, University Complutense of Madrid, University Library of Lausanne, University of Michigan, University of Texas-Austin, University of Virginia, and University of Wisconsin-Madison. Google Book Search Library Partners, http://books.google.com/googlebooks/partners.html (last visited Sept. 18, 2007).

165. Google Book Search Library Project, *supra* note 156.

166. *Id.*

167. Displays of the different treatments can be found at Google's Book Search Library Project webpage. *See supra* note 156.

168. Google Book Search, *supra* note 158.

169. Posting of Ryan Sands to Inside Google Book Search: From the Mail Bag: Four Book Views, http://booksearch.blogspot.com/2006/07/from-mail-bag-four-book-views.html (July 5, 2006, 16:41 EST).

170. *Id.*

171. Google Book Search, *supra* note 158.

As part of Google's agreement with the participating libraries, Google will provide each library with a digital copy of the books in its collection scanned by Google.[172] Under the agreement between Google and the University of Michigan, the University agrees to use its copies only for purposes permitted under the Copyright Act.[173] If any of these lawful uses involve posting all or part of a library copy on the University's website—for example, posting the full text of a public domain work—the University agrees to limit access to the work and to use technological measures to prevent the automated downloading and redistribution of the work.[174] Another possible use described by the University is keeping the copies in a restricted (or "dark") archive until the copyright expires or the copy is needed for preservation purposes.[175]

In response to criticism from groups such as the American Association of Publishers and the Authors Guild, Google adopted an opt-out policy.[176] If the publisher or author of a particular title asked Google not to scan that particular title, Google would respect that request, even if the books were in the collection of one of the participating libraries.[177] Thus, Google provides a copyright owner with three choices with respect to any work: it can participate in the Partner Program, in which case it would share in revenue derived from the display of pages from the work in response to user queries; it can let Google scan the book under the Library Project and display snippets in response to user queries; or it can opt-out of the Library Project, in which case Google will not scan its book.

B. The Litigation

On September 20, 2005, the Authors Guild and several individual authors sued Google for copyright infringement.[178] The lawsuit was styled as a class action on behalf of all authors similarly situated. A month later, on October 19, 2005, five publishers—McGraw-Hill, Pearson, Penguin, Simon & Schuster, and John Wiley & Sons—sued Google.[179] The authors requested damages and injunctive relief.[180] The publishers, in contrast, only requested injunctive relief.[181] Neither group of plain-

172. Google Book Search Help Center—Do the Libraries Get a Copy of the Book?, http://books.google.com/support/bin/answer.py?answer=43751 (last visited Sept. 6, 2007).

173. *See* Cooperative Agreement by and between Google Inc. and the Regents of the University of Mich./University Library, Ann Arbor Campus, Aug. 2005, *available at* http://lib.umich.edu/mdp/umgooglecooperativeagreement.html.

174. *Id.*

175. UM Library/Google Digitization Partnership FAQ, Aug. 2005, http://www.lib.umich.edu/staff/google/public/faq.pdf (last visited Sept. 6, 2007).

176. Google Book Search Help Center, *supra* note 163.

177. *See id.* Because the author, the publisher, or a third party can own the copyright in a work, this Article will refer to "owners."

178. Class Action Complaint, *supra* note 157, at *1.

179. Complaint, *supra* note 157, at 1.

180. Class Action Complaint, *supra* note 157, at *11–13.

181. Complaint, *supra* note 157, at 14.

tiffs moved for a temporary restraining order or a preliminary injunction. Neither group sued the libraries for making the books available to Google.

The Library Project involves three actions that raise copyright questions. First, Google copies the full text of books into its search database.[182] Second, Google makes and provides each library with a digital copy of each book made available by that library.[183] Third, in response to user queries, Google presents users with a few sentences from the stored text.[184] Because the amount of expression presented to the user is *de minimus*, this third action probably would not lead to liability. Because the libraries will use their copies for noncommercial preservation purposes, Google has a strong fair use defense with respect to making these copies. Perhaps for this reason, the lawsuits focus on the first issue, Google's copying of the full text of books into its search database.[185]

As noted above, Google honors a request from the author or the publisher not to scan its book.[186] The owners, however, insist that the burden should not be on them to request Google not to scan a particular work; rather, the burden should be on Google to request permission to scan the work. According to Pat Schroeder, Association of American Publishers President, Google's opt-out procedure "shifts the responsibility for preventing infringement to the copyright owner rather than the user, turning every principle of copyright law on its ear."[187] The owners assert that under copyright law, the user can copy only if the owner affirmatively grants permission to the user—that copyright is an opt-in system, rather than an opt-out system. Thus, as a practical matter, the entire dispute between the owners and Google boils down to who should make the first move: should Google have to ask permission before it scans, or should the owner have to tell Google that it does not want the work scanned.

C. Google's Fair Use Argument

The owners are correct that copyright typically is an opt-in system, and that Google is copying vast amounts of copyrighted material without authorization. Google responds that this copying is permitted under the fair use doctrine.[188] The critical question is whether the fair use doctrine excuses Google's copying.[189]

182. Google Book Search Library Project, *supra* note 156.

183. Google Book Search Help Center—Do the Libraries Get a Copy of the Book?, *supra* note 172.

184. Google Book Search, *supra* note 158.

185. Class Action Complaint, *supra* note 157, at *6, *9.

186. *See supra* text accompanying note 177.

187. Press Release, Ass'n of Am. Publishers, Google Library Project Raises Serious Questions for Publishers and Authors (Aug. 12, 2005), *available at* http://www.publishers.org/press/releases.cfm?PressRelease ArticleID=274.

188. *See* Copyright Act of 1976, 17 U.S.C. § 107 (2000).

189. In its answer to the Authors Guild lawsuit, Google raised numerous additional defenses, including merger doctrine, *scenes á faire*, failure to comply with copyright registration formalities, lack of suitability for class action treatments, and the plaintiffs' lack of standing. Answer, Jury Demand, and Affirmative Defenses of Defendant Google Inc., The Author's Guild, Associational Plaintiff, Herbert Mitgang, Betty Miles and Daniel

Google probably will attempt to convince the court that the Ninth Circuit's decisions in *Kelly* and *Amazon.com* control this case. Although Google operates the program for commercial purposes, it is not attempting to profit from the sale of a copy of any of the books scanned into its database, and thus its use is not highly exploitative.[190] Like the Arriba and Google Image search engines, Google's use here is transformative in that Google is creating a tool that makes "the full text of all the world's books searchable by anyone."[191] The tool will not supplant the original books because it will display only a few sentences in response to user queries. Like Arriba and Google Image Search, the Library Project involves only published works.[192] While some of the works included in the Library Project will be creative, most will be non-fiction.[193]

Similar to the search engines in *Kelly* and *Amazon.com*, Google's copying of entire books into its database is reasonable because it allows the search engines to operate effectively. After all, the purpose is the effective operation of the search engine; searches of partial text necessarily would lead to incomplete results. Moreover, unlike Arriba and Google Image Search, Google will not provide users with a copy of the entire work, but only with a few sentences surrounding the search term.[194] And if a particular term appears many times in the book, the search engine will allow the user to view only three instances—thereby preventing the user from accessing too much of the book.[195]

Finally, as with the Arriba and Google Image search engine, it is hard to imagine how the Library Project could actually harm the market for books, given the limited amount of text a user will be able to view. To be sure, if a user could view (and print out) many pages of a book, it is conceivable that the user would rely upon the search engine rather than purchase the book. Similarly, under those circumstances, libraries might direct users to the search engine rather than purchase expensive reference materials. But when the user can access only a few sentences before and

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Hoffman, Individually and on Behalf of All Others Similarly Situated v. Google Inc., Civil Action No. 05 CV 8136 (JES) (S.D.N.Y. Nov. 30, 2005). In the Publishers' suit, Google raised many of these defenses, as well as license to scan and the publishers' lack of ownership of electronic rights. *See* Answer, Jury Demand, and Affirmative Defenses of Defendant Google Inc., The McGraw-Hill Cos., Pearson Educ., Inc., Penguin Group (USA) Inc., Simon & Schuster, Inc., and John Wiley & Sons, Inc. v. Google Inc., Civil Action No. 05 CV 8881 (JES) (S.D.N.Y. Nov. 8, 2005).

190. In *Field v. Google Inc.*, the court dismissed the argument that Google was a commercial entity by stressing that there was no evidence that Google profited from using Field's stories. 412 F. Supp. 2d 1106, 1120 (D. Nev. 2006). As noted above, the court observed that his works were among the billions of works in Google's database. *Id.* In the Library Project cases, Google will be able to make the same argument with respect to any one owner.

191. Posting of Adam M. Smith to Official Google Blog: Making Books Easier to Find, http://googleblog.blogspot.com/2005/08/making-books-easier-to-find.html (Aug. 12, 2005, 16:31 EST).

192. *See* Google Book Search Library Project, *supra* note 156.

193. Jonathan Band, *Copyright Owners v. The Google Print Library Project*, E-COMMERCE L. & POL'Y, Aug. 2005, *available at* http://www.policybandwidth.com/doc/googleprint-EntLaw.pdf.

194. Google Book Search Library Project, *supra* note 156.

195. Google Book Search, *supra* note 158.

after the search term, any displacement of sales is unlikely. Moreover, the Library Project may actually benefit the market for the book by identifying it to users and demonstrating its relevance. This is particularly important for the vast majority of books not well publicized by their publishers. Google will encourage users to obtain a hard copy of the book by providing a link to information on book borrowing or purchase information.[196]

D. The Owners' Response to Google's Fair Use Argument

The owners have four responses to the *Kelly* and *Amazon.com* precedents.[197]

1. Quality of Copy

First, the owners note that Arriba and Google Image Search stored a compressed, low-resolution version of each image, while here Google will store the full text of each book.[198] This seems to be a distinction without a difference because Arriba and Google Image Search had to make a high-resolution copy before compressing it. Furthermore, the low-resolution image Arriba and Google Image Search displayed to users represents far more of the work than the snippets Google will display to its Library Project users. In any event, neither the scanned copy nor the snippets supplant the market for the original work.[199]

2. Internet Environment

Second, the owners suggest that *Kelly* and *Amazon.com* are distinguishable because they involved the copying of digital images on the Internet, while here Google will be digitizing analog works.[200] If an owner decides to place a work on a website, the owner knows that the website will be "crawled" by a software "spider" sent out by a search engine, and the owner knows that the spider will copy the work into its search index.[201] Thus, by placing the work on the website, the owner has given a search engine an implied license to copy the work into its search database.[202] By

196. Posting of Adam M. Smith to Official Google Blog, *supra* note 191.

197. The responses are based on arguments that owners' representatives have made at a series of debates on the Google Library Project in which the author of this Article participated. *See, e.g.*, Allan Adler, *The Google Library Project*, MEDIA L. RES. CTR. BULL., Dec. 2006, at 73, 76 n.7 (2006); Solveig Singleton et al., *Gutenberg Meets Google: The Debate About Google Print*, PROGRESS & FREEDOM FOUND., Jan. 2006, *available at* http://pff.org/issues-pubs/pops/pop13.1googletranscript.pdf; *see also Fair Use: Its Effects on Consumers and Industry: Hearing Before the H. Subcomm. on Commerce, Trade, and Consumer Protection*, 109th Cong. (2005) [hereinafter Fair Use Hearing].

