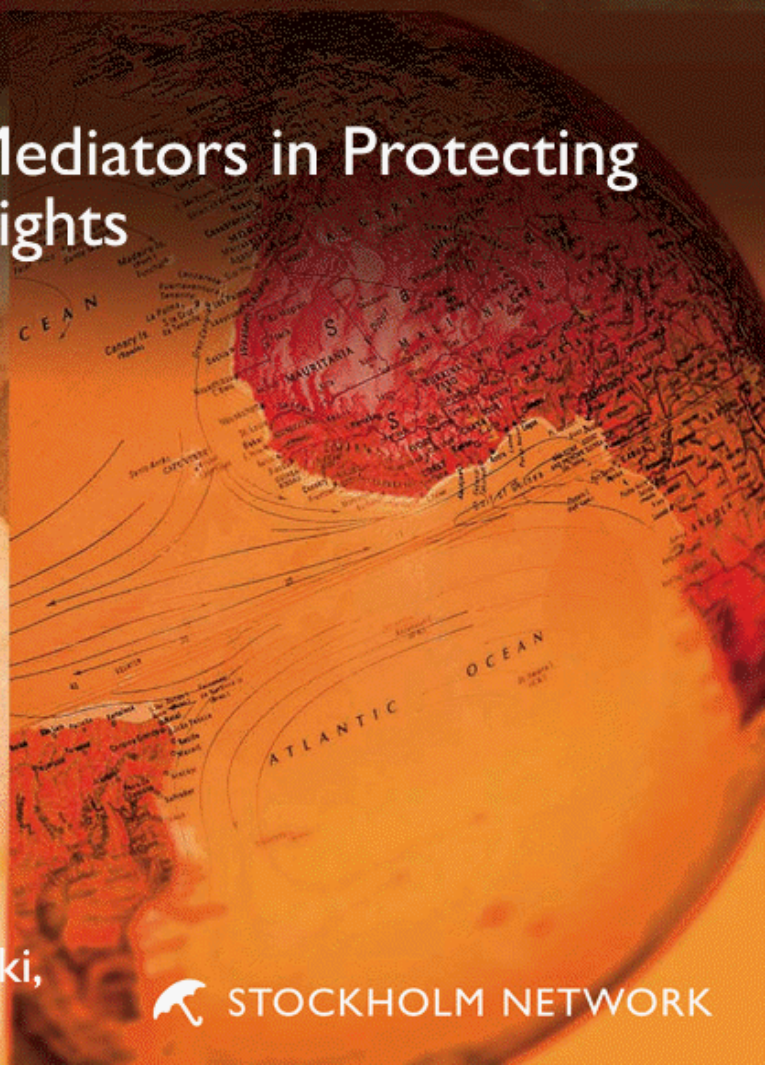
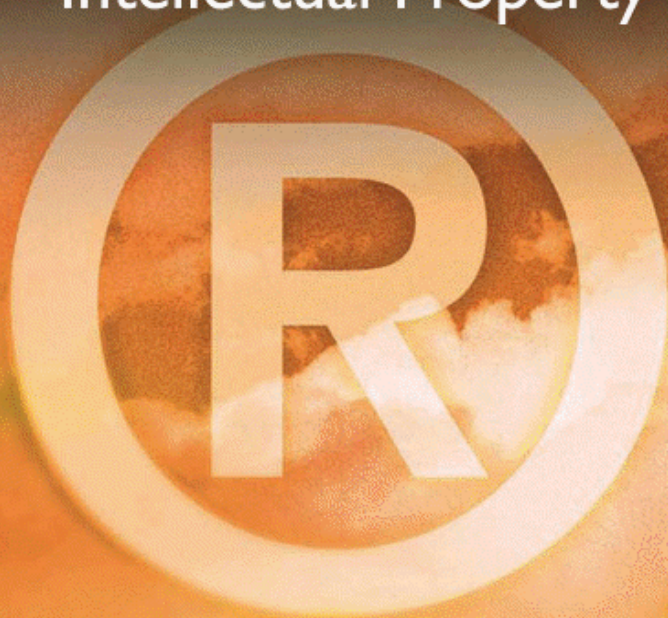


The Stockholm Network Experts' Series on Intellectual Property and Competition

Free Use or Fair Use? The Role of Internet Mediators in Protecting Intellectual Property Rights



By David Torstensson, Rena Sasaki,
and Dr Meir Pugatch



STOCKHOLM NETWORK

Executive Summary

We now live in a 24/7 digital age – the internet, mobile communications, satellite television, wireless computers and instant access have all radically changed the way we work, live and play. At astounding speeds we now have access to the kind of information, news, and entertainment which was previously only reserved for science fiction novels. But with success and change also come difficulties.

A clear example is the case of intellectual property protection on the internet. Concomitant with the digitisation of our lives has been a transformation in the shape of our economies which are now, predominantly, based around the selling and provision of services, rather than industry or manufacturing. The recent growth in Knowledge Intensive Industries (KIIs) and so-called creative products has been phenomenal, but in an online, digital age the problem of intellectual property infringement is greater and more acute than ever.

In this context, the recent conflict over copyright abuse has largely taken place between the creators of content, the copyright holders, and internet mediators – in other words, the search engines, data aggregation and download sites. Indeed, the number of pending and decided court cases in the United States in the past 10 years attests to this. The biggest manifestation of this conflict is the pending court case of *Viacom v YouTube*.

The purpose of this paper is to put this debate on internet mediators and the protection of intellectual property into a theoretical as well as practical context. The paper examines and analyses what the concept of intellectual property rights (IPRs) entails from an economic point of view, as well as from a legal and practical perspective. This includes analysing a number of past court cases concerning the concepts fair use and safe harbor. These two legal concepts are very important because they have come to set the tone for US law and the US court's philosophical approach towards the protection of copyright.

The idea of fair use is to devise the right balance between the interests of the great mass of people who would like to access copyrighted material, and the interests of those who hold the copyrights. With a set of similar goals, the safe harbor provision of the 1998 Digital Millennium Copyright Act (DMCA) sought to ensure that providers of online services were not limited in the kind of service they could offer consumers by the illegal acts of third party users. This has also been a useful piece of legislation as it has allowed search engines and internet mediators to maintain a degree of freedom of operation and non-liability with regards to the third-party actions of their users.

From the current evidence it is clear that the concepts of fair use and safe harbor are no longer adequately balancing the interests of creators of knowledge and content with those of internet mediators and the general public. While the intent of both fair use and safe harbor are laudable – and these copyright principles should be protected and relied upon – the current situation in which the

safe harbor provision puts the onus of policing the internet for copyright infringement on the creators of content is unsatisfactory. In the long run, copyright infringement hurts everyone – creators, internet mediators, as well as the general public. It is therefore imperative that internet mediators to a greater extent share that responsibility with the creators of content. To this end, this paper makes 3 main policy recommendations:

- The principle of safe harbour (as expressed in the Digital Millennium Copyright Act) needs to be redefined and a due diligence clause on the part of mediators needs to be inserted;
- If the technology to filter out copyright content is not available and the sheer volume of such infringements is too great for even mediators to deal with, then some form of monetary compensation to copyright holders must be established. Such a levy system should be used as a supplement to cases in which the technology to hinder such infringement combined with practical considerations – in this case the sheer scope of the web – place severe limits on the extent to which copyright can be enforced; and
- Finally, the balance established in *Sony v Universal* must be upheld and reinforced with regards to search engines and data aggregations sites – so that their noninfringing use and benefits should overwhelmingly outweigh any activity that may lead to the infringement and violation of IPRs.

While perhaps not providing a definitive answer to the current dispute over intellectual property protection between internet mediators and creators of content, these policy recommendations point the respective parties in a direction which recognises the important contributions both parties make to the public, yet also balances their responsibilities and seeks to protect their core business models.

Free Use or Fair Use? The Role of Internet Mediators in Protecting Intellectual Property Rights

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The Importance of Intellectual Property Rights to the Knowledge Economy

The Congress shall have power...To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries

- United States Constitution, Article I, Section 8, Clause 8

Debates over intellectual property are not new. They go back as far as 1474 when exclusivity privileges were granted for the first time in the city-state of Venice.¹ In the field of intellectual creations (knowledge, information and other forms of artistic expressions), questions over who owns what and who can use what at which time are intrinsic to human society. Fundamentally, this debate boils down to two societal aspects: the need to incentivise and compensate individuals for the efforts they have invested in the creation of new knowledge and other forms of artistic creations for the benefit of society, and the desire to use these creations as quickly and as widely as possible.

In this light, what is in the public interest must be balanced with what is in the individual's best interest (be it a person, a company or any other innovator). Paradoxically, one cannot exist without the other, too excessive a clampdown on either will result in inhibiting knowledge producers in their creative pursuits or cutting off those who wish to enjoy the fruits of that knowledge.

Although the technicalities of intellectual property rights (IPRs) disputes will change over time and space – as technologies, products and knowledge delivery methods are constantly evolving – this balancing act basically remains the same. Consequently, what we are faced with today in the realm of search engines and the World Wide Web is an old problem that needs to be addressed within the context of new technologies and the new user cultures accompanying these technologies.

The Paradox of Knowledge and the Problem of Free-Riding

Economists exploring ways of efficiently allocating scarce resources to unlimited wants, usually come to find that private property rights are a plausible way of dealing with the problem of scarcity in an efficient manner. Knowledge and other forms of intellectual creations, however, are a unique resource given that they are not inherently scarce. Theoretically speaking, the potential use of existing knowledge or any other form of intellectual creation is unlimited and may be diminished only when they, or it, becomes obsolete or irrelevant to society. In fact, the use of any intellectual creation by one individual does not reduce its accessibility to others but is more likely to increase it. To this extent knowledge and other forms of intellectual creations have the characteristics of a "public good" – they are non rival, in the sense that the use of an intellectual creation by one individual does not

¹ Ladas, P. S. *Patents, Trademarks, and Related Rights: National and International Protection, vol.1*, Cambridge, Massachusetts, Cambridge University Press, 1975.

reduce its quantity for others (i.e. there is not less of that creation to use). They are also “non-excludable”, in other words, the use of that creation by one individual does not prevent others people from using it at the same time.² For instance, when a dress is designed, a book written, the idea for a motion picture or a new song thought up, that idea – that economic public good – does not suffer from scarcity. Books, drugs and films are scarce goods only in the sense that they rely on a physical object or enabling processes – paper, a DVD, and celluloid – to be enjoyed.

