

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is centered in the narrow neck of the hourglass. The top bulb is filled with a dark blue color, and the bottom bulb is filled with a light blue color. The globe is centered in the narrow neck of the hourglass.

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Report 98-463

*WIPO COPYRIGHT TREATY IMPLEMENTATION  
LEGISLATION: RECENT DEVELOPMENTS*

Dorothy Schrader, American Law Division

Updated September 24, 1998

**Abstract.** Two new treaties have been developed in the field of intellectual property which are named the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performances and Phonograms Treaty. The President has requested the advice and consent of the Senate to United States ratification of these treaties. S. 2037 and H.R. 2281, as passed by the Senate and House of Representatives, respectively, implement the changes in U.S. law to make it compatible with the Treaties. Both bills have been amended to address copyright policy issues concerning use of copyright works in digital, electronic environments, including provisions dealing with the copyright liability of online service providers, ephemeral copying, and fair use. This report updates the recent developments concerning the pending implementation bills.

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## WIPO Copyright Treaty Implementation Legislation: Recent Developments

Updated September 24, 1998

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## **ABSTRACT**

Two new treaties have been developed in the field of intellectual property which are named the World Intellectual Property Organization (“WIPO”) Copyright Treaty and the WIPO Performances and Phonograms Treaty. The President has requested the advice and consent of the Senate to United States ratification of these treaties. S. 2037 and H.R. 2281, as passed by the Senate and House of Representatives, respectively, implement the changes in U.S. law to make it compatible with the Treaties. Both bills have been amended to address copyright policy issues concerning use of copyrighted works in digital, electronic environments, including provisions dealing with the copyright liability of online service providers, ephemeral copying, and fair use. This report updates the recent developments concerning the pending implementation bills.

# WIPO Copyright Treaty Implementation Legislation: Recent Developments

## Summary

This report reviews the most recent developments concerning legislative proposals to implement the World Intellectual Property Organization (“WIPO”) Copyright Treaty and the WIPO Performances and Phonograms Treaty.

There are two pending WIPO treaties in the intellectual property field — the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. The Copyright Treaty covers copyright protection for computer programs, databases as intellectual works, and digital communications over the world-wide Internet and other computer networks. The Performances and Phonograms Treaty covers protection for performers and producers of sound recordings. Since the Copyright Treaty is the focus of the legislative proposals, this report concentrates upon implementation issues affecting the Copyright Treaty. In general, however, the legislative provisions enacted to implement the Copyright Treaty will also be applied to implementation of the Performances and Phonograms Treaty.

The original Clinton Administration implementation bills (S. 1121 and H.R. 2281), would have amended the Copyright Act to create new protection in two fields only: protection against circumvention of anti-copying technology, and protection to assure the integrity of copyright management information systems. Another bill, S. 1146, addressed additional issues, including online service provider liability, fair use, ephemeral copying, and distance learning. A fourth bill, H.R. 3048, was similar to S. 1146 but omitted the online service provider provisions and added provisions on first sale and shrink-wrap licensing.

S. 2037, the successor bill to S. 1121, passed the Senate on May 14, 1998. H.R. 2281, as amended, passed the House of Representatives on August 4, 1998. Both bills now bear the short title — the Digital Millennium Copyright Act of 1998. The bills have many provisions in common but also differ in important respects. H.R. 2281 contains the following provisions (among others) not found in S. 2037: a two-year delay in implementation of protection against circumvention of anti-copying technology and a periodic regulatory review by the Secretary of Commerce of the impact of these provisions on fair use access; amendments to the digital audio transmission compulsory license of 17 U.S.C. 114; a new ephemeral recording statutory license for certain digital audio transmissions; a new 15-year, misappropriation-style of protection for databases that are not eligible for copyright protection; and a new 10-year design right for boat hulls.

This report summarizes the main provisions of pending implementation bills, and briefly discusses the main legislative issues relating to implementation of the WIPO Treaties.

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# WIPO Copyright Treaty Implementation Legislation: Recent Developments

## Background

The Internet, other computer networks, and advances in digital technologies provide unparalleled opportunities for worldwide communications and economic growth, in the judgment of most experts. It is also generally agreed that, in order to tap fully the potentials of these new technologies, many difficult technical and legal policy issues must be confronted and resolved. One of these legal policy issues concerns the scope of protection for copyrighted works against unauthorized copying or other unlawful use in digital, electronic environments.

The general copyright policy issues relating to Internet uses of copyrighted material are being examined both by national legislatures and by the appropriate international intellectual property organizations.

Bills were introduced in the 104th Congress (S. 1284 and H.R. 2441) to make changes in the copyright law related to Internet uses of copyrighted works.<sup>1</sup> Hearings were held on these issues, but the bills were not enacted.

At the international level, two new intellectual property treaties were created by a diplomatic conference of States in Geneva, Switzerland, on December 20, 1996. These are the WIPO Copyright and Performances and Phonograms treaties.<sup>2</sup> The WIPO Copyright Treaty covers copyright protection for computer programs and databases (to the extent the latter are “intellectual works”) and clarifies or creates rights relating to use of copyrighted works over the Internet and in other digital, electronic environments. The WIPO Performances and Phonograms Treaty covers protection for performers and producers of sound recordings (called “phonograms”

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<sup>1</sup> The bills in the 104<sup>th</sup> Congress tracked the recommendations of a Working Group on Intellectual Property, which was part of the White House National Information Infrastructure (“NII”) Task Force. The Report of the Working Group was published in September 1995. DEPARTMENT OF COMMERCE, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE, REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS OF THE INFORMATION INFRASTRUCTURE TASK FORCE (1995).