198. Singleton et al., *supra* note 197, at 3, 13.

199. *Id.* at 22. Additionally, in *Field v. Google Inc.*, the court found Google's presentation of caches of the full text of Field's stories to be a fair use. 412 F. Supp. 2d 1106, 1119 (D. Nev. 2006).

200. Singleton et al., *supra* note 197, at 13.

201. Fair Use Hearing, *supra* note 197, at 32 (testimony of Jonathan Band).

202. *Id.* at 63 (testimony of Paul Aiken).

contrast, the author or publisher of a book has not given an implied license for the book to be scanned.[203]

Google has three possible responses to this argument. One, *Kelly* makes no reference to an implied license; its fair use analysis did not turn on an implied license.[204] Two, this argument suggests that works uploaded onto the Internet are entitled to less protection than analog works.[205] This runs contrary to the entertainment industry's repeated assertion that copyright law applies to the Internet in precisely the same manner as it applies to the analog environment.[206]

Three, Google can argue that its opt-out feature constitutes a similar form of implied license. A critical element of the implied license argument with respect to material on the Internet is the copyright owner's ability to use an "exclusion header."[207] In essence, an exclusion header is a software "Do Not Enter" sign that a website operator can place on its website. If a search engine's spider detects an exclusion header, it will not copy the website into the search index.[208] Thus, if a website operator places content on the Internet without an exclusion header, the search engine can assume that the operator has given it an implied license to copy the website.[209] Similarly, Google can argue that any owner that has not opted out has given it an implied license to scan.

3. *Licensing*

The owners argue that the Library Project is distinguishable from *Kelly* because the Library Project restricts owners' ability to license their works to search engine providers.[210] However, the existence of the Partner Program, which involves licensing, demonstrates that the Library Project does not preclude lucrative licensing arrangements. By participating in the Partner Program, publishers receive revenue streams not available to them under the Library Project. Google presumably prefers for

203. *See id.*

204. *See Field*, 412 F. Supp. 2d at 1117–18. The implied license argument did not apply in *Perfect 10 v. Google, Inc.* because the websites from which Google copied the Perfect 10 images infringed Perfect 10's copyright and did not have the authority to license Google's use, either implicitly or explicitly. 416 F. Supp. 2d 828, 856–58 (C.D. Cal. 2006), *aff'd in part and rev'd in part*, Perfect 10, Inc. v. Amazon.com, Inc., 487 F.3d 701 (9th Cir. 2007).

205. Singleton et al., *supra* note 197, at 13.

206. *Id.*

207. *Id.* at 19–20.

208. Fair Use Hearing, *supra* note 197, at 34 (prepared statement of Jonathan Band on behalf of NetCoalition).

209. In *Field v. Google Inc.*, Google raised implied license as a defense. 412 F. Supp. 2d at 1116. But, Google's implied license argument in *Field* does not support the owners' attempt to distinguish *Kelly* on the basis of the unique characteristics of spidering the Web. In *Field*, the court treated implied license and fair use as distinct defenses. *Id.* at 1109. Thus, the absence of an implied license for the scanning in the Library Project does not weaken Google's fair use defense based on *Kelly*. Moreover, Field used a software header that specifically invited Google's spider to crawl his website. *Id.* at 1114. There is no evidence that Kelly made a similar invitation to Arriba Soft. Kelly v. Arriba Soft Corp., 336 F.3d 811, 816 (9th Cir. 2003).

210. Fair Use Hearing, *supra* note 197, at 97–98 (letter from Peter Jaszi).

publishers to participate in the Partner Program because Google saves the cost of digitizing the content if publishers provide Google with the books in digital format. And Google made it clear that it is willing to upgrade a book from the Library Project to the Partner Program upon the owner's request.[211]

Furthermore, Yahoo announced the formation of the Open Content Alliance, which will include works licensed by their owners, nearly a year after Google announced the Library Project.[212] Google's Library Project obviously did not deter Yahoo from adopting a different business model based on licensing.

Significantly, the Library Project will not compete with a business model involving licensed works because such a model will probably show more than just snippets. While the Library Project will help users identify the entire universe of relevant books, a model with licensed works will provide users with deeper exposure to a much smaller group of books.[213] Each business model will satisfy different needs. Stated differently, the Library Project targets the indexing market, while other online digitization projects aim at the sampling market.[214] By concentrating on the indexing market, the Library Project will not harm the sampling market.

Further, even if the owners succeed in showing that the Library Project's harm to the indexing market is not completely speculative,[215] in a recent decision the Second Circuit suggested that courts should not consider the loss of licensing revenue that the copyright owner could have obtained from "a transformative market." The court stated:

> *[W]e hold that DK's use of BGA's images is transformatively different from their original expressive purpose. In a case such as this, a copyright holder cannot prevent others from entering fair use markets merely "by developing or licensing a market for parody, news reporting, educational or other transformative uses of its own creative work." "Copyright owners may not preempt exploitation of transformative markets . . . ." Since DK's use of BGA's images falls within a transformative market, BGA does not suffer market harm due to the loss of license fees.*[216]

211. Posting of Adam M. Smith to Official Google Blog, *supra* note 191.

212. Press Release, Yahoo! Media Relations, Global Consortium Forms Open Content Alliance to Bring Additional Content Online and Make It Searchable (Oct. 3, 2005), *available at* http://docs.yahoo.com/docs/pr/release1269.html.

213. Fair Use Hearing, *supra* note 197, at 67 (prepared statement of Paul Aiken on behalf of the Authors Guild) ("And a negotiated license could pave the way for a real online library—something far beyond the excerpts Google intends to offer through its Google Library program.").

214. *See* BMG Music v. Gonzalez, 430 F.3d 888, 891 (7th Cir. 2005).

215. As noted above, the court in *Field v. Google Inc.* found that "there is no evidence before the Court of any market for licensing search engines the right to allow access to Web pages through 'Cached' links, or evidence that one is likely to develop." 412 F. Supp. 2d 1106, 1122 (D. Nev. 2006).

216. Bill Graham Archives, LLC v. Dorling Kindersley Ltd., 448 F.3d 605, 614–15 (2d Cir. 2006) (internal citations, quotation marks, and footnotes omitted).

Under this reasoning, the owners' hypothetical loss of revenue from the licensing of indexing rights should not enter into the fair use calculus.[217]

Finally, even if the court decided to include the loss of licensing revenue into its fair use analysis, it likely would be influenced by the Ninth Circuit's holding in *Kelly* that "the significantly transformative nature of Google's search engine, particularly in light of its public benefit, outweighs Google's superseding and commercial uses of the thumbnails in this case."[218]

4. Legal Error

The copyright owners' final response to *Kelly* and *Amazon.com* is that they were wrongly decided.[219] In other words, the Ninth Circuit made a mistake. The authors and publishers sued Google in federal court in New York, part of the Second Circuit.[220] While the trial court in New York may look to *Kelly* and *Amazon.com* for guidance, *Kelly* and *Amazon.com* are not binding precedent in the Second Circuit. Similarly, when the case is appealed to the Second Circuit, the Second Circuit will be interested in how the Ninth Circuit handled similar cases, but it is free to conduct its own analysis.

The owners suggest that the trial court will be influenced by an earlier decision in the same district: *UMG Recordings, Inc. v. MP3.com, Inc.*[221] MP3.com established a "space-shift" service that allowed people who purchased a CD to access the music on the CD from different locations.[222] MP3.com copied several thousand CDs into its server, and then provided access to an entire CD to a subscriber who demonstrated that he possessed a copy of the CD.[223] MP3.com argued that the copies it made on its server constituted fair use.[224] The court rejected the argument and assessed millions of dollars of statutory damages against MP3.com.[225] The owners might try to suggest that *MP3.com* demonstrates that for a work to be "transformed" in the Second Circuit for purposes of the first fair use factor, the work

217. The owners could argue that the Library Project might deprive them of the promotional value of their works, e.g., steering traffic away from their websites were they to offer search capability. *See* Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc., 342 F.3d 191, 202 (3d Cir. 2003). Interpreting the fourth fair use factor to incorporate promotional value of this sort significantly limits the utility of the fair use privilege because every work theoretically has some promotional value. Additionally, if a particular owner believes that a search index of the works it owns has promotional value, it can simply opt-out of the Library Project. Singleton et al., *supra* note 197, at 13. In contrast, Video Pipeline did not permit Disney to opt-out of its service displaying film trailers. *Video Pipeline*, 342 F.3d at 195.

218. Perfect 10, Inc. v. Amazon.com, Inc., 487 F.3d 701, 723 (9th Cir. 2007).

219. Singleton et al., *supra* note 197, at 13.

220. *Id.* at 13–14.

221. 92 F. Supp. 2d 349 (S.D.N.Y. 2000).

222. *Id.* at 351.

223. *Id.* at 350.

224. *Id.*

225. *Id.* at 352.

itself must be changed, as in a parody. Under this reasoning, a mere repurposing of the work is insufficient to render a use transformative.

Google will contend that *MP3.com* is easily distinguishable by claiming that its use is far more transformative than MP3.com's—it is creating a search index, while MP3.com simply retransmitted copies in another medium. Additionally, Google will claim that its use will not harm any likely market for the books—there is no market for licensing books for inclusion in digital indices of the sort envisioned by Google. In contrast, MP3.com's database clearly could harm markets for online music, which the plaintiffs had already taken steps to enter.

Google also will insist that the Ninth Circuit correctly decided *Kelly* and *Perfect 10*. It will point to the Ninth Circuit's heavy reliance in *Kelly* on the Supreme Court's most recent fair use decision.[226] *Kelly* noted that the Court in *Campbell v. Acuff-Rose Music, Inc.* held that "[t]he more transformative the new work, the less important the other factors, including commercialism, become."[227] Likewise, *Kelly* cited *Campbell* for the proposition that "the extent of permissible copying varies with the purpose and character of the use."[228] And *Kelly* followed *Campbell*'s conclusion that "[a] transformative work is less likely to have an adverse impact on the market of the original than a work that merely supersedes the copyrighted work."[229]

Perhaps most importantly, *Kelly* repeated the Supreme Court's articulation in *Campbell* and *Stewart v. Abend*[230] of the objective of the fair use doctrine: "This exception 'permits courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.'"[231] Google will contend that the Library Project is completely consistent with this objective in that it will ensure that creative accomplishments do not fade into obscurity. Because the Ninth Circuit so closely followed *Campbell*, and because the Second Circuit is also obligated to follow *Campbell*, Google will urge the Second Circuit to conduct a fair use analysis similar to the Ninth Circuit's.