This is both a blessing and a curse. It is a blessing in that once an intellectual creation or a new knowledge good is introduced to the market, potentially everyone can enjoy it – if one person listens to a song or twenty million listen to it, this does not limit the supply and abundance of the song. Yet, this also poses some serious problems. Sticking with the song example – how does a songwriter protect his or her work when scarcity does not limit its spread as it would with economic goods? An even more fundamental question is how does one profit from one’s creations when, by the very act of spreading that creation, one risks losing all claims to and control over it? How can society ensure that such a good be protected and its originator adequately compensated, while at the same time satisfying the desire that the good is available to use by as many as possible?

Since knowledge-based and other intellectual goods are not scarce they are highly susceptible to the so-called free-rider problem. The free-rider problem is a term which describes a philosophical as well as an economic dilemma. Free riding is the act of using or deriving benefit from a social or economic phenomenon without paying or contributing towards the cost or effort of the phenomenon.

Consider a case in which an inventor was able to develop a revolutionary technology that is able to double the speed of computer processing. If the inventor decides to sell his invention in the market he cannot expect potential buyers to pay for the invention without first assessing its potential uses, effectiveness and value. Yet, doing so will effectively allow potential buyers to obtain information from the inventor free of charge. Moreover, once a potential purchaser has gained sufficient information and, provided he has the capabilities, he is now in a position to copy the invention without paying for it at all.

It follows that the integrity of knowledge-based and other intellectual goods is notoriously vulnerable to the problem of free riding. The copying of films, books, music, software, etc. are all examples of the free riding problem that creators of knowledge and other forms of intellectual products face. While this problem is far from new, what has changed over the years is two things: the scope and importance of knowledge-based industries to national economies and the technology, which now not

² For a discussion on this issue see: Hindley, B. V. , ‘The Economic Theory of Patents, Copyrights, and Registered Industrial Designs: Background Study to the Report on Intellectual and Industrial Property’, Ottawa: Economic Council Of Canada, 1971; Mankiw, N. G., *Principles of Economics*, Dryden Press, 1998, pp. 219-234; Hardin, G. “The Tragedy of the Commons”, *Science*, 162, 1968, pp. 1243-1248; Pugatch, M.P., *The International Political Economy of Intellectual Property Rights*, Edward Elgar, Cheltenham, UK, 2004, chapter 2.

⁴ See Arrow, K. ‘Economic Welfare and the Allocation of Resources for Invention’, in: *The Rate and Direction of Inventive Activity: Economic and Social Factors*, ed. National Bureau of Economic Research, Princeton, New Jersey, Princeton University Press, 1962. pp. 609-626

only packages knowledge-based products but can also be used to violate the producers' right of copy. (These are discussed in detail later in the paper.)

In order to prevent the problem of free-riding, society has designed various systems of IPRs, such as patents, copyrights, trademarks, and so on. Generally speaking, IPRs may be treated as a contract between society and the individual (be it a person or company) that develops the new knowledge product or intellectual creation. This contract stipulates that in exchange for society's ability to enjoy and use this new product or creation (which is a result of the time, money and efforts invested by the individual) this individual will be granted ownership, albeit for a limited period of time, of that product or creation. During the term of ownership, as expressed by the IPRs attached to it, the individual will have legal powers to determine who can use his product and under what terms (though according to this so called contract it is necessary that such terms be reasonable). After the IPR expires, society can free-ride the product or creation for as long as it wishes to do so.

IPRs – Good versus Evil?

As discussed above, IPRs establish property rights in new types of knowledge products and other artistic creations for a given period of time. On the one hand, they serve as an incentive for future creative activities because the owner of an IPR has the legal right to prevent others from using his creation without his permission. On the other hand, such a system could lead to a non-efficient allocation of new and valuable knowledge and creations because it creates a temporary exclusivity on the use of inventions. Therefore the structural conflict built into the system of IPRs is such that, in order to supply more knowledge and intellectual goods in the future, it restricts the use of such existing goods in the present.³

The contemporary debate over the rights or wrongs of IPRs thus frequently hinges on what is perceived as a zero sum game. Those opposed argue that strong protection of intellectual property creates unnecessary barriers to entry for both consumers and producers of intellectual property. IPRs, it is argued, actually limits people's access to life-saving pharmaceutical drugs or their ability to listen to or view the latest musical or sporting event. In addition, some scholars claim that the protection of intellectual property does not spur creativity and innovation but, in fact, stifles it by monopolising an idea for a set time period.⁴

Those in favour of the system of IPRs argue, on the contrary, that weak or no protection of knowledge and intellectual creations will eventually lead to a dearth of creativity and provide a distinct disincentive towards the future production of knowledge and other forms of intellectual creations. They argue that if anyone is able to copy what has been just produced, then what is the point in

³ Robinson, J. *The Accumulation of Capital*, London, Macmillan, 1956, p. 87

⁴ See Ghosh, Shubha, 'The Intellectual Property Incentive: Not so natural as to warrant exclusivity', SCRIPT-ED, Volume 3, Issue 2, June 2006, University of Edinburgh

producing it at all. If there is no means of protecting the thought-process that spawns knowledge, then it will be difficult to profit from and control the use of the knowledge itself, as opposed to through marketing gimmicks or other means of product differentiation. This is a compelling argument as without strong protection of the fruits of ones' intellectual labour, national and international economies are likely to suffer.

Here, we should also not forget the dramatic change modern economies are undergoing with regard to the role of knowledge. Today's world of rapid technological change has enabled knowledge intensive industries to become an ever growing part of the developed world's economies, as well as allowing the products of these industries to be rapidly distributed globally through the internet, mobile telephones, satellite television, and other means of wireless and digital communication. Between 1995 and 2005 while employment in the manufacturing industries has been stable or decreasing in both Europe and the United States, employment in knowledge based industries has increased by 15% in America and almost 13% within what was then the EU-15.⁵ In the United States and, the then, EU-15, almost 40% of the workforce is based in the knowledge economy, and in some European countries and American states the proportion is even higher.⁶ Thanks to this increasing size and importance to the economy, knowledge finds itself more often than not at the centre of legal and media attention.

Indeed, according to some, the risks of not protecting intellectual property are huge. As two senior EU Commission officials have recently argued: 'Theft of intellectual property deprives legitimate right-holders of rewards for their investment and ultimately puts their viability at risk. Such violations also discourage foreign investment and transfer of technology.'⁷

This idea, that infringement of intellectual property rights acts as a disincentive towards the production of knowledge and intellectual-based goods, is supported by much empirical evidence. Although there are some colourful examples, like the fashion industry, which point in the opposite direction, much of the empirical and market-based evidence suggests that IPRs are, in fact, of vital significance to developed as well as developing economies. For example, an in-depth study from 2003 (by Kanwar and Evenson) has outlined how IPRs are beneficial to the economy and, specifically, to technological development. The authors found evidence suggesting that strong protection of intellectual property had a positive impact on the economy: 'Our evidence shows, unambiguously, that intellectual property protection (proxied by an index of patent rights) has a strong positive effect on technological change (proxied by R&D investment expenditures).'⁸ Similarly, a study conducted 2 years later in 2005 found that, for most developed and developing countries – and in particular for

⁵ 'The Knowledge Economy in Europe', A report prepared for the 2007 EU Spring Council, Ian Brinkley and Neil Lee, October 2006, p. 10-11.

⁶ Ibid.

⁷ Intellectual Property Frontiers, SN 2005 Global Enforcement of IPRs, Pedro Velasco Martins and Eva Kaluzynska (EU Commission people)

⁸ Kanwar, Sunil and Evenson, Robert, 'Does Intellectual property protection spur technological change?', Oxford Economic papers 55, 2003, OUP, p. 2, <http://oep.oxfordjournals.org/cgi/reprint/55/2/235>

Least Developed Countries – the impact of strong IPRs on Foreign Direct Investment (FDI) was very strong. It suggested that in particular in the developing world FDI was the main channel by which the protection of intellectual property exerted an impact on innovation.⁹

Changing Technology, Changing IPRs?

Having established that in the realm of economic and technological development there exists strong empirical evidence supporting extensive IPRs, it is worth pointing out that this does not mean that there are no serious problems with maintaining a system, *any system*, of intellectual property protection.

Different legal systems have very different approaches to the protection of IPRs. This creates both problems and opportunities for IPRs and for innovators. New technologies and methods need to be devised and applied internationally to curtail the violations of IPRs. Together with the substantial growth in knowledge intensive industries, this is why, in the last 20 years, there has been an increased international focus on resolving IPR disputes through international treaties and via forums like the World Intellectual Property Organization (WIPO), or the World Trade Organization's Agreement on Trade-Related Aspects of International Property Rights (TRIPS), and numerous so-called TRIPS plus agreements made under bilateral Free Trade Agreements (FTAs).

One example of this process – which highlights the opportunities as well as the practical problems – is the manner in which many countries are re-examining their own laws and regulations regarding the protection of copyrights. Copyright is a legal term based on the belief that a person who created or spawned an idea or information has a right of copy to his or her work. The concept dates back to the English Licensing Act of 1662 and the subsequent Copyright Act of 1709. In its most basic form the right to copy is the right to control the dissemination and use of one's intellectual work. But just as with the general debate over IPRs, the debate over copyright use and infringement is also about getting the balance right between protecting the rights of the rights holder and the interests of the users. In the US this has meant looking at the UK's legal approach to copyright protection, in particular, the concept of fair dealing. In the UK, by contrast, many scholars and policymakers would like to move towards a US-style fair-use system. (The differences and full definitions of these two terms will be supplied in the following chapter 3.)