<sup>2</sup> For an overview of these treaties, see D. Schrader, *World Intellectual Property Organization Copyright Treaty: An Overview*, CRS Report No. 97-444A, and D. Schrader, *World Intellectual Property Organization Performances and Phonograms Treaty: An Overview*, CRS Report No. 97-523A.

internationally), and tracks many of the rights extended to copyright subject matter by the WIPO Copyright Treaty.

President forwarded the WIPO treaties to the Senate for its advice and consent and originally recommended implementing legislation that adopts a “minimalist” approach to treaty implementation. S. 1121 and H.R. 2281 as originally introduced embody the Administration’s implementation proposals.

As introduced, these bills were premised on the assumption that existing United States law is largely consistent with the treaty obligations. The proposed amendments concerned only two substantive issues and technical matters. The two substantive amendments would provide new legal protection i) against devices that are primarily designed to circumvent anti-copying technologies, and ii) against performance of certain acts relating to removal or alteration of copyright management information (“CMI”).

Subsequent to the introduction of the Administration’s implementation bills, two other WIPO implementation bills were introduced, which address copyright policy issues not considered by the Administration bills. These broader bills (S. 1146 and H.R. 3048) propose amendments to the Copyright Act concerning Internet or National Information Infrastructure (“NII”) issues such as fair use, library reproduction, ephemeral copying, distance learning, and operational copying by computers, in addition to provisions on circumvention of anti-copying technologies and protection against removal or alteration of CMI.<sup>3</sup>

Separate bills, H.R. 2180 and H.R. 3209, addressed only the online service provider (“OSP”) copyright liability issue.

The Senate Judiciary Committee held hearings on S. 1146 on September 4, 1997.<sup>4</sup> The House Subcommittee on Courts and Intellectual Property held hearings on H.R. 2281 and H.R. 2180 on September 16 and 17, 1997. The House Judiciary Committee on April 1, 1998 approved an amended version of H.R. 2281, which included the core elements of a private sector consensus agreement on online service

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<sup>3</sup> H.R. 3048 and S. 1146 contain the same proposals relating to fair use, library reproduction, distance learning, ephemeral recordings, operational copying by computers, and protection against removal or alteration of CMI. The provisions on circumvention of anti-copying technologies are also virtually identical, except that the definition of “effective technological measure” differs slightly. H.R. 3048, moreover, contains amendments relating to the first sale doctrine and “shrink-wrap” licenses not found in S. 1146. On the other hand, S. 1146 contains provisions on online service provider (“OSP”) copyright liability not addressed by H.R. 3048.

<sup>4</sup> The Senate Foreign Relations Committee has primary jurisdiction over the consideration of the treaties. The Senate and House Judiciary Committees have primary jurisdiction over amendments to the copyright law to implement the treaties.

provider (“OSP”) liability.<sup>5</sup> The Senate Judiciary Committee favorably reported S. 2037 on May 11, 1998 as the successor to S. 1121.<sup>6</sup>

The substitute Senate bill, known as the “Digital Millennium Copyright Act of 1998,” embodies the full private sector agreement on OSP copyright liability, makes changes in the technology circumvention and CMI provisions, and includes amendments concerning other Internet copyright policy issues. These amendments: declare that nothing in the anti-circumvention provisions enlarges or diminishes the existing doctrines of vicarious or contributory infringement or affects existing defenses such as fair use; clarify that electronics manufacturers have no obligation to design consumer products to achieve protection against circumvention; expand the exemption of 17 U.S.C. 112 relating to ephemeral copying by broadcasters to apply in digital contexts and to override the anti-circumvention measures of the copyright owner under certain conditions; expand the exemption of 17 U.S.C. 108 for libraries and archives to engage in preservation activities in digital formats; protect personal privacy interests on the Internet; provide exceptions from the anti-circumvention provisions (i) for computer interoperability, (ii) for libraries and nonprofit educational institutions in making purchasing decisions, and (iii) with respect to the right to control access by minors to the Internet; except law enforcement and intelligence activities from the anti-circumvention and CMI provisions; and direct the Copyright Office to study and report on distance learning and on the liability of nonprofit educational institutions and libraries when they provide online service to patrons.

The Senate passed S. 2037 by unanimous voice vote on May 14, 1998.

H.R. 2281 (under the short title — “WIPO Copyright Treaties Implementation Act”) was subject to sequential referral to the House Commerce Committee. The Subcommittee on Telecommunications, Trade, and Consumer Protection held a hearing on the bill on June 5, 1998. The full Commerce Committee made several amendments to H.R. 2281 and reported the bill as the “Digital Millennium Copyright Act of 1998” on July 22, 1998.<sup>7</sup> The House Commerce Committee version of H.R. 2281 generally included the amendments already embodied in S. 2037 as passed by the Senate, as well as additional amendments, especially concerning the issues of circumvention of technological measures, fair use, the first sale doctrine, and encryption research.

The House of Representatives passed H.R. 2281 on August 4, 1998 as the Digital Millennium Copyright Act of 1998. This version of the bill combined the Senate amendments to S. 2037 with the House Judiciary and Commerce Committees amendments. In addition, the House-passed version of H.R. 2281 adds two new forms of intellectual property protection that were not earlier considered part of the WIPO Treaties implementation process. Title V incorporates the “Collections of Information Antipiracy Act,” which would create 15 years of misappropriation-style

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<sup>5</sup> H.R. REP. 105-551 (Part I), 105<sup>th</sup> Cong., 2d Sess. (1998).

<sup>6</sup> S. REP. 105-190, 105<sup>th</sup> Cong., 2d Sess. (1998).