The owners' contention that the Second Circuit applies a different standard for transformation took a blow in May 2006, when the Second Circuit issued its decision in *Bill Graham Archives, LLC v. Dorling Kindersley, Ltd.*[232] Dorling Kindersley (DK) published a coffee table biography of the Grateful Dead with over two-thousand different images.[233] Among these were seven posters whose copyright was owned by Bill Graham Archives (BGA).[234] BGA sued for infringement, but the Dis-

226. *See* Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569 (1994).
227. Kelly v. Arriba Soft Corp., 336 F.3d 811, 816 (9th Cir. 2003) (citing *Campbell*, 510 U.S. at 579).
228. *Id.* at 820 (citing *Campbell*, 510 U.S. at 586–87).
229. *Id.* at 821 (citing *Campbell*, 510 U.S. at 591).
230. 495 U.S. 207 (1990).
231. *Kelly*, 336 F.3d at 817 (quoting Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc., 109 F.3d 1394, 1399 (9th Cir. 1997)).
232. 448 F.3d 605 (2d Cir. 2006).
233. *Id.* at 607.
234. *Id.*

trict Court found that DK's use was fair.[235] The Second Circuit affirmed, holding that DK's inclusion of reduced images of the posters in a new work was transformative.[236] The court noted that

> *DK's purpose in using the copyrighted images at issue in its biography of the Grateful Dead is plainly different from the original purpose for which they were created. Originally, each of BGA's images fulfilled the dual purpose of artistic expression and promotion. . . . In contrast, DK used each of BGA's images as historical artifacts to document and represent the actual occurrence of Grateful Dead concert events featured on [its] timeline.*[237]

Thus, the Second Circuit, like the Ninth Circuit in *Kelly*, focused on the repurposing of the original work, rather than on changes to the work itself.[238]

Further strengthening the transformational nature of DK's use was "the manner in which DK displayed the images."[239] The court noted that DK reduced the size of the reproductions, and cited *Kelly* as authority for the transformational nature of reproductions.[240] The court further noted that BGA's images "constitute an inconsequential portion" of the book.[241] These factors are present in the Google Library Project as well—Google displays only snippets, which reveal far less of a work than a thumbnail. Moreover, any one work constitutes an inconsequential portion of the Google search index. In sum, the *BGA* decision suggests that a court in the Second Circuit would find Google's use transformative.[242]

VII. EUROPEAN HOSTILITY TO SEARCH ENGINES

It is no accident that the world's leading search engines are all based in the United States; fair use provides a far more fertile legal environment for innovation than regimes with a handful of specific exceptions.[243] However, as Google and its U.S. search engine competitors expand their operations globally, they will increasingly expose themselves to infringement liability overseas.

While the fair use doctrine in the United States has allowed for the explosive growth of the Google, Yahoo, Ask, and MSN search engines, the legal environment

235. Bill Graham Archives, LLC v. Dorling Kindersley Ltd., 386 F. Supp. 2d 324, 333 (S.D.N.Y. 2005), *aff'd*, 448 F.3d 605 (2d Cir. 2006).

236. *Bill Graham Archives*, 448 F.3d at 615.

237. *Id.* at 609.

238. *Id.* at 608.

239. *Id.* at 611.

240. *Id.*

241. *Id.*

242. The *Bill Graham Archives* court also cited *Kelly* twice in its discussion of the third fair use factor. *Id.* at 613. Given the Second Circuit's extensive reliance on *Kelly*, the owners will not be able to marginalize it as an aberrant Ninth Circuit decision. *See id.*

243. British Commonwealth countries have adopted the U.K. concept of "fair dealing," which typically is much narrower than the U.S. concept of "fair use." Copyright, Designs and Patents Act, 1988, c. 48, § 29 (Eng.).

in the European Union has been much more hostile to search engines. The relevant EU Directives and their national implementations do not appear to contain exceptions as flexible as § 107 of the United States Code.[244] The EU Copyright Directive's exception for temporary and incidental copies of no economic significance probably would not shield search engines from liability for the copies they make.[245] Similarly, the EU E-Commerce Directive has safe harbors for mere-conduit, system caching, and hosting functions, but not for information location tools.[246] Additionally, it is far from clear that the caching safe harbor would apply to the kind of caching performed by search engines. The U.K. copyright law has a fair dealing exception, but it is narrower than fair use; it is limited to noncommercial uses for research or study.[247]

European courts also have shown little sympathy to search engines. Several European courts have found search engines' gathering of information from websites to violate national implementations of the EU Database Directive.[248] And in February 2007, the Belgian Court of First Instance specifically found that Google's caching of websites, and subsequent display of the cache copies to users, infringes copyrights.[249] The court considered, and rejected, the various defenses Google raised, including the exception for news reporting.[250] Moreover, the court found that GoogleNews infringed copyrights and violated the Database Directive by copying and displaying the headlines and lead sentences from articles.[251]

The absence of a broad fair use exception in European nations suggests that their copyright laws would not permit the scanning of a library of books. For this reason, in Europe Google will scan only public domain books. Fortunately for researchers of books published outside of the United States, the U.S. libraries participating in the Google Library Project possess vast collections of books published around the world. Thus, these important resources will be included in the Google search database, notwithstanding the absence of a fair use doctrine in their country of origin.[252]

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244. *See* Copyright Act of 1976, 17 U.S.C. § 107 (2000).

245. Council Directive 2001/29, The Harmonization of Certain Aspects of Copyright and Related Rights in the Information Society, art. 5, 2001 O.J. (L 167) 10, 16 (EC).

246. Council Directive 2000/31, Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market, arts. 13–15, 2000 O.J. (L 178) 1, 12–13 (EC).

247. Copyright, Designs and Patent Act, 1988, c. 48, § 29 (Eng.).

248. *See* P. Bernt Hugenholtz, *The Database Right File*, INST. FOR INFO. L., Dec. 13, 2006, http://www.ivir.nl/files/database/index.html.

249. SCRL Copiepresse v. Google, Gen. Role No. 06/10.928/C, 22 (Ct. of the First Instance of Brussels Feb. 15, 2007).

250. *Id.* at 31–32.

251. *Id.* at 28.

252. Of course, the search results will be viewable in other countries. This means that Google's distribution of a few sentences from a book to a user in another country must be analyzed under that country's copyright laws. (Google arguably is causing a copy of the sentences to be made in the random access memory of the user's computer.) While the copyright laws of most countries might not be so generous as to allow the repro-

VIII. CONCLUSION

As Justice Ginsburg noted in *Eldred*, the fair use doctrine acts as one of copyright law's built-in accommodations to the First Amendment. Hence, it is particularly fitting that two of Google's endeavors that advance First Amendment values—its search engine and Library Project—depend on the fair use doctrine for their lawfulness.[253] In contrast, European nations with less developed free speech traditions lack a fair use analog. These jurisdictions present a hostile copyright environment to Google's search engine and library project.

duction of an entire book, almost all copyright laws do permit short quotations. These exceptions for quotations should be sufficient to protect Google's transmission of Library Project search results to users.

253. *See supra* Parts V–VI.

ATTACHMENT 5

Constitution and Peru's trade promotion agreement obligations. The whistleblower in this situation was immediately fired from his post.

And in July, Peru offered concessions for oil and gas exploration and exploitation for over a fifth of the Peruvian Amazon rainforest despite a report by the national ombudsman determining that elements of this process were illegal

What we are seeing with these recent developments in Peru related to environmental protections is that despite increased enforcement mechanisms in the free trade agreement for labor and for the environment, the NAFTA model perpetuates a "race to the bottom" that has become the unfortunate hallmark of free trade agreements.

When trade agreements are used only as a tool to provide cheap labor for American companies, everyone loses. The United States can be a leader in the global economy if we promote fair trade that creates sustainable markets for American goods and services, protects the environment and improves wages and standards of living for American and foreign workers.

Mr. LEAHY. Mr. President, as chairman of the Committee on the Judiciary, which has jurisdiction over our Nation's intellectual property laws, I feel compelled to comment on the intellectual property chapter of the United States-Peru Trade Promotion Agreement.

In the Trade Promotion Authority Act of 2002, Congress instructed the administration to negotiate agreements with other nations that, among other things, reflect a standard of protection for intellectual property "similar to that found in United States law." In many respects, the intellectual property chapter of the Peru Trade Promotion Agreement meets that goal, for it will require Peru to raise its standards of protection for our intellectual property.

I am concerned, however, that some aspects of the intellectual property chapter prescribe the rules for protection so specifically that Congress will be hampered from making constructive policy changes in the future. The art of drafting the chapter is in raising intellectual property protections to a standard similar to ours, without limiting Congress's ability to make appropriate refinements to the intellectual property law in the future. The flexibility necessary for the proper balance is found in many provisions of the intellectual property chapter, for which I commend the U.S. Trade Representative. Other provisions, however, are too fixed and rigid, and may have the perverse effect of restricting the Congress's ability to make legitimate changes in United States law, while keeping our international commitments. I expect that in the future, with improved consultation between the Committee on the Judiciary and the Office of the United States Trade Representative, we can avoid these concerns.

Our trade promotion law also instructed the administration to negotiate agreements that provide strong protection for new and emerging technologies and new methods of transmitting and distributing products embodying intellectual property. This, too, is an objective I support. Under our laws, many such new technologies and consumer devices rely, at least in part, on fair use and other limitations and exceptions to the copyright laws. Our trade agreements should promote similar fair use concepts, in order not to stifle the ability of industries relying on emerging technologies to flourish.

Finally, a longstanding priority of mine has been the promotion of affordable, lifesaving medicines to address the public health problems afflicting many, primarily developing Nations—particularly those resulting from HIV/AIDS, tuberculosis, malaria and other epidemics. The United States made such a commitment in the 2001 Doha Declaration; I was pleased that the U.S. Trade Representative reaffirmed this commitment in May and that Peru's rights to promote access to medicines is preserved in this agreement.

There is much in the intellectual property chapter of this free trade agreement that I support. I look forward to the Judiciary Committee's being consulted by the Office of the U.S. Trade Representative earlier, and more frequently, in the future, so that we can continue to improve on these issues.