What all of the above indicates is the extent to which maintaining strong intellectual property rights across the globe is more important now than ever, as so much of our economic activity is based around knowledge intensive technologies and so many of us work and take part in the creation of knowledge on a daily basis.

⁹ Lippoldt, Douglas: "Can stronger Intellectual Property Rights Boost Trade, Foreign Direct Investment and Licensing in Developing Countries?" in Pugatch, Meir P. (Ed.): *The Intellectual Property Debate – Perspectives from Law, Economics and Political Economy*, pp. 44-61; Edward Elgar Publishing, UK (2006)

Knowledge Products, IPRs, and the Internet

– Friends or Foes?

When revolutions happen, they tend to occur quickly. Yet there has been nothing quick about the manner in which computers, digital technology, and the internet have come to shape our modern day economy, society and culture. When the internet was first made available for civilian use in the 1980s, few thought it would become the multifaceted professional, information, entertainment, and recreational tool most of us now cannot live without. The same is true for the personal computer and digital technology in general. Nevertheless, the information technology revolution is real. Indeed, the extent to which both computer-based, digital, and internet-based technologies have penetrated every facet of human existence in the developed world is remarkable. So are the effects.

The combination of affordable, technically capable computers with a medium which has become capable of not only linking continents, peoples and businesses across the world, but also of providing them with an active and interactive forum in which to engage with each other poses some large, as well as more specific problems, to any system of IPR protection. The variety of the types of knowledge products that can be found on the web is enormous – films, books, music, academic work, school papers, radio and television broadcasts (pirated as well as sanctioned), news, research, information manuals, recipes, financial statistics, anything that one might possibly dream up as a knowledge product will be accessible in one form or another on the internet.

While the advantages of this are obvious – a revolution in accessibility, exposure to new information and potential markets – some of the problems are less so. Since the internet is like a blank piece of paper – a fitting analogy thought up by the inventor of the World Wide Web, Tim Berners-Lee – on which human existence is transferred it will inevitably contain some of the baser and darker sides of humanity: pornography (adult as well as child, as well as every other kind imaginable), terrorism, petty crime, drug dealing; they all have their place on the internet. Some of these activities have indeed become more widespread and easier because of the web, but they are not necessarily spawned by the medium itself. One can classify these as simply products of normal human existence which have been amplified or simply transferred onto a different forum.

But IPR-related crimes are a different matter. Here it can be argued that the web has actually both spawned a number of new types of infringing activities, as well as having made traditional piracy and infringement more wide-spread and culturally more accessible and acceptable.

Due to this, it should be noted at the outset that the following sections discuss the issue of intellectual property protection primarily in the context of copyright, although, naturally, other forms of IPRs, such as patents, are equally relevant to this discussion.

The Players

The illegal copying and distribution of music, film and video entertainment is not particularly new. As will be shown in the section below on case studies, the advent of video recording technology during the late 1970s and early 1980s led to a long-running legal dispute and finally a Supreme Court precedent-setting decision over what does, and does not, constitute an infringement of IPRs.

What is new about the web is the accessibility and technological ease by which illegal downloading and copying can take place. This is a crucial technological difference which, just like the technological advent of the VCR, creates new threats, and multiplies existing threats, towards the integrity of intellectual property. These threats involve the major players within knowledge intensive industries differently and will be of greater or lesser concern to each individual player depending on his or her particular business model and interests.

Roughly speaking one can divide up these players into 4 distinct categories:

- Originators of knowledge products and intellectual creations which can include individuals, companies, organisations etc.;
- Users of knowledge products and intellectual creations, which is the general public as a whole, as well as a specific subset of the public;
- Infrastructure bodies which provide us with the physical internet and telephone connection; and
- Mediators and relayers of knowledge products and intellectual creations which include search engines, downloading sites, and various host sites.

These players all have different interests and stakes in the protection of IPRs.

For both corporate and individual originators of knowledge products and intellectual creations, the protection and integrity of copyright is of paramount importance. It is, in fact, what their business model relies on. While the internet provides them with a tremendous opportunity to spread their products and penetrate new markets, it also poses a serious threat, as what can be accessed legally can often also be viewed and used illegally. This is exactly the conundrum which the music business is facing and which has caused sales of Compact Disc albums and singles to plummet in close correlation with the growth in the downloadable music market. Between 2001 and 2005, sales in the United States of CD albums declined from \$13.74billion to \$12.27billion.¹⁰ During the same period the drop in sales for CD singles was even sharper: down from \$79.4million to \$10.9million.¹¹

¹⁰ Entertainment Law Review, Sweet and Maxwell, 'Legal Implications arising from the changing face of music retailing: Part 1', David Browning, Luang Chuan Chang, et al, 2006, p. 2.

¹¹ Ibid.

For other players the opposite occurs – the direct breaking, or at the very least the enabling, of intellectual property infringement is what constitutes their source of income. Popular downloading sites such as Napster, Kazza, Veoh and YouTube thread a very fine line between what constitutes copyright infringement and what constitutes fair use. There is a very direct conflict between what these sites can, and are doing, and the interests of producers of knowledge. Indeed, that is why all four of these sites have found, or find, themselves in court charged with copyright infringement.

Consumers and infrastructure bodies play a more indirect role. They can be active participants in the infringing of copyright protection – consumers may do so by engaging in peer-to-peer sharing of files, for example. Yet equally, consumers can discourage the use of products violating IPRs by using sanctioned download sites such as Apple's I-Tunes or the new and reformed Napster. There are encouraging signs, at least within the music industry, that even though illegal downloads are still readily available, consumers do increasingly choose sanctioned sites as well: US sales of digital downloads have increased from 0.2% of overall music sales in 2001 to 5.7% of sales in 2005.¹²

Similarly, infrastructure bodies can play a more passive or active role in aiding the potential infringing of IPRs. As illegal downloads have increased over the years infrastructure bodies and providers, like Verizon, AT&T, AOL, and BT, have become more circumspect in deciding how their consumer bandwidth allocation is used. The reason for this fundamental shift amongst providers seems to lie with their concomitant switch to more content-based services and with the bundling of telecoms, television, and the internet into one service-provider. Internet piracy eats up a lot of bandwidth and as providers become more content-focused – that is they hope consumers will buy more services, including content, off of them – piracy becomes a problem for them as well as traditional content providers like film studios, record companies and musicians. Users, for example, who make use of BitTorrent technologies – a type of continuous peer-to-peer downloading program – tend to clog up internet connections by using all of a user's allocated bandwidth at all times. Thus, discouraging this kind of behaviour is good for the smooth running of the network.

Mediators of content are in much the same position as consumers and internet providers. Their stakes with regards to the protection of IPRs are, on the face of it, not as directly affected by copyright infringement as download-sites or content providers. Yet, for example, search engines play a key role in enabling consumers to locate and view both non-infringing, as well as, copyright infringing material. In fact, in some instances they are absolutely instrumental in allowing internet users to find and access the content of their choice, whether it is legal or illegal. This is a difficult balancing act which search engines and mediators must play, and it goes to the heart of the debate on copyright abuse taking place on the web. As it is so important to understand and define the role of the internet mediator – the link between consumer/internet user and their web destination – the next chapter will examine this area in more detail. But suffice it to say that questions have been raised both about whether there exists a basic conflict between search engines and content providers, and about

¹² Ibid.

whether, the various ventures and new business models which search engines have embarked upon outside of their original remit have contributed to this conflict. From the substantial increase in court cases over the last few years, it would seem that search engines are just as much at the centre of copyright battles as downloading sites.

Internet Piracy – a Growing Phenomenon

As cited above, the growth in downloadable digital sales of music has grown at a phenomenal rate over the past 7 years, yet this growth in sanctioned sales only tells half the story. In 2005 there were 353 million single track downloads in the United States and it is estimated that a high proportion of these were of an illegal nature. Indeed according to a BBC online News article from July this year legal downloads make up only a very small proportion of all downloads, roughly 5%.¹³ Similarly global software piracy rates – a large proportion of which is spread over the World Wide Web – hover around 35% with rates hitting almost 70% in Eastern Europe and Latin America.¹⁴ Downloadable movies are also a growing problem – motion picture producers and distributors increasingly brace themselves for their latest blockbuster being made available on the internet illegally, hours after a film premieres.

Equally important as the numbers themselves is a growing culture of free-riding which has accompanied the IT revolution and the availability of accessing copyrighted material free of charge. In this regard, the example of the cultural and social effects which Napster has had is applicable to all other aspects of online copyrighted material:

The availability of free music is a critical social and economic consideration for the pre-recorded music industry. After Napster popularised file-sharing (and internet music piracy), free music downloads became an important way for many consumers to obtain music. While, in compliance with a court order, the original incarnation of Napster shut down its network in 2001, peer-to-peer file-sharing, illegal downloading of music from the internet and other forms of free pirated music still exist. **Naturally, consumers are less willing to pay for pre-recorded music when free alternatives exist in the marketplace.**¹⁵

Because entertainment, information, and research has to such a large extent been made free at the point of use, its value in the eyes of the consumer has become somewhat debased. This does not mean that most of us do not value watching the latest James Bond film or a marquee boxing match, but simply that we expect to be able to have the choice to do so for free or next to nothing. Yet, as illustrated by the reaction to the artist Prince's UK release and distribution of his latest album free of charge through the English newspaper the *Daily Mail*, most members of the music industry have a hard time understanding or accepting this. Simon Fox, chief executive of HMV claimed that it would be

¹³ BBC News online, 3 July, 2007, 'Global CD Sales Slump in 2006', <http://news.bbc.co.uk/1/hi/entertainment/6265436.stm>

¹⁴ Fourth Annual BSA and IDC Global Software Piracy Study, <http://w3.bsa.org/globalstudy/>

¹⁵ Entertainment Law Review, 'Legal Implications...', 2006.