<sup>7</sup> H.R. REP. 105-551 (Part II), 105<sup>th</sup> Cong., 2d Sess. (1998).



protection for databases that are not sufficiently creative to be eligible for copyright protection. Title VI incorporates the “Vessel Hull Design Protection Act,” which would create 10 years of protection for designs of boat hulls larger than a rowboat and smaller than 201 feet in length.

## **Highlights of S. 2037 and H.R. 2281 (As Amended)**

S. 2037 and H.R. 2281 as passed by the Senate and House of Representatives, respectively, under the short title “Digital Millennium Copyright Act of 1998, contain similar provisions on online service provider liability; protection for the integrity of copyright management information (“CMI”) systems; exceptions to the anti-circumvention and CMI provisions for nonprofit libraries and educational institutions, law enforcement and intelligence activities; provisions exempting computer service and repair entities from copyright liability when the program is copied operationally as an automatic response to running the program; ephemeral copying exception to the anti-circumvention provisions; and nearly similar provisions relating to circumvention of anti-copying technology.

### **1. Highlights of the Common Provisions.**

- ! **Anti-circumvention measures** — WIPO Treaties implementation with respect to protection against circumvention of anti-copying technology;
- ! **Anti-circumvention provisions** — Declared to have no impact on existing principles of vicarious or contributory infringement or on fair use;
- ! **Anti-circumvention provisions** — No obligation to design consumer products to protect against circumvention of technological measures;
- ! **Anti-circumvention provisions** — Exception for computer interoperability;
- ! **Law enforcement and intelligence activities exempt both from anti-circumvention and CMI provisions;**
- ! **Anti-circumvention provisions** — Exemption for purposes of controlling access by minors to Internet material;
- ! **Copyright management information (“CMI”)** — WIPO Treaties implementation with respect to protection against false CMI or knowing alteration or removal of CMI;
- ! **Exemptions to the remedies for violation of the anti-circumvention measures and CMI requirements** for nonprofit libraries, archives, and educational institutions (i.e., no criminal liability; no civil liability for innocent violations);
- ! **CMI definitions require, in addition to information about authors, information about performers, writers, and directors of audiovisual works,** except for radio and television performances;

- ! **Exemption for nonprofit libraries, archives,** and educational institutions from the technology anti-circumvention provisions for purposes of access to evaluate possible purchase of the copyrighted work;
- ! **OSP copyright liability** — H.R. 2281 and S. 2037 embody the private industry compromise agreement on OSP copyright liability; exemption generally applies when OSP acts as mere “conduit;”
- ! **Ephemeral recordings** — Transmitting organizations have right to override anti-circumvention measures in order to make authorized ephemeral copies;
- ! **Library preservation activities** — Exemption of 17 U.S.C. 108 for libraries and archives expanded to permit additional preservation activities in digital formats;
- ! **Computer maintenance or repair** — Loading of the computer program into a computer’s RAM for service or repair purposes would be noninfringing.

**2. Protection against Circumvention of Anti-Copying Technology.** The implementation bills would add a new Chapter 12 to the Copyright Act, title 17 U.S.C., creating civil and criminal liability for circumvention of copyright protection technology measures applied by owners of copyrighted material.

The proposed section 1201 would prohibit the manufacture, importation, offering to the public or other trafficking in any technology, product, service, device, component or part thereof that is primarily designed or produced to circumvent an anti-copying system.

Proposed civil penalties include: injunctions, impoundment of infringing material or equipment, actual damages and any additional profits of the violator (not counted as part of actual damages) or statutory damages ranging from \$200-\$2500 per act of circumvention, product, or performance of service, or, at the plaintiff’s option, a total award between \$2500-\$25,000. For repeated violations within three years, the court may triple the damages. The court also has the discretion to reduce or remit damages if the violator proves, and the court finds, he, she, or it was not aware and had no reason to believe that the law was violated. Under the same circumstances, in the case of nonprofit libraries and educational institutions, the court must reduce or remit damages for innocent violations.

As passed by the Senate and House of Representatives, both bills have been amended to clarify and narrow the scope of the anti-circumvention requirements in comparison to the provisions of the original bills. Circumventions for purposes of interoperability of computers (including reverse engineering) are permissible, unless the activity exceeds permissible fair use bounds and is otherwise infringing.

New clauses expressly declare that 1) nothing in the anti-circumvention provisions enlarges or diminishes the doctrines of vicarious or contributory

infringement (which essentially affirms *Sony Corp. v. Universal City Studios*);<sup>8</sup> 2) electronics-computer manufacturers have no obligation to design consumer electronics, telecommunications, or computing products to achieve protection against circumvention; and 3) in applying the anti-circumvention provisions to a component or part of a product, the court may consider the necessity of the component's incorporation in the product for the sole purpose of preventing the access of minors to certain Internet material (provided the component does not itself violate the anti-circumvention right).<sup>9</sup>

Both bills exempt law enforcement and intelligence activities generally from the anti-circumvention provisions. Nonprofit libraries and educational institutions are exempted for purposes of making purchasing decisions. Criminal liability is waived for nonprofit libraries and educational institutions, and civil liability must be reduced or remitted for these institutions and their employees if the defendant proves the violations of the law were innocent.

H.R. 2281 alone has been further amended to: 1) delay for two years the implementation of the anti-circumvention provisions and require an initial regulatory review by the Secretary of commerce, followed by periodic three-year reviews, of the impact of any technology-protection measures on the application of fair use; 2) exempt certain encryption research activities; 3) clarify that the bill neither enlarges nor diminishes constitutional protection for freedom of speech and press; and 4) mandates two agency reports — the first on the impact of the bill on electronic commerce, and the second on the impact of anti-circumvention technology on research and development, including the effect on reverse engineering.