Mr. KOHL. Mr. President, when voters gave Democrats control of Congress, they wanted a new direction on trade policy. They wanted trade agreements that would hold our trading partners to the same labor and environmental standards expected of U.S. companies. And they wanted trade agreements that would level the playing field for U.S. businesses. Democrats listened.

I am supporting the Peru FTA because it is a new model for trade agreements that includes enforceable labor and environmental protections. For the first time, the U.S. will have the right to hold a trading partner accountable if labor or environmental issues become a problem.

The Peru FTA benefits Wisconsin companies and workers. Wisconsin exports to Peru have increased from $9.3 million in 2002 to $43.5 million in 2006. This agreement will help trade between the U.S. and Peru flourish and keep businesses and jobs in Wisconsin, something I couldn't say about several previous trade agreements. Further, the Peru FTA eliminates the current 10 percent tariff on U.S. goods entering Peru. This will remove barriers to Wisconsin exports and make Wisconsin businesses even more competitive.

The Peru FTA is the first step in a new direction for trade policy that will enforce labor and environmental standards and help U.S. businesses gain access to new markets.

Mrs. MURRAY. Mr. President, I rise today to discuss H.R. 3688, the United States-Peru Trade Promotion Agreement. Washington State is extremely trade dependent, and this agreement will have direct impacts to my constituents at home, particularly farmers growing asparagus. In addition, I am concerned about existing labor practices for miners in Peru.

The domestic asparagus industry has been economically injured by the Andean Trade Preference Act's, ATPA, extended duty-free status to imports of fresh Peruvian asparagus. There has been a 2000-percent increase in Peruvian asparagus imports into the U.S. since ATPA was enacted. The asparagus industry suffered the greatest negative impact from the ATPA, according to the U.S. International Trade Commission's analysis of the agreement. The effects of the agreement to Washington State's asparagus industry were dramatic.

Prior to the ATPA, there were over 55 million pounds of asparagus canned in Washington State, roughly two-thirds of the industry. By 2007, all three asparagus canners in Washington relocated to Peru. As asparagus production fell, I fought to provide assistance for these hard-working men and women whose industry had been devastated.

To mitigate the impacts to growers, I tried to get them trade adjustment assistance. I have secured funding over the past several years to conduct research on a mechanical harvester to make this labor-intensive crop less costly to produce. Most recently, I helped secure $15 million in the farm bill for a market loss assistance program for asparagus growers. This funding will help farmers who have continued to grow asparagus despite the challenges ATPA has presented. I am hopeful that this program will help growers continue to invest in asparagus.

Many of our asparagus growers have turned to other crops, and this Peru trade bill will help them, along with many other farmers in Washington State. While I have serious concerns about the continued effects on the asparagus industry in the U.S. and in Washington State, overall this bill will have a positive impact for agriculture in Washington State.

I would also like to note my concern about labor practices for miners in Peru and the unintended negative impact that this agreement may have on them.

A report by the Congressional Research Service indicates that while Peru endorses the International Labor Organization's core labor standards in the PTPA, concerns remain about their compliance with and the enforcement of these standards. I was discouraged to learn that while Congress was considering the PTPA, the Peruvian Government stalled in its efforts to secure statutory protections for miners and declared it illegal for metal miners to continue striking in support of stronger labor laws.

ATTACHMENT 6

PATRICK J. LEAHY, VERMONT, CHAIRMAN

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NICHOLAS A. ROSSI, *Republican Chief Counsel*

United States Senate
COMMITTEE ON THE JUDICIARY
WASHINGTON, DC 20510-6275

October 2, 2008

The Honorable Susan C. Schwab
United States Trade Representative
600 17th Street, NW
Washington, D.C. 20508

Dear Ambassador Schwab:

We applaud your efforts, through discussion of an Anti-Counterfeiting Trade Agreement (ACTA), to elevate the importance of strong intellectual property protection. We write to express our concern, however, about the breadth of the issues it could cover, and the specificity with which it could be written.

Protecting intellectual property through better international coordination and improved standards of enforcement abroad is a valuable pursuit. We have steadfastly supported funding in the Foreign Operations Appropriations bill to assist foreign countries in combating the piracy of U.S. intellectual property rights. A top priority of ours in this Congress is legislation to provide greater tools and resources for law enforcement to combat intellectual property theft, and to improve coordination of such efforts within the Federal government. We are disappointed that the Administration has been resistant to this effort and has opposed additional enforcement authority, such as civil enforcement in copyright cases where the violation rises to the level of criminal activity.

We are concerned, however, that the ACTA under consideration will prescribe rules for protection so specifically that it could impede Congress's ability to make constructive policy changes in the future. Our concern that ACTA, if not drafted with sufficient flexibility, could limit Congress's ability to make appropriate refinements to intellectual property law in the future is institutional and one that we raised when the United States Senate implemented the US-Peru Free Trade Agreement. It is compounded in this situation by the lack of transparency inherent in trade negotiations and the speed with which the process is moving.

Regarding the potential breadth of ACTA, we strongly urge you not to permit the agreement to address issues of liability for service providers or technological protection measures. The contours of the law and liability exposure in these areas continue to be debated in the courts and in Congress. As technology is not static, Congress must have the ability to tailor the law as developments warrant without concern that a change may run afoul of ACTA.

We urge you not to rush into a new, broad Anti-Counterfeiting Trade Agreement that may have a significant impact on intellectual property protection at home and abroad and which can take effect without formal Congressional involvement. We encourage you to limit the agreement to improved coordination among nations and robust, but flexible standards for civil, criminal, and border enforcement.

We look forward to continuing to work with you on this important issue and appreciate your commitment to protecting the intellectual property.

Sincerely,

PATRICK LEAHY
Chairman

ARLEN SPECTER
Ranking Member

ATTACHMENT 7

The Threat Posed By Inflated Statutory Damages

Comments on the January 25, 2008 Meeting Hosted by the Copyright Office

Submitted by: Library Copyright Alliance (LCA); Computer & Communications Industry Association (CCIA); NetCoalition; Consumer Electronics Association (CEA); Public Knowledge; Center for Democracy & Technology (CDT); Association of Public Television Stations (APTS); Printing Industries of America (PIA)

EXECUTIVE SUMMARY

The PRO IP Act (H.R. 4279) proposes to weaken the long-established "one work" rule, which today imposes a measure of certainty on how copyright statutory damages are calculated. Under current law, a copyright plaintiff may seek up to $150,000 *per work infringed.* In the case of compilations, the one work rule recognizes that the compilation is being marketed as one work, although it may in fact consist of multiple components.

Section 104 of the PRO IP Act seeks to undo a central underpinning of statutory damages: ensuring that the damages award for infringement of a compilation does not result in catastrophic multiple awards through a separate award for each component of that compilation. For example, current law authorizes a statutory damages award of up to $150,000 for a single infringement of a magazine containing 100 photos, or a software application containing 100 modules. The proposed changes in Section 104 would allow a plaintiff to claim up to $15 million for the same act of infringement.

Courts may award such damages without *any evidence of actual harm* to the rightsholder. The one work rule preserves a balanced tradeoff – plaintiffs are relieved of the burden of demonstrating "any shred of proof whatever that there has been any actual damage," yet there is a high ceiling of one award of $150,000 for the infringement of a compilation. Significantly, the copyright owner always has the option of obtaining actual damages and the infringer's profits attributable to the infringement.

Legislative history and litigation practice presented at the January 25, 2008 meeting demonstrate that the one work rule was a carefully designed compromise crafted by the Copyright Office to balance competing approaches to statutory damages. This compromise has withstood the test of time. By copyright law standards, the judicial interpretations of the one work rule have been consistently uniform.

In practice, there is no evidence to support weakening the one work rule. Proponents of weakening the one work rule are not able to produce any examples where that rule has created unfair outcomes for rightsholders. In fact, at the January 25 meeting Associate Register Carson asked the proponents of Section 104 if they could cite a single example where the one work rule produced an unjust result. The proponents were unable to do so.

As applied, existing law already tilts drastically toward copyright plaintiffs, notwithstanding the one work rule. Section 504 provides a court with broad discretion on the amount of statutory damages to award -- from $200 to $150,000 per work infringed. In *UMG v. MP3.com,* even after application of the one work rule, the plaintiff still could have received approximately $118 million in statutory damages (4,700 CDs at $25,000 per CD). And in *Arista*

(continued)

Records v. Launch Media (01-CV-4450 [RO] S.D.N.Y.), under the one work rule, plaintiff could have collected statutory damages of in excess of $100 million had the court found infringement liability.

Not only is there a complete lack of evidence for the need to modify existing law, the proposed change would cause significant collateral damage across the economy, including, for instance, technology and Internet companies, software developers, telecommunications companies, graphics and printed materials industries, libraries, and consumers. Allowing plaintiffs to disaggregate components of existing works would—

- Incentivize "copyright trolls" by providing plaintiffs with the leverage to assert significantly larger damage claims and obtain unjustified "nuisance settlements" from innovators not able to tolerate the risk of a ruinous judgment.[1]
- Stifle innovation by discouraging technologists from using or deploying any new technology or service that could be used to engage in infringing activities by third parties.
- Create unprecedented risk for licensees of technologies powered by software. Because licensees may be unable or unwilling to obtain meaningful indemnifications from every upstream contributor to a particular product, the proposed change will decrease companies' willingness to outsource software solutions or use open source software.
- Chill lawful uses, suppress the development of fair use case law, and exacerbate the orphan works problem.

Before considering the changes proposed by Section 104, it is important to observe how the existing one work rule affects firms offering innovative products and services. Current law threatens innocent and willful infringers alike, at a time when the maximum statutory damages have mushroomed by a factor of 15 from the Register of Copyright's initial recommendation in 1961. This rule offers a measure of protection to companies that deploy technologies employed by end-users from the risk of grossly disproportionate liability. The threat of secondary liability faced by technology companies – and the potential for astronomical statutory damages – is not merely theoretical. Content companies have filed suit against almost every new generation of personal storage technology brought to market, including the VCR, the MP3 player, the home digital video recorder (DVR), and the network DVR. Content companies have a long track record of suing innovative products and services that carry enormous consumer benefits but threaten traditional business models and modes of distribution.

If Congress weakens the one work rule as proposed in Section 104 of the PRO IP Act, the currently gargantuan claimed damages in copyright litigation will reach even higher levels, further incentivizing copyright trolls, stifling innovation, and creating unprecedented risk for innovators and licensees, all to address hypothetical scenarios.