'absolutely nuts' to give away the album for free.¹⁶ And Paul Quirk, co-chairman of the Entertainment Retailers Association, said that 'the Artist formerly known as Prince should know that with behaviour like this he will soon be the Artist Formerly Available in Record Stores'.¹⁷

While giving away knowledge products is an extreme reaction – not to say an unusual business model – in relation to the perceived lack of enforceable IPRs, it is not representative of the knowledge-producing sector's reaction in general. With a few exceptions – Steve Jobs' recent public missives being the most glaring – this has been based more on fighting technological infringement with new protective technologies, than on caving in and accepting IPR infringement as a fact of life.

The Empire Strikes Back – DRMs, TPMs, and the Battle for the Hearts and Minds of the Consumer

Colourful language aside, it would not be incorrect to describe the conflict between proponents of technologies limiting and controlling access to knowledge products, and those fighting the spread of these technologies as being a pitched battle. Protectors of IPRs see the use of Digital Rights Management (DRM) as simply an extended means by which their knowledge is protected from misuse and abuse. Opponents see the use of DRM technologies as potentially infringing their civil liberties and limiting the fair and free use of purchased knowledge. Due to misuse and abuse from both sides, the bridge between the two seems to be widening.

Yet it is worth asking whether or not DRM's negative image really has anything intrinsically to do with the technology itself? That is, are DRMs inherently flawed as a way of protecting IPRs? Do they really infringe people's civil liberties and limit the fair and free use of purchased knowledge? Or is it the case that the general public's impression about the use of DRM technologies is based on a number of cases where the technologies were misused by companies and actually did invade peoples privacy? Only a few years ago, scholars argued that 'nothing in the "nature" of DRM requires that DRM only be used for restricting access to protected content or suppressing fair use privileges. Properly understood, DRM is a much more neutral technology than commonly acknowledged.'¹⁸ From the evidence, this would seem to be a valid argument.

DRM works primarily through two different routes: technological protection measures (TPMs) and rights management information (RMIs). TPM is by far the most common form of rights management and can be seen in the various forms of encryption and digital encoding that DVDs, CDs, and audio files are increasingly packaged in. RMI is slightly different, in that it is essentially a mechanism designed

¹⁶ BBC News online, 30 June, 2007, 'Anger at Prince free CD giveaway'

¹⁷ Ibid.

¹⁸ Bechtold, Stefan, *The Present and Future of Digital Rights Management – Musings on Emerging Legal Problems*, in Eberhard Becker, Willms Buhse, Dirk Gunnewig, Niels Rump (eds), *Digital Rights Management – Technological, Economic, Legal and Political Aspects*, Springer, Berlin 2003, p. 8.

to identify digital works and to manage the provision of materials to customers.¹⁹ There is nothing intrinsically sinister or invasive about DRM technologies. Certainly it is true that in the cases where such technologies have been misused, privacy was invaded, but the appropriate legal measures were, in these cases, taken.

For example, in 2005 in an attempt to prevent illegal copying Sony installed both the Extended Copy Protection (XCP) and MediaMax CD-3 software systems on its CDs.²⁰ Apart from the fact that customers were not notified of the software's presence, this type of DRM technology also created some rather irritating computer problems for consumers. Firstly, it interfered with the operating system when the purchased CD was actually being played and, secondly, as the XCP and MediaMax software also included rootkits – which are computer programmes which infiltrate operating systems in an attempt to remove control of the system from the rightful operators – the safety and stability of the computer was compromised. Although disturbing, this example does illustrate that when such abuse of DRM technology takes place, the existing legal framework and public relations logic will punish such heavy-handedness. Indeed, Sony faced three separate class-action lawsuits over this infringement of privacy and a PR disaster ensued, ending with it having to suspend the use of the software, recall millions of CDs and issue a public apology.

While it is certainly true that some companies are moving away from using DRM technology – EMI being the latest example – it remains questionable whether or not this means DRM technology in itself is of little use. It would seem to be a much more compelling argument that the problem with DRM is not the actual concept, but its current application and prevailing judgements on it based on a few cases of poor public relations. As one scholar has noted:

In contrast to how it is sometimes described, DRM is not a synonym for absolute power of copyright owners over their creations. Rather it provides an extremely flexible set of technologies that may be used for many different purposes...While current DRM implementations often fall short to fulfil such promises, this is just an indication that future DRM-related research and development should be focused on such issues. The potential of DRM for providing a balanced framework for the protection of both creators and users, i.e. a symmetric DRM, is far larger than usually acknowledged.²¹

The debate over the rights or wrongs of DRM technology highlights the extent to which so many of the issues that relate to the protection of intellectual property on the web are tangled up in emotional arguments over privacy and civil liberties. To some extent, this logic is also prevalent in the debate over the proper role of search engines and other mediators of knowledge and content producers. The purpose of the following section is to outline the major intellectual property problems which mediators on the web face, and to ask how much of this has to do with the basic function, a mediator performs, that is, being a link between a web-surfer and a content provider.

¹⁹ *Why Digital Rights Management?*, Jensen, Moore, Pugatch, Stockholm Network, 2007, p. 4

²⁰ *Ibid.* p. 6

²¹ Bechtold, Stefan, *The Present and Future of Digital Rights Management*, p. 15.

The role of Internet Mediators

The incredible vastness of the World Wide Web is stunning. Although estimates vary, the number of web pages in operation today is well over 15 billion and could even be as high as 25 to 30 billion. The number of hosts, that is, a site with a domain name, has been estimated as ranging from 100 million to 400 million.²² Much of this growth has been exponential and has occurred over the last couple of years. Amazingly, this growth could continue, as the usage and spread of the web increases in line with rising penetration and connectivity rates in both the developed, as well as the developing world. Indeed, as it stands today there is considerable scope for both usage numbers and the number of web pages to increase substantially. For instance, in Africa and Asia – the two major centres of global population growth – internet penetration is still only limited to between 5-15% of the population and, even in Europe, penetration levels have yet to reach 50%.²³ While the potential benefits of having this enormous wealth of information available to users around the world – regardless of their own personal time or space – are obvious to anyone who has ever used the internet, it is also clear that without an effective tool for finding required information, the web risks becoming a gigantic library warehouse with no cataloguing system. Enter the mediator.

Search Engines, Data Aggregators and Download Sites – the Mediators

By far the most common form of mediation which takes place on the internet is that of the search engine. It is a tool most internet users find indispensable, whether it is within the context of their work, leisure or any other form of web-related activity. Technically speaking the way a search engine operates is by translating a search query into an algorithm – which is a mathematical set of instructions – that sifts through website data the search engine has collected through a process called spidering. Spidering is a procedure which search engines use to constantly explore the web in search of new web pages which are then added as stored or “cached” copies to their servers in case of a search query. This process expands the number of web pages in a search engines’ data base and will increase the number of retrieved hits when search queries are entered. The primary function of a search engine is to match the text from a search query with representative snippets from the many billions of websites on the web and list the results in order of relevance. In short: ‘Search engines analyse the information on a webpage – including any metadata – and compile an index of major words that appear on the webpage...or other relevant identifiers of the content of the webpage.’²⁴ The effectiveness of the search engine’s search (and consequently the query itself) is dependent on two things: the quality of the algorithm underpinning the search, and the number of web pages the

²² For a variety of estimations and debates on figures see: <http://www.pandia.com/sew/383-web-size.html> , <http://www.worldwidewebsite.com/>

²³ See: <http://www.internetworldstats.com/stats.htm>

²⁴ ‘Search Engines, data aggregators and UK copyright law: a proposal’, European Intellectual Property Review, Ben Allgrove and Paul Ganley, 2007, p. 3.

search engine has identified and added to its search list. To achieve the highest quality in these two fields, search engines are constantly renewing and updating both their algorithms as well as their website data. Examples of search engines include Yahoo!, MSN Windows Live, Google, Ask.com and altavista.

Similar to search engines, but performing a slightly different function, are data aggregation sites. These websites compile data based on a very specific set of search parameters and usually present this data in a comparative format. Unlike search engines they are not intended as a general purpose, cast-your-net-as-wide-as-you-can type service, but instead focus on retrieving and presenting a very specific type of information. Data aggregators are frequently used for price comparison purposes, whether it be for car insurance, holidays, or mobile phones. They differ from download sites in that you do not need to register or download any specific software to use their services. Examples of data aggregation sites include Ciao, Kelkoo and Google News.

Compared both to search engines and data aggregators, download sites are very different. These sites do not simply relay information but provide a forum from which the desired content or information can be accessed, uploaded and downloaded. This service can be provided for a money-charge or free of charge through a system of peer-to-peer (P2P) downloading. In the latter case, the sites do not themselves provide the product – whether it be a song, a film, or a book – but simply provide the forum from which users can share and copy each other's material. Frequently, these sites also provide the relevant software and technical tools to facilitate this downloading, thus inserting themselves as an integral part of both the present and future content-accessing process. Compared with search engines, download sites perform a much more direct and, conceivably, engaging task. Examples of downloading and uploading sites include YouTube, Veoh, Kazaa, and Napster.

These three categories of mediators are somewhat crude and arbitrary and are only meant to provide a rough guide and outline to the different types of mediators that do exist. Increasingly, the lines between search engines, download sites, and data aggregators are becoming more and more blurred, as many of these sites are beginning to provide more than just one service. For example, the fact that many search engines offer more and more services on top of their search facilities such as email, social networking, online chatting, and actual content – as can be seen most recently with Google buying YouTube (a free-of-charge film upload site) – makes them increasingly difficult to categorise. As will be outlined below, this new type of bundling of online services is in many cases at the root of the conflict between content producers and online mediators over copyright infringement.

An inherent Conflict?

When examining the relationship between internet mediators and the protection of intellectual property, it is worth pausing and thinking about the fundamentals of what internet mediators – and in particular search engines and data aggregators – actually do. Is there a basic conflict between the

primary purpose of a search engine and data aggregation site, and the protection of copyright? And has this changed over time, in line with the extraordinary diversification of their respective business models? For example, search engines' original remit was to perform the tasks of an index – to catalogue and map online information – but recently they have also begun to relay and provide content in their own right. These functions, old and new, raise a number of obvious, and less obvious, issues over copyright infringement.