### **3. Protection of Copyright Management Information (“CMI”) Systems..**

The WIPO Treaties implementation bills would add a new section 1201 to the Copyright Act prohibiting the knowing provision of false copyright management information (“CMI”). The bills would prohibit the knowing distribution or importation of false CMI with the intent to induce, enable, facilitate, or conceal a

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<sup>8</sup> 464 U.S. 417 (1984). In this landmark decision, the Supreme Court by a 5-4 vote held that the manufacturer of the Betamax VCR system had no copyright liability for home taping for private use of television programming that is transmitted for free off-air reception by the public. In part, the decision rested on the principle that the manufacturer would not be held contributorily liable (even if the homeowner infringed the copyright) since the VCR technology has significant noninfringing uses.

<sup>9</sup> The Home Recording Rights Coalition (“HRRRC”) (which is a trade association representing manufacturers, distributors, and retailers of electronic products and some consumers) issued a press release on May 1, 1998 about S. 2037 that the amendment to the anti-circumvention provisions “significantly clarifies that this legislation would not chill the design of new generations of recordings and computer products.” Gary Shapiro, Chairman of the HRRRC, stated: “We are very pleased that, in the Digital Millennium Copyright Act, the Senate Judiciary Committee has now made clear that such legislation does NOT require that the design of ... a consumer electronics, telecommunications or computing product must provide for any response to any technological protection measure.” HRRRC Press Release of May 1, 1998 entitled “HRRRC Praises Senators Hatch, Leahy and Ashcroft for Clarification of WIPO Bill.” (www.hrrc.org/).

copyright infringement. The intentional removal or alteration of CMI would also be prohibited.

The purpose of these provisions is to facilitate widespread use of CMI by rightsholders in order to make licensing of works (or obtaining permission to use works) more readily available to the public. Consistent with the Treaties, the provisions cannot be legislated as a formality (i.e., as a condition of the exercise or enjoyment of the copyright) or prohibit the free movement of goods.

Both civil and criminal remedies are proposed. These remedies, and their exceptions, are the same as those described above for violations of the anti-circumvention provisions. The civil remedies would be codified as 17 U.S.C. 1203. The criminal remedies would be codified as 17 U.S.C. 1204.

The new rights to protect the integrity of CMI systems apply both to analog and digital formats. In this respect, the bills exceed the minimum treaty obligations since the WIPO Treaties require protection only for electronic rights management information.

As passed by the Senate and House of Representatives, both bills: 1) exempt lawfully authorized law enforcement and intelligence activities from the CMI requirements; 2) exempt nonprofit libraries, archives, and educational institutions from criminal liability; 3) in the case of the same entities, require reduction or remission of civil liability for innocent violations; and 4) limit the liability of broadcasters and other transmitting organizations depending, in the case of analog transmissions, upon whether or not CMI compliance is technically feasible and not unduly burdensome financially, and in the case of digital transmission, upon the existence of industry standards in general..

**4. Distance Learning.** Nonprofit libraries and educational entities also seek specific exemptions to facilitate use of the Internet for systematic educational purposes (so-called “distance learning”). S. 1146 (Senator Ashcroft’s alternative bill to implement the WIPO Treaties) contains such provisions. S. 2037 and H.R. 2281 do not contain special exemptions for “distance learning.” The Register of Copyrights, however, is directed to study the issue and submit a report to the Congress (including recommendations for legislation) within six months of enactment of the bill.

**5. Ephemeral Recordings.** Under existing copyright law, commercial and noncommercial broadcasters<sup>10</sup> enjoy an exemption from the reproduction right to make at least one copy of a broadcast program for delayed transmission or archival purposes. This is known as the “ephemeral recording” exemption.

S. 2037 would amend 17 U.S.C. §112 to extend the existing ephemeral recording exemption to nonsubscription broadcasts of sound recordings in digital formats. As discussed in the next section of this report (which concerns the major

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<sup>10</sup> Governmental bodies and other nonprofit organizations can make 30 copies of a broadcast program under certain conditions. 17 U.S.C. §112(b).

differences between the two bills), H.R. 2281 embodies a different ephemeral recording amendment not included in S. 2037, which is part of an amendment to the digital audio transmission license of 17 U.S.C. 114.

Another amendment of 17 U.S.C. §112, which relates to the new protection against circumvention of anti-copying technology, appears in both bills. When a broadcaster is prevented by the copyright owner's technical anti-copying measures from making the permitted ephemeral recording, both bills require that the copyright owner must make available to the broadcaster the necessary means to make the ephemeral recording, provided it is technologically feasible and economically reasonable to do so. If the copyright owner fails to provide the necessary means in a timely manner in accordance with reasonable business requirements, the broadcaster is not liable for violation of the copyright owner's anti-copying measures.

**6. Library Reproduction.** Both bills broaden the exemption for library reproductions of copyrighted works. The library exemption of 17 U.S.C. §108 would be expanded by permitting library reproduction of three copies or phonorecords (rather than the one copy of existing law); by deleting the references of existing law to reproduction only in "facsimile form;" and by adding, as a new justification for library reproduction, the factor that the work is stored in an obsolete format, provided that a copy reproduced in a digital format must be used on the premises of the library or archives in lawful possession of the obsolete format.<sup>11</sup>

**7. OSP Copyright Liability.** — Title II. The Administration's original implementation bills did not address the issue of who is liable for infringement of copyrighted works on the Internet and other computer networks, as a result of actions by customers of online service and access providers. Although the WIPO Treaties arguably could be implemented without clarifying OSP liability, that outcome was opposed by many groups including coalitions representing the OSPs, telecommunications entities, the electronics industry, and library and educational institutions. Also, without legislative guidance, OSP liability would be decided by the courts on an ad hoc basis, which arguably would require many years of litigation to delineate.