[1] At the Jan. 25 meeting, one proponent of the change argued that he is not aware of any case where a judgment for infringement of a work exceeded $40,000. *But see Greenberg v. Nat'l Geographic Soc'y* and *Superior Form v. Chase Taxidermy*, discussed *infra* n.15. In any event, the copyright litigation practitioners clearly stated at the meeting that the ability of plaintiffs to *claim* astronomical damages creates hardship on defendants who may have a well-reasoned good faith belief that they will prevail on the merits but cannot fully litigate because the cost of a bad judgment will produce ruinous results.

PART A. THE ONE WORK RULE SHOULD BE PRESERVED

1. Legislative History of the One Work Rule

The legislative history of the last sentence of section 504(c)(1) demonstrates that it was carefully crafted by the Copyright Office to balance competing approaches to statutory damages. Against the dysfunctional statutory damages framework of the 1909 Copyright Act, which awarded damages on a per copy or per performance basis, the Copyright Office in 1961 proposed a single award of statutory damages for all infringements in an action. After opposition from some copyright owners, the Office amended its proposal in 1963 to allow one award of statutory damages per single infringed work, but defined single work as "including all of the material appearing in any one edition or volume or version of a work used by the infringer." This limitation insured that the new single award for single work rule would not lead to the excessive awards that the 1909 Act produced. This language was further refined in 1964 to the wording that now appears in the Act after extensive consultation with interested parties.

The statutory damages provision of the 1976 Act was intended to simplify the award of statutory damages under the 1909 Act. Section 101(b) of the 1909 Act was one of the many failures of that Act. In addition to confusion over whether statutory damages were awardable under section 101(b) only when actual damages or defendant's profits were unascertainable, section 101(b) presented a baffling smorgasbord of provisions that provided minima and maxima as well as set awards on a per copy basis. The amount of statutory damages available also turned to some degree on the amount of actual damages. Additionally, there were a number of special statutory damages provisions applicable to motion pictures and newspapers. Numbers set forth in the statute were not set in stone, though; they were subject to the court's discretion, thus resulting in tremendous uncertainty in determining one's possible recovery (or exposure in the case of defendants).

In his 1961 recommendations to Congress for a new Act, the Register of Copyrights concluded that the schedule of statutory damage awards in section 101(b) "has not proved to be a very useful guide, because the amounts are arbitrary and the number of copies or performances is only one of many factors to be considered in assessing damages. In most cases the courts have not applied the mathematical formula of the schedule, and in a few cases where this has been done the results are questionable." The Register also expressed concern about the operation of section 101(b) on innocent infringers, over multiple infringements, and over awards against defendants who infringed after receiving notice from the copyright owner. The Register not surprisingly called for a thorough overhaul of statutory damages with these two recommendations:

(1) Where an award of actual damages or profits would be less than $250, the court shall award instead, as statutory damages ***for all infringements*** for which the defendant is liable, a sum of not less than $250 nor more than $10,000, as it deems just.[2] However, if the defendant

[2] Since the 1976 Act, the upper limit has been increased to $150,000. 17 U.S.C. § 504(c)(2). Section 504(c) dwarfs other federal statutory damage provisions. *See, e.g.*, 15 U.S.C. § 1681n(a)(1)(A) (penalty for violation of Fair Credit Reporting Act is actual damages or between $100 and $1,000).

proves that he did not know and had no reason to suspect that he was infringing, the court may, in its discretion, withhold statutory damages or award less than $250.

(2) Where an award of actual damages or profits would exceed $250 but would be less than the court deems just, the court in its discretion may award instead, as statutory damages ***for all infringements*** for which the defendant is liable, any higher sum not exceeding $10,000.[3]

Significantly, the Register recommended abandoning the 1909 Act's approach of basing statutory damages on the number of infringing copies, and proposed instead one award for all infringements for which the defendant was liable. The Register explained the basis for this change: ***"The motion picture and broadcasting industries have expressed some concern that statutory damages might be pyramided to an exorbitant total if a court could multiply the statutory minimum by the number of infringements."*** [4] This limitation meant that if defendant made 1000 infringing copies, there was only one award; if defendant infringed 200 works, there was only one award; and if defendant infringed three works by different acts for each work (reproduction, distribution, and performance), there was still just one award.

This proposal was criticized by some elements of the copyright bar. As a result of comments on the report, the statutory damages provision in a draft omnibus bill circulated by the Register in 1963 took a different approach. Under new section 38, the copyright owner who had registered his work prior to infringement would receive the larger of actual damages or statutory damages of not less than $250 or more than $10,000 "for all infringements of a single work for which the infringer is liable." Thus, the copyright owner could receive a separate award for each work infringed. However, a single work was defined as ***"including all of the material appearing in any one edition or volume or version of a work used by the infringer."*** [5]

The 1963 preliminary draft bill thus softened (but did not eliminate) the 1961 report's recommendation on how to deal with the specter of multiple awards against the same defendant. In the view of some, the 1961 report had gone too far in favoring the defendant. Under that report's recommendation, a defendant had every incentive to infringe as many works as possible since there would be only one award for "all infringements for which the defendant is liable." The 1963 preliminary draft bill, by contrast, permitted separate awards for each "single work" infringed, but defined a "single work" so that a defendant who infringed an anthology of 500 poems would be liable for only one award. Different copyright owners whose works were infringed in a "single work" would have to share the single award.

In discussions on the draft at the Copyright Office with members of the copyright bar and industries, the issue of the single-work limitation was raised. In a revealing explanation of how the limitation would work in practice, Copyright Office General Counsel Abe Goldman addressed the concern expressed by an in-house counsel at ABC that if a plaintiff alleged a motion picture infringed five different versions of a work, five awards would be required, even

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[3] Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 107 (House Comm. Print 1961) (emphases supplied).

[4] *Id.* at 104 (emphasis supplied).

[5] Copyright Law Revision Part 3: Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft 29 (emphasis supplied).

though all the material was copied from a single work. The position of the Copyright Office was as follows:

> GOLDMAN. Won't you find all of this material in one version? Did the infringer pick some from this version and some from that version?
> OLSSON. I write the poem, and then I revise it somewhat, and I do this five times. This is done with motion pictures occasionally, where you find the same stock footage, let's say, in five different pictures. Each one is copyrighted. What was infringed by the infringer is the stock footage. The plaintiff comes in and says, "Ah, you owe me $1,250 [$250 × 5] as a minimum under th[e] statute."
> GOLDMAN. But under this definition you could point to one film and say that everything you copied is in this one film.
> OLSSON. But wouldn't the plaintiff dispute that, Abe? He might say, "No, in my belief you copied them all. You took something from each copyright." A "single work" is work A, and another "single work" is Work B...
> GOLDMAN. I think this definition says, Harry, that if the infringer can show that everything he copied was all in one film, that constitutes an infringement of a single work.
> OLSSON. I see. The other works would not be infringed in your view, Abe?
> GOLDMAN. That is my understanding of what this definition would mean in that case.[6]

Moments later, Barbara Ringer, who became Register of Copyrights in 1973, explained the basis for the one work rule:

> I think we are all conscious that we not only have multiple new versions of, for example, textbooks and trade catalog, but we also have works, such as loose-leaf material, that contain a notice on every page. In that case someone might argue that the material consists of a thousand separate copyrighted works which are subject to separate registrations. I think that most of us are also aware that the courts have struggled mightily with this rather common problem, and have not really come up with a satisfactory result. I think that the concept that we are striving for – a single work – means something more than a single unit that can be registered separately....[7]

Thus, Barbara Ringer clearly had compilations, and not just derivative works, in mind when contemplating the one work rule. Moreover, she had very large compilations in mind, as indicated by the example of a loose-leaf binder containing 1,000 works.

In the same meeting, Copyright Office General Counsel Goldman responded to claims that the statutory damage limit of $10,000 placed a ceiling on a plaintiff's recovery.

> [I]t is not true that $10,000 represents the maximum amount recoverable. Ten thousand dollars is the maximum amount that the court will award as statutory damages in given situations where there is no proof of actual damages in a higher amount and no proof of infringer's profits in a higher amount.

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[6] Copyright Law Revision Part 4: Further Discussions and Comments on the Preliminary Draft for Revised U.S. Copyright Law 139-40 (House Comm. Print 1964).

[7] *Id.* at 158.

> Statutory damages are awarded by the court in lieu of, and in the absence of proof of, actual damages in a greater amount or profits in a greater amount. If actual damages were shown to amount to $100,000 the court could, and under the law should, award $100,000; if the infringer's profits attributable to the infringement are $100,000, the court could and should award $100,000. ***Statutory damages are what a court can award in the absence of any shred of proof whatever that there has been any actual damage or that there have been any profits.***[8]

Mr. Goldman added that the Office proposed doubling the maximum of statutory damages from $5,000 to $10,000 to give courts more leeway in cases of multiple infringements: "We are now saying that this maximum will apply to multiple infringements *in toto*, and for this reason also the amount is raised to take care of multiple infringements." Mr. Goldman then stated, "I want to stress that again: that statutory damages are awarded in the absence of proof of damages of an equivalent amount and in the absence of proof of the infringer's profits of an equivalent amount."[9]

The first revision bills were introduced in Congress in 1964. While the 1964 version continued the 1963 limitation of a single award to "all the infringements of one work for which the infringer is liable," the 1963 version's definition of "single work" as "all of the material appearing in any one edition or volume or version of a work used by the infringer" was changed to read "all the parts of a compilation or derivative work constitute one work." This new wording eliminated the ambiguities in the earlier definition identified at the Copyright Office meeting, and made sure that multiple damages would not be available in the compilation hypothetical posed by Barbara Ringer.

In meetings with the Copyright Office on the bill, the issue of awards for multiple infringements was raised. Copyright Office General Counsel Abe Goldman stated:

> The thought here was to avoid the award by a court of a tremendous amount of multiplying $250 times some supposed number of infringements by one person. .... If you have more than one work involved, I think the answer is also spelled out here. It says, "infringements of any one work" and you will find at the end of that section a sentence which relates to the "one work" reference: "For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work." This means, for example, that if somebody infringes by taking ten different cuts out of an advertising catalog, he's committed one infringement and not ten. This question has come up, as I think you know, in a number of cases.[10]

With the expiration of the 88th Congress and no action on a revision bill, new bills were introduced in the first session of the 89th Congress. Accompanying those bills was the promised supplementary report by the Register of Copyrights explaining the 1965 bills. The 1965 bills retained the single award per infringed work formulation, as well as the one work rule: "For the

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[8] *Id.* at 157 (emphasis supplied).

[9] *Id.* at 158.

[10] Copyright Law Revision Part 5: 1964 Revision Bill with Discussions and Comments 203 (House Comm. Print 1965). Once again, the Copyright Office was focused on compilations as well as derivative works.

purposes of this subsection, all the parts of a compilation or derivative work constitute one work."