When the issue of copyright infringement and search engines first emerged in the United States during the late 1990s, the internet and mediators were still very much in their technical as well as commercial infancy. The main concern apart, from the actual representation and hyperlinking (which will be discussed below), was about the negative effect it was felt search engines would have on a web site's ability to generate advertising revenue. It was thought that the existence of a search engine would compete and shut down the ability of website owners to generate advertising revenue. The argument was that inaccurate and too exhaustive abstracts displayed by search engines would dissuade users from visiting a particular web page, thus limiting hits to a website. As a result advertising or other information displayed on the website would not have been accessed. (Of course, this assumes that internet users would eventually have made their way to the website in the first place – which may be an argumentative leap of faith). In addition, web site owners feared that when a hyperlink for their website had been retrieved on a search engine search they could not themselves influence the type of advertising they were being listed against on the search engine's retrieval page.²⁵ This would potentially present both ethical as well as purely commercial difficulties.

These are still serious problem and these reflect the two basic moral objections against internet mediators such as search engines and data aggregators.

The first objection is that they make a profit from the displaying of a collection of other people's work, yet do not share any of this profit with the actual content producers (in this case the content producer is everyone who has designed a website, which is a copyrighted item in itself).

The second objection is that by retrieving and displaying text and images – internet mediators – limit the rights of the content producer to control how and where their content is accessed. Web pages and web sites, while certainly varying in artistic quality and scope are in themselves original pieces of work and therefore covered by copyright protection. As one of the key functions of a search engine is to provide a qualitative representation of a website – that is by displaying either a descriptive sentence or, with increasing frequency, image of a web page – it stands to reason that reproductions of this qualitative kind are, by their very nature, infringing copyright.

²⁵ Daniel Ovanezian, candidate for J.D., Santa Clara University School of Law, 'Internet Search Engine Copying: Fair Use Defense to Copyright Infringement' 14 Santa Clara Computer and High Tech Law Journal, 267, 1998. Please note that this article is from 1998 and therefore provides an excellent source of what the copyright conflict was prior to Napster, YouTube, book digitisation and grievances over multi billion dollar online advertising revenues.

As Allgrove and Ganley have convincingly argued in a recent article in *European Intellectual Property Review*,²⁶ under current UK law, hyperlinking – which is the term for the actual link and process of linkage search engines provide in response to a query – and the copying of online material through the process of spidering is technically a violation of copyright. Accordingly, this would imply that even in their basic functions, search engines as a technology and service actually pose a substantial threat to copyright protection. The supposed neutrality of being a traditional index or catalogue seems to be all but lost. Indeed, as John Sutherland, English professor at University College, London, has recently claimed: ‘a search engine is not an index.’²⁷

Still, while perhaps technically correct, there are few who would really argue that search engines are intrinsically in breach of copyright simply by the act of presenting representative information of a given website. Indeed, as will be shown below in the *Arriba Soft v Kelly* and *Perfect 10 v Google* cases, it has been established, at least in the American courts, that search engines can provide a functional public good and should, as such, when performing this service to the public be exempt from copyright infringement:

The plain fact is that there is so much information on the internet that the search process requires hyperlinking and, to be useful, hyperlinking requires the use of some of the target webpage’s content in the hyperlink to give the user the information he or she requires to make a judgement about whether to follow the link. Moreover, it is also in the public interest to have search and data aggregation service providers and cached pages. Only by looking at the internet in the round in this way does the intuitive sense of limiting the liability of search engines and data aggregators emerge. Focusing on specific complaints by specific right holders somehow misses the general benefit of these services that would be picked apart if copyright infringement was the norm rather than the exception.²⁸

In this light, the original remit and function of search engines would be classified as being in the public interest and providing a useful and much needed service. As previously discussed in the US, the legal term for such public interest use is called fair use. The UK has a similar concept called fair dealing. Fair dealing is generally regarded as being much more restrictive than fair use and has not been defined as extensively. In fact, there has been only one major UK trial on fair dealing with regards to search engines and this is the 1996 *Shetland Times Ltd v Wills* case. The importance of fair use – and the legal dispute over its meaning – will be outlined in detail below in the case studies, but the interpretation of how much fair use allows and to what extent the clause covers the unauthorised use of content for either non-commercial or commercial purposes, is absolutely central to any interpretation of copyright law in the United States.

The million dollar question with regards to internet mediators is whether the public interest and fair use defence is still applicable, given that what internet mediators do has changed so substantially over

²⁶ Allgrove et al., ‘Search Engines, data aggregators...’, p. 4-8.

²⁷ *Sunday Times*, January 21, 2007

²⁸ Allgrove et al., p. 11.

the past decade. Indeed, there are few search engines that perform the same task today as they did 10 years ago, let alone 2 years ago. **Should they therefore enjoy the same type of philosophical or legal protection now as they did then? This is really the central question of both pending legal cases and past litigation.**

In the following pages we will examine this question by looking at a number of legal cases in which internet mediators have been accused of violating copyright. The majority of these court cases will be from the United States for the following three main reasons:

- 1) America is where most of the companies involved – content providers as well as internet mediators – are located;
- 2) The legal tradition in the US is based much more on precedent and actual rulings and it is therefore the common route to seek the solution to these problems through litigation; and
- 3) Most importantly, it is only in American law that a doctrine of fair use is so extensive and widely used.

Changing Business Model – Still Fair Use?

This idea of a public interest or public service overriding copyright is a principle at the heart of the general conflict over copyright infringement, as well as the specific conflict between internet mediators and the providers and creators of content. It ties back directly to the fundamental balancing act that all intellectual property protection must strike between protecting the rights of the knowledge producer as well as safeguarding the interests of those who will make use of that knowledge. In an American context the meaning of fair use is absolutely central to any legal discussion of copyright. What does fair use mean, what does it extend to, and what types of activities are covered by it?

Philosophically, the concept of fair use is said to have come out of the 1841 Supreme Court case *Folsom v Marsh*, and to have been used first in 1876 and finally codified in 1976, in the United States Copyright Act. Section 107 of this act – which defines fair use – contains a list of the various purposes for which the reproduction of a particular work may be considered “fair,” such as criticism, comment, news reporting, teaching, scholarship, and research.²⁹ The law sets out four factors which are to be considered when determining whether or not a particular use is fair:

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

²⁹ <http://www.copyright.gov/fls/fl102.html>

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

While it is clear that these four factors do not provide a detailed roadmap as to what constitutes fair use and what does not, the deliberate flexibility of the term and the four factors has, in fact, been hugely beneficial. It has left decision-making and interpretation in the hands of the courts and the public. This allows both new technologies and new types of knowledge to be defined within a judicial setting as opposed to a legislative and more restrictive one. While perhaps less predictable, such a system provides flexibility and adaptability – two key words for knowledge intensive industries, which are like no other. Generally speaking, it is factors 1 and 4 that are the most commonly cited in court. However, a loosely defined fifth factor has been added in the *Field v Google* case where the idea of good faith was emphasised.³⁰

In addition to the legal concept of fair use the most important legal code to online copyright disputes is the safe harbour provision of the United States Digital Millennium Copyright Act of 1998 (DMCA). The purpose of this act was to implement two 1996 WIPO treaties with regards to the digital and technical circumvention of copyright, and to address the growing problem of copyright infringement on the internet.

The essence of the safe harbor provision is that online service providers can claim refuge from the possibility of their users infringing copyright by using their services. For instance, when copyright has been infringed by the illegal posting of protected material on a service provider's website, the provider is protected from legal action if it can be proved that they were not aware of the illegal posting/infringement of copyright and that they promptly removed the item, after being notified by the copyright holder. Online service providers are also protected when it comes to making cached copies if these are of an intermediate and temporary nature. **Crucially, in terms of policing and responsibility the DMCA puts the onus of monitoring internet service providers – in case of such infringement taking place – on the content provider, not the online service provider.**³¹ While providers are not exempt from responsibility, the act makes it clear that when infringement does take place – and it is assumed that the service provider was not aware of the infringement – it needs to be reported to the service provider by the aggrieved party. Once notified the service provider is then mandated to take action in a prompt manner, which would usually include removing the relevant item from their website. This has led to some criticism, as it is claimed service providers will not risk a lawsuit when contacted by a content producer and that they thus remove content even when no copyright infringement has taken place. Accordingly, the primary legal interpretative dispute with regards to the DMCA boils down to whether or not online service providers have, firstly, been aware of the infringement, and, secondly, if they have acted to remove the material in a prompt and efficient manner.

³⁰ This 'fifth' factor was based on Google having industry standardised technology which would have ensured that Google would not have displayed a cached copy of the rights' owner's work had he wished to block it. Google's cached link also made it clear that this was not the original link.

³¹ DMCA, sec 512, <http://thomas.loc.gov/cgi-bin/query/F?c105:l:/temp/~c105979PJc:e57590>:

The safe harbor provision of the DMCA and the argument over what constitutes fair use is at the heart of the contemporary legal conflict between internet mediators – search engines, download sites, and data aggregation sites – and content producers and copyright holders. While the sheer amount of cases indicates how far from resolved this issue is, from the cases outlined below it is possible to delineate some patterns and interpretations regarding copyright. Clearly, there are problems with the current system; the case studies below will illustrate what those problems are, and may provide some insight into what some possible solutions might be. The following cases cover the period from the 1970s up to and including today. Together they constitute a history of the debate, as well as a possible roadmap to future directions in legal interpretation and policy making.

Case Studies

Sony Corp. v. Universal City Studios, Inc., 1984

When it comes to copyright, new technologies tend to also spawn new forms of litigation. This is particularly true of the United States where so much of legal precedent is defined through the courts. In many ways the key issues over fair use and of the public versus private interest within the realm of search engines and copyright protection can be traced back to the landmark decision of *Sony Corp. v. Universal City Studios, Inc.*³² Also known as the Betamax case, this ruling has effectively laid down the foundations for the application of the fair use doctrine and has had major and lasting consequences on the development of US copyright law. Although decided more than twenty years ago, many of the points of law that were argued in *Sony* are still being debated in the courts today. As advancements in technology naturally give rise to legal issues, there is much that we can learn from the case in relation to current and future digital copyright proceedings.