S. 2037 and H.R. 2281, as passed by the Senate and House of Representatives, respectively, basically absolve OSPs from copyright liability if they merely transfer information on computer networks without having any control of the content of the

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<sup>11</sup> Nonprofit libraries and educational entities have sought other amendments of the Copyright Act which were included in S. 1146 and/or H.R. 3048. These proposals cover fair use of copyrighted works in digital, electronic environments; a different ephemeral recordings provision; exemptions for operational reproduction of copyrighted works by computers; extension of the first sale doctrine of 17 U.S.C. §109 to digital, electronic environments; and preemption of state laws that might allow enforcement of so-called "shrink-wrap" licenses (unilateral licenses imposed on purchasers of computer software when they open the package containing the software). In general, these proposals have not been included in S. 2037 or H.R. 2281 except that H.R. 2281 contains brief, technical amendments relating to fair use and the first sale doctrine.

transmission.<sup>12</sup> The bills create “safe harbours” from either direct, vicarious, or contributory copyright infringement in accordance with a private sector agreement on OSP copyright liability.<sup>13</sup>

Upon receiving a notice of infringement that complies with statutory requirements,<sup>14</sup> an OSP is expected expeditiously to remove, disable, or block access, to the extent blocking is technologically feasible and economically reasonable. Upon receipt of a counter-notice by a provider of the blocked site, the OSP shall retain the block for 10-14 days but no longer, unless the copyright files suit for copyright infringement.

The exemptions from liability apply both to network service transmissions and to private and real-time communications services.

***Digital network communications.*** An OSP is not liable for monetary relief and injunctive relief is carefully circumscribed when an OSP acts as a “mere conduit” in transmitting the copyrighted work. Some of the specific restrictions to qualify for this exemption are:

- ! the transmission was initiated by someone other than the OSP;
- ! the transmission is provided through automatic, technical processes without selection of content by the OSP;
- ! the OSP does not select the recipients of the copyrighted material except as an automatic response to provide service;
- ! the OSP does not maintain a copy of the copyrighted material that is accessible to recipients for a longer period than is reasonably necessary for the communications; and
- ! the material is transmitted without change.

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<sup>12</sup> This Report uses “OSP” as short-hand for persons and entities who transmit, route, provide connections, or otherwise facilitate computer network service and access for customers without initiating or altering the content of the transmission. Although OSPs are the main beneficiaries of the copyright liability provisions in the Title II of the bills, entities other than OSPs can claim the exemption if they meet the statutory conditions.

<sup>13</sup> The negotiations that culminated in an agreement on OSP copyright liability on March 31, 1998 were conducted for several years under the auspices of the Senate Judiciary Committee and the Subcommittee on Courts and Intellectual Property of the House Judiciary Committee. The private sector negotiators included representatives of copyright owners and authors; telecommunications, electronics, and computer equipment manufacturers; and online service providers. This “Agreement on Digital Copyright Liability” has been published at 55 BNA Patents, Trademark & Copyright Jour. 564 (April 9, 1998).

<sup>14</sup> Among other requirements, the notice must be in writing, describe the infringing material, give information about its location on the network, identify the copyrighted work, contain a sworn statement that the notice of infringement is accurate, and be signed physically or electronically by an authorized person.

**System caching.** The OSP is not liable for monetary relief and injunctive relief is carefully circumscribed when the copyrighted material is temporarily stored on the system or network as part of an automatic process without change for use in refreshing, reloading, or other updating in accordance with accepted industry standards for data communications.

**Information storage.** An OSP is not liable for monetary relief and injunctive relief is carefully circumscribed when an OSP stores infringing material on its network at the direction of a system user if the OSP does not have actual knowledge of the infringement, is not aware of facts or circumstances that make the infringement apparent, or, upon obtaining such knowledge or awareness, the OSP acts expeditiously to remove or disable access to the infringing material.

**Information location tools.** The standards applicable to storage of information apply generally to OSP liability for referring or linking users to an online location that may contain infringing material. That is, the OSP is not liable without actual knowledge or awareness of facts that make the infringement apparent, or if the OSP acts expeditiously to remove or disable access upon obtaining knowledge or awareness of an infringement.

The bills propose penalties for knowing, material misrepresentations about infringing activity; absolve OSPs of noncopyright liability if the OSP in good faith acts to disable or remove allegedly infringing material; establish the principle that traditional copyright defenses (such as fair use) are unaffected by an OSPs blockage of, or failure to block, access to alleged infringing material; provide that copyright owners who seek the identification of the direct infringer from the OSP must obtain a court order first; in the narrow cases where injunctive relief is available, place limits on the scope of the relief orders; and make OSPs terminate subscribers who are repeat infringers but do not require OSPs to monitor the network to seek out infringers.

**8. Computer Maintenance/Repair Exemption.** — Title III. Both bills incorporate the free-standing bill (H.R. 72) which overturns a Ninth Circuit decision<sup>15</sup> holding that a computer service-repair company infringes the copyright in a computer program by activating the machine to make repairs. Under the bills, the loading of the computer program into a computer's RAM for service or repair purposes would no noninfringing, even though this act technically reproduces a copy of the program.