In explaining the operation of the proposed statutory damages provision with respect to multiple infringements, the Register of Copyrights stated:

> In an action under the bill involving more than one infringement—whether the infringements are separate, isolated, or occur in a related series—a single award of statutory damages in the $250–$10,000 range could be made under the following circumstances:
> (1) Where the infringements are all of "any one work." This marks a change from the 1961 Report's recommendations, which would have provided a single recovery of statutory damages for all infringements for which the infringer is liable. Under the bill, where separate works are involved, separate awards of statutory damages could be made. However, the bill makes clear that, although they may constitute separate works for other purposes, "[f]or the purposes of this subsection, all the parts of a compilation or derivative work constitute one work." Note that the criterion here is the number of distinct "works" infringed, and not the number of copyrights, exclusive rights, owners, or registrations involved.[11]

The relevant language did not change after this. In a description of the future section 504(c) in a 1966 committee report on H.R. 4347, a predecessor bill to the 1976 Act, the House Judiciary Committee noted that

> Where the suit involves infringement of more than one separate and independent work, minimum statutory damages for each work must be awarded. For example, if one defendant has infringed three copyrighted works, the copyright owner is entitled to statutory damages of at least $750 and may be awarded up to $30,000. Subsection (c)(1) makes clear, however, that, although they are regarded as independent works for other purposes, "all the parts of a compilation or derivative work constitute one work" for this purpose. Moreover, although the minimum and maximum amounts are to be multiplied where multiple "works" are involved in the suit, the same is not true with respect to multiple copyrights, multiple owners, multiple exclusive rights, or multiple registrations. This point is especially important since, under a scheme of divisible copyright, it is possible to have the rights of a number of owners of separate "copyrights" in a single "work" infringed by one act of a defendant.[12]

The committee report accompanying the 1976 Act, 10 years later, reproduces this paragraph exactly. Congress, the Copyright Office, the parties worked out a compromise, well aware of all the ramifications, and embodied that compromise in statutory and report language in

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[11] Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill 136 (House Comm. Print 1965).

[12] *Compare* H.R. Rep. No. 2237, 89th Cong., 2d Sess., at 158 (1966) *with* H.R. Rep. No. 1476, 94th Cong., 2d Sess., at 162 (1976). In addition to illustrating the consensus, this indicates that early on, Congress appreciated the implications of compilations and the possibility for the divisibility of rights in the context of statutory damages.

1966. If the compromise had been thought unfair, parties might have been expected to seek a revision in the 10 intervening years, but the 1976 report copies the 1966 report here verbatim.

In short, the limitation on statutory damages for elements of compilations and derivative works reflected dissatisfaction with the 1909 Act, and a compromise of competing views of how damages should work under the 1976 Act. Section 504(c)(1) as enacted balanced the Copyright Office's initial proposal of one award for all infringements with some owners' preference for one award for each work infringed. By allowing one award for each work, but then defining compilations and derivative works as a single work, the provision discouraged infringements of multiple works while ensuring that statutory damages would not be "pyramided to an exorbitant total." It was "intelligently designed" to provide courts with broad discretion of a range of damages from $100 to $50,000; defendants with a degree of certainty concerning the limit of their exposure; and copyright owners with the option of pursuing actual damages if statutory damages did not adequately compensate them for their injury.

2. Judicial Interpretation of the One Work Rule

By copyright law standards, the judicial interpretations of the one work rule have been relatively uniform. When the work infringed is clearly a compilation distributed by the plaintiff, courts have limited recovery to one award of statutory damages. Thus, courts routinely have granted record labels only one award for a CD where the label owns the copyright in the compilation as well as the individual tracks. *See, e.g., UMG Recordings, Inc. v. MP3.com, Inc.*, 109 F. Supp. 2d 223 (S.D.N.Y. 2000); *Country Roads Music, Inc. v. MP3.com*, 279 F. Supp. 2d 325 (S.D.N.Y. 2003); *Arista Records, Inc. v. Flea Records, Inc.*, 2006 U.S. Dist. LEXIS 14988 (D.N.J. March 31, 2006); *Arista Records, Inc. v. Launch Media, Inc.*, 01-cv-4450 (S.D.N.Y. April 25, 2007). Courts have also reached this conclusion in cases involving compilations of clip-art images, *Xoom, Inc. v. Imageline, Inc.*, 323 F. 3d 279 (4th Cir. 2003); photographs of commercial real estate hosted on a website, *CoStar Group, Inc. v. LoopNet, Inc.*, 164 F. Supp. 2d 688 (D. Md. 2001), *aff'd*, 373 F.3d 544 (4th Cir. 2004); a book of photographs of plant seedlings, *Stokes Seeds Ltd. v. Geo. W. Park Seed Co.*, 783 F. Supp. 104 (W.D.N.Y. 1991); and the music, libretto, and vocal score of a rock opera, *Robert Stigwood Group Ltd. v. O'Reilly*, 530 F.2d 1096 (2d Cir. 1976), *cert. denied*, 429 U.S. 848 (1976).

Conversely, where the defendant assembled a compilation of works separately distributed by the plaintiff, courts have not permitted the defendant to take advantage of the one work rule. In *Twin Peaks Productions, Inc. v. Publications Int'l., Ltd.*, 996 F.2d 1366 (2d Cir. 1993), the defendant compiled separately episodes of the television show 'Twin Peaks' onto a videotape. Because the compilation was assembled by the defendant, not the plaintiff, the court concluded that the one award rule did not apply. The court also rejected the defendant's argument that the separate episodes still constituted one work because plot lines carried over from one episode to the next. The Second Circuit likewise refused to apply the one work rule in *WB Music Corp. v. RTV Communication Group, Inc.*, 445 F.3d 538 (2d Cir. 2006), where the defendant created a CD based on tracks separately distributed by the plaintiff. [13]

[13] At the January 25 meeting, the applicability of the one work rule to a compilation assembled by the defendant seemed to be the proponents' most serious concern with the rule as currently drafted. These two circuit court decisions should completely dispel this concern.

To be sure, in some cases courts have had to wrestle with the determination of whether the plaintiff's product constituted a compilation. In *Gamma Audio & Video v. Ean-Chea*, 11 F.3d 1106 (1st Cir. 1993), for example, the plaintiff distributed to video stores only complete sets of a 24 episode television series. The court nonetheless did not apply the one work rule because viewers could rent each episode separately from the video store. In other words, within the set of 24 episodes, each episode was separately packaged. Similarly, courts have considered whether to treat bundled training materials as compilations. *See, e.g., Kepner-Tregoe, Inc. v. Carabio*, 1979 WL 10721, 1979 U.S. Dist. LEXIS 12910 (E.D. Mich. 1979); *Cormack v. Sunshine Food Stores, Inc.*, 675 F. Supp. 374 (E.D. Mich. 1987).[14]

There have been a handful of cases outside of this mainstream. In *Playboy Enterprises, Inc. v. Sanfilippo*, 1998 WL 207856, 1998 U.S. Dist. LEXIS 5125 (S.D. Cal. 1998), Playboy conceded that each infringed photograph was copied from a compilation – a Playboy magazine. Nonetheless, the court awarded separate statutory damages for each photograph on the basis that each photograph could be separately licensed and "each image represents a singular and copyrightable effort concerning a particular model, photographer, and location." In contrast, the court in *Greenberg v. National Geographic Society* ruled that a photographer could collect only four awards of statutory damages for 64 photographs that appeared in four different issues. The court found that each issue of the magazine was a compilation, and that only one award of statutory damages could be granted per issue, even though each issue contained several different photographs created by the photographer.[15]

The court in *TeeVee Toons, Inc. v. MP3.com, Inc.*, 134 F. Supp. 2d 546 (S.D.N.Y. 2001), suggested that while a copyright owner could receive only one award for all of his works in a compilation, if the compilation included works from several copyright owners, each copyright owner could recover his own award of statutory damages. Under this analysis, if ten different poets contributed ten different poems to an anthology, each of the ten poets could recover statutory damages.

While the *Nimmer* treatise supports this interpretation, it acknowledges that it "is in literal conflict with the statutory text." *See Nimmer on Copyright* 14.04[E][1], 14-91.1-14.91.2. This interpretation also directly conflicts with the legislative history. In the discussion of the 1963 draft bill, where the first variation of the one work rule appeared, one of the interested parties argued against it on the basis that the one award might have be shared by different authors:

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[14] It appears that some courts, in determining whether a work is a compilation, have placed undue weight on how the copyright owner registered the work, rather the consider whether the work meets the statutory definition of "compilation" under section 101. 17 U.S.C. § 101. This error could be eliminated by the Copyright Office, in its report to Congress on Section 104, stressing that courts should look beyond the description of the work in the registration in determining whether the work is a compilation.

[15] Unpublished order, No. 97-3924, (S.D. Fla. Feb. 18, 2003). *Greenberg* is also significant because it contradicts content industry representations made at the January 25 meeting. Content industry representatives claimed that references to the maximum statutory amount ($150,000) were misleading since a plaintiff has never been awarded such sums. Yet in *Greenberg*, the jury awarded the maximum amount (then, $100,000) on each issue infringed. *Greenberg v. Nat'l Geographic Soc'y*, 488 F.3d 1331, 1334 & n.3 (11th Cir. 2007) (noting award). *See also Superior Form Builders v. Dan Chase Taxidermy Supply Co.*, 74 F.3d 488 (4th Cir. 1996) (affirming multiple awards by jury of maximum amount).

> Let us take an anthology which consists of twelve short stories as an example. Suppose the infringer copies all twelve, or nine, or eight of the stories. The anthology obviously is a "single work" as defined by the language appearing in the footnote. All of the infringements in that edition would consist of the copying of the nine, or the twelve, or whatever number of individual works, ***most likely by different creators***, that have been incorporated in the one anthology. Therefore the $10,000 amount hardly appears impressive.[16]

Thus, at the time the one work rule was drafted, it was understood to apply to different works by different authors. Nonetheless, what appears to be the only court to have considered the issue came to a different conclusion.