In 1975, Sony Corporation of America introduced the Betamax home video tape recorder (VTR), which was the first affordable video recording device available to consumers. Essentially, the VTR allowed home viewers to record television programmes with the option of viewing them later, thus engaging in the rather futuristic sounding process of “time-shifting”. Universal City Studios (henceforth Universal) and other members of the film industry, such as the Walt Disney Company, were very concerned about this new technology, and shortly after the release, they sued Sony for copyright infringement.³³ Universal alleged that Sony, by manufacturing and marketing a device that allowed “time-shift” viewing, was liable for the copyright infringement committed by consumers when Universal’s copyrighted programs were recorded by VTRs.

³² *Sony Corp. of America et al. v. Universal City Studios inc., et al.*, 464 U.S. 417, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984). Henceforth referred to as *Sony*.

³³ Concurrent with the launch of the Betamax, the United States Congress was finalising a major revision of the existing copyright legislation – a revision partly driven by the need to consider the intellectual property implications of the many technological advances, like VTR, that had taken place since the original 1909 Copyright Act.

When the case finally reached the Supreme Court in 1984, the justices, in a 5-4 ruling³⁴, held that:

[T]he sale of the VTR's to the general public does not constitute contributory infringement of respondents' copyrights... The sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes, or, indeed, is merely capable of substantial noninfringing uses.³⁵

The significance of this case lies in the Supreme Court's discussion and analysis of the copyright law, in particular, the application of the fair use doctrine. In reaching its decision, the Court interpreted the doctrine as an 'equitable rule of reason' and extensively considered the four factors that are necessary in such an interpretation.³⁶ Of the four factors outlined above, the Court recognised the fourth factor – harm to the market of the copyrighted work – as being the most important.³⁷ Due to the precedent-setting consequences of the ruling and the relative freshness of the copyright legislation, the Court also referred to documents from the legislative process in the House of Representatives leading up to passage of the 1976 Copyright Act:

The statement of the fair use doctrine in section 107 offers some guidance to users in determining when the principles of the doctrine apply. However, the endless variety of situations and combinations of circumstances that can arise in particular cases precludes the formulation of exact rules in the statute. The bill endorses the purpose and general scope of the judicial doctrine of fair use, but there is no disposition to freeze the doctrine in the statute, especially during a period of rapid technological change. **Beyond a very broad statutory explanation of what fair use is and some of the criteria applicable to it, the courts must be free to adapt the doctrine to particular situations on a case-by-case basis. [Authors' emphasis]**³⁸

In weighing all of the factors in the 'equitable rule of reason' balance and concluding that home "time-shifting" is fair use, the Supreme Court focused on the non-commercial nature of home recording. Of particular precedential importance is the fact that the Court held that the non-commercial use of copyrighted materials were presumed to be fair, and that commercial uses were presumed to be harmful. This has had significant implications on the burden of proof for future copyright cases.

³⁴ Initially, in 1979, the US District Court for the Central District of California ruled against Universal and Disney, based on an implied exemption for home video recording in the 1976 Copyright Revision Act. Furthermore, the court held that Sony was not liable for contributory infringement because at the time of the manufacture and sale of the VTR, they were not aware that home video recording could constitute copyright infringement. Finally, and most significantly, they held that home video recording using the VTR was a fair use of the copyrighted television programs. Universal and Disney appealed this decision, and two years later, the Ninth Circuit Court of Appeals reversed the District Court's ruling, holding *inter alia* that private home videotaping constituted copyright infringement and that Sony was liable for contributory copyright infringement, as they were aware of the fact that the VTR would be used to record copyrighted programs. The Supreme Court's decision in 1984 followed Sony's subsequent appeal.

³⁵ *Sony Corp. of America et al. v. Universal City Studios inc., et al.*, 464 U.S. 417, 418

³⁶ *Ibid.*, 448

³⁷ *Ibid.*, 482

³⁸ House of Representatives Report No. 94-1476, 90th Congress, 1st Session, 1976 at 65-66.

The other major implication of the ruling was that technology could not be barred if it was capable of 'substantial noninfringing use'. That is, if the technology in question could also be used for purposes which did not violate copyright protection. This is an important principle and was absolutely central to future cases such as *MGM Studios v Grokster* and will probably figure heavily in *Viacom v YouTube*. In addition, by recognising the societal benefits of "time-shifting" by expanding public access to freely broadcast television programmes, the Court upheld the users' right to access creative works. Based on all of these factors, the Supreme Court held that the unauthorized home "time-shifting" of respondents' programmes was indeed an example of legitimate fair use.

The *Sony* decision clarifies the potential liability for manufacturers of products which assist copyright infringers, in particular, devices with copying or recording capabilities. In this sense, the Court's reasoning and interpretation of the fair use doctrine has far-reaching legal consequences, and raises challenging issues regarding its applicability to more recent disputes involving file-sharing technologies used on home computers and over the internet.

A&M Records, Inc v Napster, Inc, 2001

Napster, Inc. provided an Internet file-sharing service that allowed users to freely access and trade music files, namely MP3 files³⁹, over a peer-to-peer⁴⁰ (P2P) computer network. P2P file sharing allowed Napster users to:

1. Make MP3 music files stored on individual computer hard drives available for copying by other Napster users;
2. Search for MP3 music files stored on other users' computers; and
3. Transfer exact copies of the contents of other users' MP3 files from one computer to another via the Internet.

As a result, users removed from each other by both time and space could access and make MP3 copies of each other's music. In 1999-2000, Napster was hit by several law suits – chief amongst them the record company A&M Records, and artists Metallica and Dr Dre – in which the plaintiffs, fearing a loss of sales as a result of this technology, sued Napster for contributory and vicarious copyright infringement. In the resulting A&M Records case⁴¹, the United States Court of Appeals for the Ninth Circuit ruled that Napster, in providing the tools for digital audio file sharing over the P2P network, was liable for contributory and vicarious copyright infringement of copyright held by the songwriters and record companies.

³⁹ MP3 stands for MPEG-3 Audio Layer 3 format. It is a standard file format for the storage of audio recordings in a digital format.

⁴⁰ A peer-to-peer file sharing network is a technique of sharing computer files between distant computer users via an intermediary software program or website.

⁴¹ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001)

Because copyright infringement is essentially the use of a work in violation of the rights of the copyright owner, in order to bring a successful action, plaintiffs have to show ownership of the infringed material and demonstrate that the alleged infringers violate at least one exclusive right granted to copyright holders under copyright law.⁴² In the *Napster* case, the most significant rights at issue were the copyrights owner's rights to make reproductions of the work and to distribute copies of the work to the public, which was clearly in conflict with Napster's file-sharing capabilities. Napster contended that its users did not directly infringe the plaintiffs' copyrights because they were engaging in three kinds of activities that met the statutory criteria for fair use.⁴³ These were:

1. *sampling*, where users make temporary copies of a work before purchasing;
2. *space-shifting*, where users access a sound recording through the Napster system that they already own in audio CD format; and
3. *permissive distribution* of recordings by both new and established artists

The Court conducted a traditional fair use analysis, considering the four fair use factors. It quickly came to the conclusion that all four of the factors weighed against fair use and in favour of infringement. The 'wholesale copying'⁴⁴ of entire songs which were creative in nature operated against a finding of fair use. The Court rejected Napster's claims that it could defend its activities as sampling, space-shifting, or permissive use. As regards to the fourth factor, "Effect of Use on Market", the Court considered the standard of proof set in the *Sony* case cited above:

A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work. . . . If the intended use is for commercial gain, that likelihood [of market harm] may be presumed. But if it is for a noncommercial purpose, the likelihood must be demonstrated.⁴⁵

In regards to this point, the Court held that sampling adversely impacted the primary and derivative markets because increased sampling led to decreased probabilities of eventual CD sales. Indeed, the fact that Napster was by its activity, in effect, blocking the plaintiffs' entry into the digital music market was actually crucial to the ruling.

The key distinction between the *Sony* and *Napster* cases was that in the latter it was felt Napster played a central role in the actual infringing or non-infringing activities. The Ninth Circuit followed the *Sony* case in admitting that Napster could be capable of 'commercially significant noninfringing uses' and stated that 'to enjoin simply because a computer network allows for infringing use would, in our opinion, violate *Sony* and potentially restrict activity unrelated to infringing use.'⁴⁶ However, and more importantly, they also ruled that Napster *could* control the infringing behaviours of users, and

⁴² United States Code, Title 17, Sec. 106, (Henceforth, 17 U.S.C. § 106)

⁴³ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) at 1014

⁴⁴ *Ibid* at 1016

⁴⁵ *Sony*, 464 U.S. at 451

⁴⁶ *Napster* at 1021

therefore had a duty to do so. In its analysis of the fair use criteria, the court sharply distinguished itself from the *Sony* case, where the manufacturers had no control over how people used the VCRs after they purchased them. As the Ninth Circuit stated: “sufficient knowledge exists to impose contributory liability when linked to demonstrated infringing use of the Napster system”.⁴⁷

The implication of this holding is that it inserts a lack of knowledge element into the *Sony* analysis, regardless of whether use is commercially significant and noninfringing. In this sense, the *Sony* analysis of contributory infringement, namely that a defendant would not be liable for contributory infringement if their device was capable of commercially significant noninfringing use, has been severely limited. The implication for future cases would be that Internet service providers must show that they lack knowledge of the infringement, and that their servers are capable of commercially significant noninfringing use.

Apart from the fair use analysis, the court also ruled that Napster’s role in facilitating the dissemination of recordings was not covered under the various safe harbors created by either the Audio Home Recording Act or the Digital Millennium Copyright Act of 1998 (“DMCA”). Noting that ‘significant questions’ remain as to the applicability of the DMCA safe harbours, the Ninth Circuit outlined a series of unresolved points with respect to Napster’s compliance with the code.⁴⁸

The *Napster* case is significant for several reasons. Firstly, it was the first major case to address the application of copyright laws to P2P file-sharing. Secondly, this case weakened the analysis of contributory infringement based on the concept of ‘substantial non-infringing use’, set out in the *Sony* case. Finally, *Napster* was the first case in which a court interpreted the safe harbor provisions of the DMCA. Although many points, especially in regards to the interpretation of the DMCA, remained unclear, the case has had significant implications for later cases involving P2P networks. In particular, *Napster* questioned the meaning of contributory infringement, as well as the applicability of the safe harbor provisions of the DMCA to Internet service providers. Safe harbor, as will become clear, is still at the heart of legal conflict in copyright cases.