## **Additional Provisions in H.R. 2281**

Differences between S. 2037 and H.R. 2281 with respect to provisions common to both bills have generally been noted in the above analysis of the common provisions of the implementation bills. H.R. 2281 also contains several provisions and two Titles that have no counterpart in S. 2037. These proposals are discussed in this section of the report.

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<sup>15</sup> *MAI Systems Corp. V. Advanced Computer Systems of Michigan, Inc.*, 992 F.2d 511 (9<sup>th</sup> Cir. 1993).

**1. Fair Use and First Sale Doctrine Clarifications.** SEC. 414 of H.R. 2281 would amend the fair use doctrine of 17 U.S.C. 107 to clarify its continued application in digital contexts. SEC. 417 of H.R. 2281 would amend the first sale doctrine of 17 U.S.C. 109 similarly to clarify its continued application in digital contexts.

**2. Assumption of Motion Picture Collective Bargaining Contracts.** With the exception of collective bargaining agreements limited to the public performance rights, SEC. 416 of H.R. 2281 requires that the transfer of motion picture rights shall be deemed to incorporate the collective bargaining agreements negotiated after enactment of the bill, if the transferee knew or had reason to know about the agreements, or, if there is an existing court order against the transferor which the latter is not able to satisfy within 90 days after the order is issued. If the transferor of motion picture rights fails to notify the transferee of the contractual obligations and the transferee becomes bound by a court order to make payments under the collective bargaining agreement, the transferor is liable to a damages claim by the transferee.

**3. Under Secretary of Commerce for Intellectual Property Policy.** SEC. 401 of H.R. 2281 would create a new position in the Department of Commerce for an Under Secretary of Commerce for Intellectual Property Policy. This Under Secretary would be authorized to advise the President on national and certain international issues relating to patent, trademark, and copyright policy. The Office would be funded by patent and trademark fees, up to 2% of the annual revenues of the Patent and Trademark office. SEC. 402 seeks to clarify the authority of this new Office in relation to the duties of the United States Trade Representative, the Secretary of State, and the Register of Copyrights.

**4. Digital Audio Transmission License.** The Digital Performance Right in Sound Recordings Act of 1995<sup>16</sup> (“Digital Audio Act”) created a limited public performance right in sound recordings. Before enactment of the Digital Audio Act, the owner of a sound recording copyright did not have any right of public performance. This 1995 Act applies only to public performance of a sound recording by means of a digital audio transmission. The Act has no application to the existing analog system of broadcasting.

The existing digital audio transmission right of 17 U.S.C. 114 applies to subscription transmissions and interactive transmissions (i.e., “pay-per-listen” or “audio-on-demand” services). The Act generally does not apply to noninteractive, nonsubscription transmissions. Noninteractive subscription services may be eligible for a compulsory license. Pay-per-listen and audio-on-demand services do not have the benefit of a compulsory license in doing business. Generally, these interactive services must negotiate with the sound recording copyright owner to obtain the right to transmit the sound recording, but the 1995 Act places some strict conditions on this exclusive right.

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<sup>16</sup> Pub. L. 104-39, Act of November 1, 1995, which generally took effect on February 1, 1996.



Apparently, the parties affected by the section 114 compulsory license for digital audio subscription services have disagreed about interpretation of the law. SEC. 415 of H.R. 2281 contains a substantial amendment of the section 114 digital audio compulsory license, which is intended to address the interpretive problems under this relatively new law.

SEC. 415 also would amend the ephemeral recording exception of 17 U.S.C. 112. However, instead of broadening the exemption to apply to nonsubscription broadcasts of a sound recording in a digital format, as provided in S. 2037, the House bill creates another compulsory license to make an ephemeral recording which parallels the digital audio transmission license of 17 U.S.C. 114, as amended. That is, those transmitting organizations that obtain a 17 U.S.C. 114(f) compulsory license are generally eligible for the new ephemeral recording compulsory license. Under the license, the transmitting organization could make one copy solely for use in its own transmissions and must destroy the copy within six months of first transmission unless the copy is preserved exclusively for archival purposes.

**5. Collections of Information Antipiracy Act.** — Title V of H.R. 2281. The WIPO Copyright Treaties and the implementing bills (S. 2037 and H.R. 2281) would clarify and perhaps expand protection for databases that are intellectual creations and can qualify for protection as works of authorship under the Copyright Act.

Under a decision of the Supreme Court in *Feist Publications v. Rural Telephone*,<sup>17</sup> however, databases that lack at least a modest amount of creative expression are not constitutionally eligible for copyright protection. Database producers have become concerned about a lack of protection for databases that are the result of industrious effort (the so-called “sweat-of-the brow” standard). This concern is compounded for them by the fact that the European Union has issued a directive mandating a new form of protection for collections of information under an “extraction right” that is available only on the basis of reciprocity. That is, American producers will be able to enjoy this new form of protection in Europe only if the United States reciprocates with similar protection for European-origin collections of information.

Title V of H.R. 2281 responds to the request of database producers for protection of databases that cannot qualify under copyright law standards pursuant to the *Feist* case. Essentially, collections of information that result from substantial investments of time, money, or resources would enjoy a misappropriation-style of protection for 15 years against copying. This proposal passed the House of Representatives as a separate bill (H.R. 2652) over the objections of many groups in the library, educational, and scientific communities in the United States.

**Basic right.** This new misappropriation right would be enacted as Chapter 13 of title 17 U.S.C. under the authority of the Commerce Clause rather than the Patent-Copyright Clause of the Constitution.

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<sup>17</sup> 499 U.S. 340 (1991).

The prohibition against copying applies generally to all or a substantial part of a collection of information that results from the investment of a substantial amount of money or other resources, provided the copying causes actual or potential harm to the market for the database.