3. The One Work Rule in Practice

(a) Proponents of weakening the one work rule rely on hypothetical scenarios. At the January 25 meeting, in response to questions from Associate Register Carson, the proponents of Section 104 were unable to produce one example where the one work rule produced an unjust result, or where a "crafty defendant" made the decision to infringe based upon the highly limited protections of Section 504(c)(1). Further, again in response to a question from Mr. Carson, the proponents were unable to provide one instance of where the one work rule caused a copyright owner to withhold a compilation from the market. Indeed, representatives of the film industry and recording artists stressed that the number of compilations distributed to the public have increased in recent years in response to consumer demand. For example, many television series are made available on DVDs, and DVDs of motion pictures are bundled with many other works, *e.g.*, trailers, interviews with the director, short films on the making of the movie, and so forth. The fact that the number and variety of compilations has increased dramatically in the 30 years since the one work rule took effect is convincing evidence that it does not deter the creation of compilations, and thus does not require amendment.[17]

(b) There is no evidence to support weakening the one work rule. The one work rule also has not had a detrimental impact on the broader copyright industry. A representative of Corbis stated that the one work rule never came into play in over 2000 infringement matters Corbis pursued last year, including one case that involved over 600 different images. The Magazine Publishers of America have not felt disadvantaged by the one work rule. And many copyright

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[16] Copyright Law Revision Part 4, *supra* note 6, at 138 (emphasis supplied).

[17] At the January 25 meeting, a recording industry representative repeatedly complained of the alleged asymmetry that statutory damages may (hypothetically) vary depending on whether a track is released as a single or on a CD. The answer to this objection, however, is that the law treats the award as the plaintiff has treated the work. Courts presently have ample discretion in the current range to account for infringement of compilations. Judges and juries can and do consider whether there is one work or three at issue even when the award is limited to a single award due to publication in a compilation. For example, Judge Rakoff awarded the equivalent of around $2500 per track (assuming an average of 10 tracks per CD), whereas Jammie Thomas, the Minnesota file-sharing defendant, was ordered to pay $9,250 per track, totaling nearly a quarter million dollars, when such songs sell for 99 cents on iTunes. Both MP3.com and Jammie Thomas could have been assessed greater penalties. Judge Rakoff, for example, could have awarded the equivalent of $15,000 per track (6 times more than he did), but chose not to. Similarly, in *Greenberg v. National Geographic*, discussed *infra*, the court's award of the full $100,000 per compilation naturally reflected the fact that each issue contained multiple photographs.

industry groups, including the Business Software Alliance, the Software and Information Industry Association, and the Association of American Publishers, chose not to participate in the meeting. The broader copyright industry appears largely supportive of the status quo.

Even under the one work rule, copyright owners have recovered, or were eligible to recover, substantial awards. In *UMG v. MP3.com*, even after application of the one work rule, the plaintiff still could have received approximately $118 million in statutory damages (4,700 CDs at $25,000 per CD). Ultimately, the defendant settled the case for $53.4 million in damages, even though the plaintiff never introduced any evidence of actual harm, and defendant offered evidence that the MP3.com service actually increased the plaintiff's revenues. *See UMG Recordings, Inc. v. MP3.com, Inc.*, 2000 U.S. Dist. LEXIS 13293 (S.D.N.Y. Sept. 6, 2000) *and* 2000 U.S. Dist. LEXIS 17907 (Nov. 14, 2000).

In *Arista Records v. Launch Media* (01-CV-4450 [RO] S.D.N.Y.), under the one work rule, the plaintiff could have collected statutory damages of in excess of $100 million had the court found infringement liability. Had the court not employed the one work rule, Launch Media's possible statutory damages, based on the number of works allegedly infringed, would have exceeded $1.5 billion. However, the introduced evidence showed actual damages in the range of $105,474 on the high end to as little as $7,303 on the low end.

(c) Despite the one work rule, existing law tilts drastically toward copyright plaintiffs. Even though the one work rule prevents the "pyramiding" of awards, the existing statutory damages framework tilts sharply in favor of the plaintiff. First, the plaintiff can make the election between actual and statutory damages "at any time before final judgment is rendered." This means that the plaintiff can submit to the judge or jury a request for a damages award under both theories, and then select whichever proves larger. This means that the plaintiff can never receive less than the actual damages he can prove. It also means that even in a case with minimal actual damages, he can continue to demand statutory damages of $150,000 per worked infringed until the time the judge or jury returns with a verdict. This gives the plaintiff enormous leverage in settlement discussion, particularly in cases involving large numbers of works, as cases involving digital technology typically do.

Second, in many cases, the underlying question of copyright liability (or secondary liability) is extremely complex. For example, the case *Arista Records v. Launch Media, supra,* concerns whether the Launch service is non-interactive and therefore eligible for a statutory license under 17 U.S.C. § 114. In *Greenberg v. National Geographic Society, supra,* the court considered whether National Geographic's digitization of its magazines constitutes a privileged "revision of a collective work" under 17 U.S.C. § 201(c). The scope of the 201(c) privilege was the subject of a recent U.S. Supreme Court decision, *New York Times v. Tasini*, 533 U.S. 483 (2001), and lower courts still wrestle with how the Court's holding applies to various fact patterns, including National Geographic's. In *UMG v. MP3.com, supra,* the defendant raised a fair use defense, perhaps one of the most unpredictable legal doctrines. The complexity of the legal question means that the outcome is highly uncertain. This uncertainty increases the plaintiff's leverage in settlement negotiations.

Third, the uncertainty with respect to direct liability is magnified by the uncertainty with respect to secondary liability. The Copyright Act does not set forth standards for secondary liability; they are entirely judge-made. And although the Supreme Court considered contributory

infringement recently in *MGM v. Grokster*, 545 U.S. 913 (2005), lower courts are having difficulty applying its teachings in a consistent manner. The Ninth Circuit interpreted *Grokster* one way in *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007) and in a different way in *Perfect 10, Inc. v. VISA*, 494 F.3d 788 (9th Cir. 2007). As a result, providers of services in the digital environment have difficulty predicting their liability for the infringing conduct of potentially large numbers of users with respect to large numbers of works. This, too, leads to settlement on terms favorable to the plaintiff.

Fourth, even though district court decisions concerning direct and secondary copyright infringement are frequently reversed on appeal, a case with a large statutory damage award might never make it to the circuit court. The Federal Rules of Civil and Appellate Procedure require a losing defendant to post a bond before he can appeal the decision. *See* Fed. R. Civ. P. 62(d); Fed. R. App. P. 8(b). The larger award, the larger the bond, and thus the more difficult it is for the defendant to secure one. In *UMG v. MP3.com*, for example, the defendant could not secure a bond, and thus could not appeal the district court's rejection of its fair use defense to the Second Circuit.[18] This truncates the development of case law elucidating the statute, thereby perpetuating the risk to innovators.

4. The One Work Rule and the Internet

Section 504 provides courts with broad discretion on the amount of statutory damages to award – from $200 to $150,000 per work infringed. Against that background of broad discretion, the legislative history of the one award rule demonstrates that Congress sought to limit the discretion and prevent draconian remedies when multiple works are bundled together by treating the bundle as a single work and capping damages at $150,000. Stated differently, existing law already gives courts the ability to award more statutory damages when one work includes other works.

It has been suggested that in the Internet world there might be compilations so large that even $150,000 is insufficient to compensate for infringement of all the individual works, *e.g.*, a website containing many copyrighted works. Notwithstanding the availability of actual damages, Congress addressed this concern with the Digital Millennium Copyright Act (DMCA). Congress expected copyright owners to employ technological measures to protect economically valuable content on the Internet, and prohibited the circumvention of those measures. Significantly, under 17 U.S.C. § 1203(c)(3)(A), each act the circumvention is subject to up to $2,500 in statutory damages. With existing inexpensive digital rights management technologies, a copyright owner can protect each work individually. Thus, infringement of 1000 photographs on a website may result in 1000 discrete acts of circumvention, each subject to $2,500 of statutory damages.

Moreover, if the copyright owner places a watermark on each photograph, the removal of the watermark may subject the infringer to another $25,000 per photograph. Section

[18] The effect of huge district court judgments also can cripple a company's stock price and access to commercial paper and venture capital, such that business necessity may dictate immediate settlements of frivolous claims, notwithstanding meritorious defenses. The district court order in *MP3.com* caused that company's stock to plummet by a third overnight. Michelle Delio & Brad King, *MP3.com Must Pay the Piper*, Wired News, Sept. 6, 2000, *at* <http://www.wired.com/techbiz/media/news/2000/09/38613>.

1203(c)(3)(B) of the DMCA allows the copyright owner to recover statutory damages of $25,000 for each act of removal or alteration of "copyright management information", which would include a section 1202(c)-conforming watermark.

Thus, the DMCA provides up to $27,500 in statutory damages for each individual work, without the limitation of the one work rule. Of course, this $27,500 is in addition to the actual or statutory damages that the copyright owner could recover under section 504.

It has also been suggested that online content delivery systems such as iTunes would by subject to the one award rule. iTunes and similar systems are not "compilations" within the meaning of 17 U.S.C. § 101 and thus would not be subject to the one work rule.

Under section 101, a compilation "is a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship." While a list of tracks available on iTunes likely is a compilation, the tracks themselves stored on Apple's servers are not "assembled" into a "work." They are individual files stored on servers around the world. These tracks are no more a compilation than all books in a bookstore or the CDs in a record store.

This analysis applies to many other websites. Simply because many works are downloadable through a particular website does not mean that all those individual works are assembled into a work.

5. Adverse Impact of Section 104

At the January 25, 2008 meeting, supporters of the amendment provided no evidence that weakening the one work rule would deter infringement by end users or commercial "pirates." At the same time, opponents specifically described the harm Section 104 would cause:

(a) Incentivizing Copyright Trolls. The existing statutory damages framework in the Copyright Act already provides extraordinary remedies for rightsholders by permitting them to claim damages without requiring any evidence of financial harm. This framework has created a litigious environment where plaintiffs already seek damages that can exceed $1 billion. Weakening one of the few protections for defendants in this plaintiffs' paradise will result in claimed damages that are orders of magnitude greater than current figures. The ability to assert significantly larger damage claims will incentivize frivolous lawsuits by "copyright trolls" hoping that the threat of a potentially ruinous judgment—no matter how unlikely—will result in easy settlements.[19]

(b) Stifling Innovation. In an increasingly decentralized and mobile digital media environment, the already uncertain nature of copyright law requires careful consideration by technology companies of the potential for lawsuits when introducing any new product that can be

[19] One photographer argues that the existing statutory damages framework provides lucrative business opportunities for photographers. *See* Dan Heller, *Making Money From Your Stolen Images*, http://danheller.blogspot.com/2007/06/making-money-from-your-stolen-images.html (characterizing the possibility of statutory damages as a "statutory windfall", and a "Vegas-style slot machine" and stating that "a little copyright infringement can actually do your business good").

used by some for unlawful copying and distribution. The proposed change, if enacted, would result in entities that already face the possibility of litigation from copyright trolls having to re-think the use or deployment of any new technology or service that could be used to engage in infringing activities by third parties.