Kelly v. Arriba Soft Corp., 2003

*Kelly v. Arriba Soft Corp.*⁴⁹ focused on the application of copyright law to internet search engines, and in particular, their right to use thumbnail images. Leslie Kelly, a professional photographer, brought a claim against Arriba Soft⁵⁰, claiming copyright infringement for the unauthorised use of his photos in

⁴⁷ Ibid.

⁴⁸ Ibid., 1025. In particular, questions were raised as to whether Napster constituted a ‘service provider’ within the meaning of the statute, and whether it complied with the two preliminary requirements of the law namely that the service provider had implemented and informed subscribers of the existence of a subscription termination clause and accommodates and does not interfere with standard technical measures.

⁴⁹ *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003)

⁵⁰ The company is now known as Ditto.com.

its search engine database. At issue was the specific function of the defendant's search engine that displayed its results in the form of small images, rather than simply in text form.

As described by the Court there were two main questions raised in this case: 'The first is whether the display of copyrighted images by a "visual search engine" on the Internet constitutes fair use under the Copyright Act. The second is whether the display of such images without their copyright management information is a violation of the Digital Millennium Copyright Act.'⁵¹

Eventually, a three-judge panel of the Court of Appeals for the Ninth Circuit held that Arriba's creation and use of "thumbnail" versions of Kelly's copyrighted images for Internet indexing purposes constituted a fair use. The Court conducted an analysis of the four fair use factors, outlining reasons for their decision on each before weighing them to reach a conclusion. Firstly, the Court said that the first factor weighed 'in favor of Arriba due to the public benefit of the search engine and the minimal loss of integrity to Kelly's images.'⁵²

As regards the second factor relating to the nature of the copyrighted work, it was said that because the photographs were published creative works readily available on the internet, 'this factor weighs only slightly in favor of Kelly'.⁵³ The Court found the third factor regarding the amount and substantiality of the use to be neutral: 'While wholesale copying does not preclude fair use per se, copying an entire work militates against a finding of fair use. However, the extent of permissible copying varies with the purpose and character of the use...This factor neither weighs for nor against either party because, although 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.'⁵⁴

Finally, as to the effect of the use on the potential market, the Court recognised the transformative nature of Arriba's use: 'Arriba's use of Kelly's images in its thumbnails does not harm the market for Kelly's images or the value of his images. By showing the thumbnails on its results page when users entered terms related to Kelly's images, the search engine would guide users to Kelly's web site rather than away from it.'⁵⁵ Finally, 'Having considered the four fair use factors and found that two weigh in favor of Arriba, one is neutral, and one weighs slightly in favor of Kelly, we conclude that Arriba's use of Kelly's images as thumbnails in its search engine is a fair use.'⁵⁶

The Court expounded on the original intentions of Congress in creating the fair use doctrine and applied it to the present case:

⁵¹ *Kelly v Arriba Soft Corp.*, 77 F. Supp. 2d at 1118.

⁵² *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003) at 820

⁵³ *Ibid.* at 820

⁵⁴ *Ibid.* at 820-821

⁵⁵ *Ibid.* at 821

⁵⁶ *Ibid.* at 822

The Copyright Act was intended to promote creativity, thereby benefiting the artist and the public alike. To preserve the potential future use of artistic works for purposes of teaching, research, criticism, and news reporting, Congress created the fair use exception. Arriba's use of Kelly's images promotes the goals of the Copyright Act and the fair use exception. The thumbnails do not stifle artistic creativity because they are not used for illustrative or artistic purposes and therefore do not supplant the need for the originals. In addition, they benefit the public by enhancing information-gathering techniques on the internet.⁵⁷

This is a key case, in showing how search engines should operate—as a public good for indexing purposes and not as creative entities in themselves. Indeed, the court's argument that Arriba Soft did this, by displaying Kelly's photos in a functional and not artistic fashion attests to this.

Perfect 10 v Google, Inc., et al., 2007

*Perfect 10 v. Google Inc., et al.*⁵⁸ is, like *Kelly v Arriba Soft*, also a Ninth Circuit decision regarding the use of thumbnail images and search engines. Here the Court confirmed *Kelly* and reversed the District Court's initial findings⁵⁹ for a preliminary injunction, concluding that fair use prevailed.

Perfect 10, an adult men's magazine that sells copyrighted images of nude models, operated a subscription website on the Internet that allowed subscribers to view the images in a "members only" area of the site. Google, on the other hand, operates a leading search engine that responds to users' queries by accessing an index of websites stored on Google's databases. Results can be in the form of text, images, or videos. Perfect 10 sued Google for copyright infringement specifically with regards to Google's Image Search tool. The company alleged that Google illegally reproduced and displayed Perfect 10's photos when it returned thumbnail images in its results, which were then linked to third-party websites that contained full-sized infringing images. Although these images were not stored on Google's computers, the thumbnails appeared framed within the Google search in the lower part of the window on the user's computer screen.

The plaintiff sought a preliminary injunction to prevent Google, and later Amazon.com, from copying, reproducing, and distributing its images, as well as from indexing and linking to websites that host such images. In early 2006, the District Court granted the request in part and denied it in part, holding that the thumbnails were likely to be found infringing but the links were not.

In a lengthy and complex decision, the Ninth Circuit Court of Appeals reversed the District Court's decision on 16 May 2007, a largely favourable result for search engines and Internet service providers. Judge Sandra S. Ikuta delivered the judgment:

⁵⁷ *Ibid.* at 820

⁵⁸ *Perfect 10 v. Google, Inc.*, CV-05-04753-AHM (9th Cir. May 16, 2007) found on the United States Court of Appeals for the Ninth Circuit website at

[http://www.ca9.uscourts.gov/ca9/newopinions.nsf/DE8297F56287C0BC882572DC007DACC6/\\$file/0655405.pdf](http://www.ca9.uscourts.gov/ca9/newopinions.nsf/DE8297F56287C0BC882572DC007DACC6/$file/0655405.pdf)

⁵⁹ *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828 (C.D. Cal. 2006)

We conclude that Perfect 10 is unlikely to succeed in overcoming Google's fair use defense, and therefore we reverse the district court's determination that Google's thumbnail versions of Perfect 10's images likely constituted a direct infringement.⁶⁰

Even though Perfect 10 had succeeded in showing that it would prevail in its infringement claim against Google's use of the thumbnail images, it also had to show that it would prevail against Google's affirmative defence of fair use, and failed to do so. The decision therefore overturned the main direct infringement claim and upheld Google's defence of fair use, but the rest of the decision opened up the potential for secondary liability to be imposed on search engines such as Google. As Judge Ikuta held:

The district court also erred in its secondary liability analysis because it failed to consider whether Google and Amazon.com knew of infringing activities yet failed to take reasonable and feasible steps to refrain from providing access to infringing images. Therefore we must also reverse the district court's holding that Perfect 10 was unlikely to succeed on the merits of its secondary liability claims. Due to this error, the district court did not consider whether Google and Amazon.com are entitled to the limitations on liability set forth in title II of the DMCA. The question whether Google and Amazon.com are secondarily liable, and whether they can limit that liability pursuant to title II of the DMCA, raise fact intensive inquiries, potentially requiring further fact finding, *PERFECT 10 v. AMAZON.COM* and thus can best be resolved by the district court on remand. We therefore remand this matter to the district court for further proceedings consistent with this decision.⁶¹

As a result, the District Court was to determine whether Google knew of the infringing activities yet failed to take 'reasonable and feasible steps' to prevent access to the infringing images, and whether it could rely on the defence under the DMCA. These questions were left unanswered, but the Court did uphold fair use and prevented copyright owners such as Perfect 10 from completely controlling the way that search engines and other Internet service providers operate in respect of thumbnail image usage and linking.

The *Perfect 10* decision further strengthened the precedent set by *Kelly* by taking into account the larger public benefit provided by search engines. Weighing the interests of the individual parties with the overarching and fundamental goals of copyright to promote access to creative works, the Court upheld Google's use of the images as providing a benefit to users. Significantly, the Ninth Circuit emphasised the fact that Google had no duty to act and could not be held liable unless Perfect 10 notified Google about the specific infringement. Furthermore, it held that it was not realistically possible for Google to supervise and control third-party websites which were linked in its search results.

MGM Studios, Inc. et al. v. Grokster, Ltd. Et al., 2005

⁶⁰ *Supra* footnote 57, 5800

⁶¹ *Ibid.*

In one of the most important copyright cases in the past few decades, the U.S. Supreme Court ruled unanimously that '[One] who distributes a device with the object of promoting its use to infringe copyright...is liable for the resulting acts of infringement by third parties.'⁶²

The central question was whether Grokster and other Internet-based file-sharing services were responsible for the copyright infringement committed by individuals who used their software to illegally swap files of music, movies, and other copyrighted works. In the wake of the Napster lawsuit, companies like Grokster had marketed their software (such as Morpheus, Grokster and KaZaA) as Napster alternatives. However, unlike Napster, which had a centralised server that stored lists of infringing files, the users of these new networks used decentralised indexing systems that shared the files directly between the individuals' computers. In essence, the only point of contact between the companies and the users was when a user downloaded the file-sharing software. Grokster therefore argued that the very structure of their peer-to-peer networks prevented liability from arising for the infringing acts of its software users.