***Exclusions from protection.*** Proposed 17 U.S.C. 1304 excludes from protection: 1) collections of information developed by Federal, state, or local governments, including the efforts of government employees within the scope of their employment; and 2) computer programs used to operate or maintain the collection of information.

The government collection exclusion does not apply, however, to information required to be collected by the Securities Exchange Act of 1934 and by the Commodity Exchange Act.

The computer program exclusion does not apply to a collection of information that is “incorporated in a computer program that is otherwise subject to protection under Chapter 13.”

One other exclusion from protection is expressed in the definition of “product or service” that embodies the collection of information. The definition purports to exclude from protection information gathered, organized, or maintained in order to route, transmit, or store digital online communications or provide access to connections for digital online communications. This exclusion is intended to address concerns about interference with the operations of the Internet, if the “Chapter 13 right” were applied to the data used to control the operations of the Internet.

***Limitations on the right.*** Exceptions or limitations to the new “Chapter 13 right” would be established at 17 U.S.C. 1302 in the form of six permitted activities. The following are permitted activities in relation to use of a protected collection: extraction of individual items and other insubstantial parts from a collection; copying of information obtained from independent efforts; use of a collection for the sole purpose of verifying information gathered independently, provided the use does not harm the actual or potential market for the collection; use of a collection for nonprofit educational, scientific, or research purposes, provided the use does not *directly* harm the *actual* market for the collection; use of the collection for purposes of news reporting, unless the extracted information is time-sensitive and has been gathered by another news reporting entity and the extraction shows a pattern of use in direct competition with the rightsholder; and the owner of a lawfully made copy of the collection is entitled to sell or otherwise dispose of the copy.

***Relationship to other laws.*** Proposed 17 U.S.C. 1305 declares that the new “Chapter 13 right” has no effect on copyright, patent, and trademark laws; design protection; antitrust and contract laws; trade secrets; privacy rights; or access to public documents. Equivalent state law rights are preempted. There is no impact on the Communications Act for the purpose of publishing directories in any format.

Detailed provisions specify that there is no impact on the Securities Exchange Act and the Commodity Exchange Act, or on the jurisdiction or authority of the Securities and Exchange Commission or the Commodity Futures Trading

Commission. The permitted acts of 17 U.S.C. 1303 do not apply to use of securities or commodities information except as that use is permitted by the Securities Exchange and Commodity Exchange Acts and the regulations issued thereunder.

**Civil remedies.** The civil remedies for violation of the new “Chapter 13 right” include injunction, impoundment, actual damages plus defendant’s profits from the violation not counted in damages, treble damages, costs and attorney’s fees to the prevailing party. If a nonprofit educational institution prevails as a defendant and the court finds the plaintiff brought the case in bad faith, attorney’s fees shall be awarded to the defendant. The remedies of an injunction and impoundment are not available against the United States Government.

The court shall reduce or remit money damages against a nonprofit educational, scientific, or research institution if the defendant proves it believed and had reason to believe its conduct was permissible.

**Criminal penalties.** Willful violations of the “Chapter 13 right” for purposes of direct or indirect commercial advantage or financial gain, or willful violations that cause \$10,000 or more in damages in one year, can be punished by criminal penalties. Employees or agents of nonprofit educational, scientific, or research institutions, libraries, or archives are exempt, however, from any criminal penalties for violations of the “Chapter 13 right” when acting within the scope of their employment.

The penalties include a fine in the maximum amount of \$250,000 and/or 5 years in prison for first offenses. For second or subsequent offenses, the maximum fine and prison time are doubled.

**Effective date.** The Collections of Information Antipiracy Act would take effect upon enactment. A statute of limitations clause provides that no action may be brought against an extraction from a collection that occurs more than 15 years after the date of the investment that created the portion of the collection that has been extracted. This clause effectively limits the protection to a 15 year period.

**6. Vessel Hull Design Protection Act — Title VI of H.R. 2281.** The House-passed bill incorporates another new form of intellectual property protection not included in S. 2037. Title VI of H.R. 2281 embodies the Vessel Hull Design Protection Act. This Title creates a new, 10-year form of design protection for boat hulls. Essentially, this proposal is intended to fill in a perceived (by some) gap between the existing design patent and copyright laws.

The new design protection would be added to title 17 U.S.C. in a new Chapter 14, which would be headed “Protection of Original Designs.” Proposed 17 U.S.C. 1401 would create new legal protection for the original design of a useful article, which design makes the article “attractive or distinctive in appearance.” A design is “original” if it is the result of the designer’s own creative endeavor and represents a “distinguishable variation” compared to other designs that is more than trivial and is not copied from another person. The overall shape of a boat larger than a rowboat and smaller than 201 feet in length could be protected against copying, both for its artistic and utilitarian features.

Notwithstanding this broad language about designs of useful articles in general, “useful article” is defined to mean a vessel hull. Therefore, as proposed, the new design protection is limited to designs of boat hulls, but, with a few word changes, the new “Chapter 14 design right” could be expanded to designs of useful articles in general.

Excluded from protection are those designs that are: 1) not original; 2) staple or commonplace; 3) different from staple designs only in insignificant details or elements that are common variants; or 4) embodied in a useful article made public by the designer/owner more than one year before an application for registration. The exclusions of proposed 17 U.S.C. 1402 actually list a fifth criterion, which is “dictated solely by utilitarian function.” However, another clause in the bill makes clear that this exclusion does not apply to boat hull designs. That is, boat hull designs can be protected against copying of their utilitarian features.