(c) Creating Unprecedented Risk for Licensees of Technologies Powered by Software. Computer programs routinely contain hundreds of modules. Under the proposed amendment, an aggressive litigant could argue that each module merits a separate statutory damage award. This concern is compounded in an increasingly open source software environment, where there may be many different collaborators over time to a program. Because licensees may be unable or unwilling to obtain meaningful indemnifications from every upstream contributor to a particular product, the proposed change will decrease companies' willingness to outsource software solutions or use open source software.

(d) Chilling Lawful Uses. When an artist, scholar, or documentary film producer performs a fair use analysis to determine whether a proposed use is permitted under section 107 of the Copyright Act, the user must at the same time assess the potential damages if his analysis is incorrect. Since the precise boundaries of fair use are uncertain, and statutory damages can reach large sums if a new work includes pieces of many preexisting works, the existing statutory damages framework already dampens fair uses. Authors often decide that the risk of statutory damages is simply too great, and either pay exorbitant license fees or forego the use altogether.

The proposed amendment will make this bad situation even worse. A director creating a documentary about California's Sixties "surf music" scene might already be anxious about including three short excerpts from a Beach Boys album to illustrate characteristics of the genre. The changes proposed in Section 104 would increase her potential exposure from $150,000 to $450,000. Likewise, a reviewer of a book of poetry might want to include a few lines from five different poems to demonstrate his assessment. The proposed amendment would increase his exposure from $150,000 to $750,000. Even though a court is unlikely to award damages of this scale, the possibility of such large damages will deter some authors from making fair uses. And it will lead other authors who make such uses settle on terms more favorable to the plaintiff in the event litigation ensues.

(e) Exacerbating the Orphan Works Situation. In the 109th Congress, the House IP subcommittee recognized that the availability of statutory damages inhibited a wide range of socially beneficial uses of orphan works – works whose copyright owners could not be identified or located. Accordingly, the subcommittee favorably reported the Orphan Works Act of 2006, H.R. 5439, which would eliminate the remedy of statutory damages if the user performed a reasonably diligent search for the owner prior to the use. Unfortunately, Congress did not enact H.R. 5439. Section 104 would worsen the orphan works situation with respect to compilations and derivative works. By greatly increasing the amount of statutory damages plaintiffs could recover for infringements of compilations and derivative works, Section 104 will make libraries and their patrons even more reluctant to use orphan works of this sort. For example, under Section 104, a library that places on its website a 1945 compilation of 100 letters from a World War II G.I. to his loved ones could face statutory damages of $15,000,000.

At the January 25 meeting, proponents of Section 104 argued that judges should have the discretion to determine whether each work in a compilation has independent economic value,

and therefore should receive its own award of statutory damages. This contention overlooks that courts already have discretion to award between $200 and $150,000 per compilation. Thus, courts presently have the ability to adjust the award if the components have economic value. Additionally, the plaintiff can always seek actual damages. If the plaintiff cannot show actual damages that exceed $150,000, there is no justification for him to recover more than a $150,000 for the infringement of a single compilation.

The "discretion" contention also ignores the real world context in which infringement litigation takes place. As discussed above, the existing framework already tilts sharply in favor of the plaintiff, and encourages defendants to settle on unfavorable terms rather than vindicate their rights. Section 104 will significantly exacerbate this situation.

To be sure, the one work rule in certain hypothetical cases can lead to apparently arbitrary results. But the Copyright Office forty years ago made a carefully considered judgment that the danger of stacking statutory awards was greater than the danger of under-compensation, particularly given that the plaintiff could always elect to recover actual damages. This judgment has stood the test of time; the proponents of Section 104 failed to provide a single instance where the one work rule denied an adequate recovery, discouraged the lawful distribution of a compilation, or induced infringement. At the same time, opponents of Section 104 have demonstrated numerous, *non-hypothetical* cases where *current* law leads to arbitrary and unjust results. These cases caution strongly against further inflating statutory damages.

In sum, Congress should not amend the one work rule. A narrow, "clarifying" amendment will disrupt a stable body of case law as courts struggle to interpret the meaning of the new language. A more sweeping amendment will not only tilt the already slanted copyright litigation field further in favor plaintiffs; it will lead to a trial nightmare as plaintiffs attempt to prove that each component of a compilation and each change to an existing work has "independent economic value."

PART B. THE ONE WORK RULE CANNOT BE CONSIDERED IN ISOLATION

1. Willful and Innocent Infringement

The development of the one work rule did not occur in a vacuum. The Copyright Office simultaneously considered the treatment of willful and innocent infringers. The 1909 Act allowed for enhanced statutory damages for infringement that occurred after the infringer received notice from the copyright owner concerning the infringement. It did not, however, provide any relief for innocent infringers.

The Register's 1961 Report proposed statutory damages ranging from $250 to $10,000, without an enhancement for willful infringement. Additionally, the Register recommending granting courts the discretion to reduce or eliminate statutory damages altogether in cases of innocent infringement. The 1976 Act ultimately moved significantly in favor of copyright owners. While the basic range of $250 to $10,000 remained the same, the 1976 Act allowed up to $50,000 in cases of willful infringement. Moreover, the court could reduce statutory damages for innocent infringers only to $100. The court had the ability to withhold the award of statutory

damages only with respect to innocent infringements by libraries, educational institutions, and public broadcasters in limited situations.

Congress has repeatedly increased the minimum and maximum levels of statutory damages. In the 1988 Berne Convention Implementation Act, Congress increased the minimum award from $250 to $500; the maximum from $10,000 to $20,000; the enhancement for willful infringement from $50,000 to $100,000; and the floor for innocent infringement from $100 to $200. Then, in the 1999 Digital Theft Deterrence and Copyright Damages Improvement Act, Congress increased the minimum award from $500 to $750; the maximum from $20,000 to $30,000; and the enhancement for willful infringement from $100,000 to $150,000. The floor for innocent infringement remained at $200.

In the 103rd Congress, the House passed H.R. 897, which would have lowered the floor for statutory damages in cases of innocent infringement from $200 to zero. This legislation died in the Senate. As Congress reviews the one work rule, it should also consider reducing the minimum for innocent infringement to zero, as was proposed in H.R. 897. In his 1961 Report, the Register explained that "certain users of copyright materials – broadcasters, periodical publishers, motion picture exhibitors, etc." had argued that a "minimum of $250 can bear too heavily on innocent infringers." He observed that "[t]he only purpose of awarding damages for an innocent infringement is to compensate the copyright owner. The other purpose of statutory damages – to deter infringement – is not present as to infringements committed innocently." If the copyright owners cannot show actual damages, there is no logical reason for assessing statutory damages against an innocent infringer.[20]

2. Secondary Infringement

When constructing the statutory damages framework of the 1976 Act, the Copyright Office considered the one work rule, willful infringement, and innocent infringement extensively, as discussed above. In contrast, it does not appear that the Office considered statutory damages in the event of secondary infringement. This is not surprising given that the 1976 Act does not address secondary infringement. In contrast to the 1952 Patent Act, which codified judge-made principles of secondary patent infringement, the 1976 Copyright Act left the entire issue of secondary copyright liability to the courts.

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[20] Without question, the innocent infringer provision for libraries, educational institutions, and public broadcasters needs to be updated to reflect the digital era. The current provision allowing the remission of all statutory damages applies only under very limited situations when one of these entities had a reasonable belief that its use was permitted under section 107. This narrow safe harbor unduly constrains these entities from fully serving the public in the digital environment. The remission provision should apply whenever the entity had a reasonable belief that *any* type of use of *any* type of work was non-infringing. Currently, the provision applies to libraries and educational institutions just with respect to their infringement of the reproduction right. The provision applies even more narrowly to public broadcasters; they are shielded only with respect to performances of published nondramatic literary works or reproductions of a transmission program embodying a performance of such a work. However, use of digital technology implicates all of the exclusive rights under 17 U.S.C. § 106 with respect to all kinds of works. For these entities to perform their critical public service missions in the 21st Century, the safe harbor must be amended to apply to innocent infringement by these entities of all exclusive rights with respect to all kinds of works..

Thus far, courts have rarely, if ever, ruled on the applicability of statutory damages to secondary infringement. But plaintiffs frequently raise the specter of statutory damages in secondary infringement cases in an often successful effort to force the alleged infringer in settle. For example, if a company sold 100,000 devices, each of which could hold 1,000 CDs, copyright owners could seek statutory damages of $150,000,000,000,000 (100,000 devices × 1000 CDs × $150,000 for willful infringement). The potential damages available in one recent case involving a hand-held device were estimated to exceed $37 billion.[21] Indeed, because statutory damages can be so large and disproportionate, individual entrepreneurs and consumer electronics and information technology companies are declining to bring new technology to market out of fear that they could be bankrupted by an adverse finding of secondary liability – even in cases in which they believed on the basis of advice of counsel that their new innovative hardware or software products would be found legal if they survived costly litigation with its highly intrusive discovery.

The threat of litigation against technology companies – and the potential for massive statutory damages – is not merely theoretical. Content companies have filed suit against almost every new generation of personal storage technology brought to market, including the VCR, the MP3 player, the home DVR, and the network DVR.

Section 104 makes this bad situation worse. In the example above, it would allow the copyright owners to increase the statutory damages sought by a factor of 10 (assuming 10 tracks per CD) or even a factor of 30 (assuming that each track includes a copyright in the musical composition, a copyright in the lyrics, and a copyright in the sound recording).

Accordingly, any amendment to section 504(c) must include a limitation on damages in secondary infringement cases. Section 2(a) of H.R. 1201 includes such a limitation. Section (2)(a) would limit the availability of statutory damages against individuals and firms who may be found to have engaged in contributory infringement, inducement of infringement, vicarious liability, or other indirect infringement. Under the bill, statutory damages would remain available for conduct that no reasonable person could have believed to be lawful. With this condition in the law, entrepreneurs, consumer electronics and information technology companies would feel more confident in going to court, if necessary, for a fair hearing on the merits, and aggrieved parties could get relief from scofflaws. Of course, actual damages would continue to remain available to a person harmed by secondary infringement.

By limiting the award of statutory damages only to egregious cases of bad-faith conduct, this provision would restore balance and sanity to the damages award process. Content owners would continue to be able to collect actual damages, but could no longer threaten entrepreneurial, law-abiding persons with damages, and hence risk and intimidation, on a scale never intended or even imagined by Congress. Moreover, by establishing an objective test to determine whether statutory damages are appropriate, Congress would make it more difficult for content owners to use the litigation process to engage in judicially sanctioned fishing expeditions and to continue threatening innovation in the United States.

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[21] Fred von Lohmann, *Record Labels Sue XM Radio*, DeepLinks Blog, May 16, 2006, *available at* <http://www.eff.org/deeplinks/2006/05/record-labels-sue-xm-radio>.