In order to obtain boat hull design protection, an application for design registration must be made to the Administrator (the Register of Copyrights) within two years after the design is made public.

The boat design right would be enforced through civil remedies only. These remedies include an injunction, actual damages plus \$50,000 or \$1 a copy,<sup>18</sup> the infringer’s profits, destruction of infringing articles, and attorney’s fees to the prevailing party. The boat design right would take effect one year after enactment. The new right would not apply to any design made public before the effective date.

Like the database proposal of Title V, the boat design proposal passed the House of Representatives as a separate bill (H.R. 2696). The proposal also essentially responds to a decision of the Supreme Court in *Bonito Boats v. Thunder Craft Boats*,<sup>19</sup> which held that state law protection of boat designs was an unconstitutional interference with the federal patent and copyright laws.

The boat design title would enact a design protection proposal that has been presented to Congress several times and been rejected when the proposal extended to designs of useful articles in general. One of the objections to the current legislation may be that it represents a first unwelcome (to some) step toward enactment of general design legislation.

Another similarity to database legislation is the fact that design protection is the subject of a European Union harmonization project. For American designs to obtain design protection in Europe, the United States would have to enact new design legislation equivalent to the design protection available in Europe.

Boat design protection has not been considered separately by earlier Congresses. When general design protection was considered in earlier years, however, objections

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<sup>18</sup> Damages of \$1 a copy would seem to have significance primarily for designs of useful articles other than vessel hulls. This damages provision is another example of the way Title VI may lay the foundation for protection of the design of useful articles in general.

<sup>19</sup> 489 U.S. 141 (1989).

from the insurance industry, consumers, retailers, and others concerned about possible anti-competitive effects of design protection, were sufficient to prevent enactment of general design legislation.

## Conclusion

The WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty are two new international treaties in the field of intellectual property rights, which were developed at a Diplomatic Conference in Geneva, Switzerland in December 1996. The President has submitted the Treaties to the Senate for its advice and consent to ratification by the United States. Implementing legislation to conform United States law to the obligations in the Treaties has passed the Senate (S. 2037) and House of Representatives (H.R. 2281).

The WIPO Copyright Treaty confirms copyright subject matter protection for computer programs and those databases which are intellectual creations; clarifies or extends rights of public distribution, commercial rental, and public communication (i.e., transmission) to use of copyrighted works in digital, electronic environments, subject to limitations that may be enacted by national law; and requires adequate and effective remedies to protect against circumvention of anti-copying technologies and knowing alteration or removal of electronic rights management information.

The WIPO Performances and Phonograms Treaty tracks most of the provisions in the Copyright Treaty and applies them in the context of phonograms — that is, sound recordings. In addition, the Performances-Phonograms Treaty requires protection for certain rights of performers, including moral rights.

Copyright owners, authors, publishers and other producers/disseminators of copyrighted works originally urged implementation of the WIPO Treaties through enactment of the minimal changes in United States law proposed in S. 1121 and H.R. 2281 as introduced. These content providers initially argued that United States law is already consistent with the Treaties with respect to exclusive rights and limitations on rights. They argued that implementing legislation need provide protection only against circumvention of anti-copying technologies and violations of copyright management information (“CMI”) rights. Content providers favored early ratification and enactment of the original bills to send an appropriate message to other countries, in order to encourage them to adhere to the Treaties and upgrade their protection for use of copyrighted works in electronic, digital environments.

Groups representing the telecommunications and electronics industries, libraries, and other educational interests generally supported the ratification of the WIPO Treaties in principle, but only on the basis of implementing legislation that would address their concerns about OSP liability, fair use, distance learning, ephemeral copying, and other Internet copyright issues. These groups argued that United States law is not settled concerning the scope of rights and limitations on rights in digital, electronic environments. They argued that these issues must be addressed in legislation rather than left to ad hoc judicial decision-making.

Alternative implementation bills were introduced (S. 1146 and H.R. 3048) that responded to many of the concerns of these groups.

Through the legislative process of hearings, debate, consideration, and amendment, the original implementation bills have been substantially modified. S. 2037 has replaced S. 1121. As amended, S. 2037 and H.R. 2281 embody the “Digital Millennium Copyright Act of 1998.” The bills have many common provisions, but also differ in significant respects.

The bills embody a consensus agreement by private sector interests concerning online service provider copyright liability. Other amendments clarify or narrow the scope of the anti-circumvention and CMI provisions and clarify or expand several of the limitations on the rights of copyright owners in digital contexts, including library preservation, ephemeral copying, and fair use. Some issues, such as distance learning and additional exemptions for nonprofit educational institutions and libraries when they provide online service, are left to further study and reports to Congress by designated federal agencies.

H.R. 2281 includes additional amendments concerning the issues of circumvention of technological measures, fair use, the first sale doctrine, encryption research, ephemeral recordings, and the digital audio transmission compulsory license. Moreover, H.R. 2281 adds two new forms of intellectual property protection that were not formerly considered part of the WIPO Treaties implementations issues. Title V of H.R. 2281 would enact the Collections of Information Antipiracy Act, which creates 15 years of misappropriation-style protection for databases that are not eligible for copyright protection. Title VI would enact the Vessel Hull Design protection Act, which would create 10 years of new design protection for both the artistic and utilitarian features of boat hulls.

It appears that compromises have been reached on formerly contentious issues such as OSP liability, the anti-circumvention provisions, and several issues of concern to libraries and educational institutions. Except for the inclusion in H.R. 2281 of the Collections of Information Antipiracy Act and the Vessel hull Design Protection Act, it seems likely that both copyright users and copyright owners are in general agreement on enactment of WIPO Treaties implementing legislation.