The plaintiff consortium, comprised of some of the largest entertainment companies led by Metro-Goldwyn-Mayer studios, disagreed with Grokster's contention, and brought suit against Grokster/Streamcast, seeking damages and an injunction. They alleged that the defendants 'knowingly and intentionally distributed their software to enable users to infringe copyrighted works in violation of the Copyright Act'.⁶³

Initially, the District Court as well as the Ninth Circuit had ruled in favour of the P2P networks, emphasising the potential legitimate legal uses of Grokster's services. Their argument was based on the above cited *Sony* case, in which the Court held that new technologies were not infringing if it was 'capable of substantial noninfringing uses'.⁶⁴ In this sense, *Grokster* revisited many of the issues examined in the *Sony* decision. Applying *Sony*, the lower courts supported the file-sharing networks' claim that the software was capable of making many types of legitimate media available to the public. Examples of such media were cited in the case, including the following: public domain literary works, government documents, free software, and movie trailers⁶⁵.

The Supreme Court, however, overturned the earlier judgments and unanimously held that Grokster could be liable for inducing copyright infringement. There was considerable disagreement within the Court as to how applicable the *Sony* doctrine was to this case and the split opinions in part led to the development of a new fair use test. This new rule, called the inducement theory, stipulated that a

⁶² *Metro-Goldwyn-Mayer, Inc. et al. v. Grokster, Ltd*, 545 U. S. ____ (2005), Opinion of the Court by Justice Souter found on the US Copyright Office website at <http://www.copyright.gov/docs/mgm/opinion.pdf>, page 1

⁶³ *Metro-Goldwyn-Mayer, Inc. et al. v. Grokster, Ltd*, 545 U. S. ____ (2005), Syllabus found on the US Copyright Office website at <http://www.copyright.gov/docs/mgm/opinion.pdf>, page 1

⁶⁴ *Supra* footnote 35

⁶⁵ *Metro-Goldwyn-Mayer, Inc. et al. v. Grokster, Ltd*, 545 U. S. ____ (2005), Concurrence by Justice Breyer found on the US Copyright Office website at <http://www.copyright.gov/docs/mgm/opinion.pdf>, page 4-5

software distributor would be held liable if it could be shown that they induced the use of its software for copyright infringement purposes. As the Supreme Court set out, 'The classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations.'⁶⁶ In addition, it raised three reasons as evidence that Grokster actively induced the use of its software:

- 1) Grokster's internal documents and various other actions showed that it had been actively trying to satisfy 'a known source of demand for copyright infringement, the market comprising the former Napster users.'⁶⁷
- 2) Grokster refused to develop or incorporate filtering tools that could diminish infringing activity by identifying and filtering out copyrighted materials from its network.
- 3) Finally, Grokster reaped profits from advertising aimed at users of their software. As the Court stressed: 'Since the extent of the software use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing.'⁶⁸

In light of the above evidence, the Court concluded that, "The unlawful objective is unmistakable."⁶⁹

By holding Grokster liable, the Court rejected the argument that bringing legal action against services like Grokster would stifle the kind of creativity and technological innovation that has led to the development of products like VCRs and iPods. This essentially means that in the future, inventors and entrepreneurs will bear the costs of creating new products, as well as the potential costs of lawsuits if consumers use their products for illegal purposes. However, the Court did note the limitations on the newly established inducement rule, and highlighted the need to balance intellectual property rights with innovation:

We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential. Accordingly, just as Sony did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, ... mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful purpose.⁷⁰

⁶⁶ *Supra* footnote 61, page 4

⁶⁷ *Ibid.*

⁶⁸ *Ibid.*

⁶⁹ *Supra* footnote 61, page 23

⁷⁰ *Supra* footnote 61, page 19

Whether the *Grokster* decision struck a fair balance is debatable. Some have criticised it as ‘a ruling that could impede makers of all kinds of technologies with expensive lawsuits’⁷¹, while others have hailed the Court’s efforts to clarify the existing law, allow breathing room for developers to continue creating new products, and ensure that the intellectual property rights of artists are protected. However that may be, as a Supreme Court case *Grokster*’s precedential effect is tremendous, and the ruling is more than likely to have a long-term impact on legal thinking with regards to copyright protection. This is particularly true with regards to the inducement theory, which forms a central part of what may well prove to be as big a case – namely, *Viacom v YouTube*.

Viacom v YouTube, ongoing 2007

This case is by far the most high profile and potentially the most important, of all the relevant court cases in recent years. In March this year, Viacom – the parent company of Paramount Studios, MTV, Comedy Central and Nickelodeon – filed a \$1 billion copyright infringement suit against YouTube claiming that ‘YouTube has harnessed technology to willfully infringe copyrights on a huge scale, depriving writers, composers and performers of the rewards they are owed for effort and innovation, reducing the incentives of America’s creative industries, and profiting from the illegal conduct of others as well.’⁷² The suit alleges that YouTube has violated both the principle of fair use as well as the safe harbor provision of the DMCA by allowing and actively encouraging the uploading of copyrighted material onto its website: ‘YouTube does not simply enable massive infringement by its users. It is YouTube that knowingly reproduces and publicly performs the copyrighted works uploaded to its site.’⁷³ This is an important point as it shows how Viacom are in fact relying on the inducement theory developed by the Supreme Court in the above cited *Grokster* case.

YouTube and Google, the defendants, counterclaim that ‘Viacom’s complaint threatens the way hundreds of millions of people legitimately exchange information, news, entertainment, and political and artistic expression.’⁷⁴ Crucially Google and YouTube argue that the uploading of material onto YouTube’s site is covered by the safe harbor provision of the DCMA. They claim that any copyrighted material that has been identified and YouTube has been notified of has been, and will be, taken down from the website.

As the case is ongoing, it is both difficult and imprudent to make any hasty judgments, but it does seem that with regards to the safe harbor provision the outcome in this case will provide a key ruling. Whether or not YouTube is in compliance with the DMCA is beside the point, certainly if it is found

⁷¹ Fred von Lohmann, EFF’s senior intellectual property attorney on the EFF website:

http://web.archive.org/web/20051225153458/www.eff.org/news/archives/2005_06.php#003748

He said further on the *Grokster* judgement: ‘Today the Supreme Court has unleashed a new era of legal uncertainty on America’s innovators...The newly announced inducement theory of copyright liability will fuel a new generation of entertainment industry lawsuits against technology companies. Perhaps more important, the threat of legal costs may lead technology companies to modify their products to please Hollywood instead of consumers.’

⁷² *Viacom International, Inc. et al v. Youtube, Inc. et al*, Case 1:07-cv-02103-LLS, Court Filing March 13, 2007, p. 2.

⁷³ *Ibid*.

⁷⁴ *New York Times*, May 1, 2007, ‘Google Calls Viacom Suit on YouTube Unfounded’

that they are not, then this would be a boon for Viacom and anti-piracy voices. However, even if YouTube is found to be in compliance with the DMCA, it is clearly an unsatisfactory solution that Viacom – or any other content provider – should have to devote the type of energy and resources to policing the internet for examples of infringement of their products. As Phillippe P. Dauman, chief executive of the company has pointed out: 'Every day we have to scour the entirety of what is available on YouTube, so we have to look for our stuff'.⁷⁵ The internet is simply too vast an entity for the onus of copyright compliance to be placed so squarely on the shoulders of the copyright holder.

It would seem that both Viacom and Google have realised the potential stakes of this case as, firstly, both have refused to settle the case and claim that they are confident of a courtroom victory, and, secondly, Viacom has actively engaged in a concurrent court proceeding, namely *Veoh v IO Group*.

In this case the IO Group argue that Veoh, a peer-to-peer video provider, is violating copyright of their content; this case would seem to follow in the tradition of Napster and Grokster. Interestingly, Viacom and NBC have filed a brief and requested to present an oral argument alongside that of the IO Group. Viacom argue that:

Viacom and NBCU do not have a direct interest in the outcome of this lawsuit, but they have a direct, specific, and tangible interest in the legal issues raised by Veoh in its Motion for Summary Judgement – namely, whether Veoh's activities (and those of Internet websites that operate in a manner similar to Veoh) are entitled to the protections of the "safe harbor" of Section 512(c) of the DMCA. Many of Viacom's and NBCU's most valuable copyrighted works have been copied, performed, and disseminated without authorization by video-sharing websites such as Veoh, YouTube, and others.⁷⁶

In addition Viacom claimed in their brief that the outcome of the case 'will have far-reaching ramifications for the owners of video content...most critically, this Court's ruling on Veoh's motion may have an impact on the numerous lawsuits pending against YouTube, Grouper, Bolt, and other Internet websites that operate similarly to Veoh'.⁷⁷ Time will tell if the courts will agree and provide a potential solution to this dilemma.

When Fair Use Is Not Enough

The above 6 cases highlight what might possibly become some of the wider trends and show some very important legal precedents that are affecting – and will continue to affect – the interpretation of existing US copyright legislation. This, in turn, may have repercussions world wide.

⁷⁵ Ibid.

⁷⁶ United States District Court, Northern District of California, San Jose Division, Case No. C 06-3926 HRL, Local Rule 7-1 I Motion For Administrative Relief of Viacom International Inc and NBC Universal, Inc. For Leave to Appear and File Brief As *Amici Curiae*, Declaration of Karin G. Pagnanelli. Available on: <http://docs.justia.com/cases/federal/district-courts/california/candce/5:2006cv03926/181461/87/0.html>

IO Group INC v. Veoh Networks, case filed 14th August, 2007

⁷⁷ Ibid.

Broadly speaking there are two main aspects of the rulings that are important to note: one, what can search engines do under fair use; and two, when copyright infringement does occur, how to identify exactly what the responsibilities of the online mediator are.

The first aspect is relatively straight-forward when it comes to American law. Both rulings in *Arriba Soft* and *Perfect 10* protected a search engine's right to reproduce small snippets of content – in these cases, images – from a copyright holders' website. Thus it would seem that the primary business model of a search engine – of providing a digital form of an informational index of the contents on the web – would be protected by a legal precedent. As was described in the above section, this would seem to be broadly in line with practical legal thinking as well as the recorded actions of most internet users. However, in Europe the case is not as straight-forward.

In September 2006, a Belgian court granted an injunction against Google News – a data aggregation site – which had been accused of copyright infringement by Copiepresse, a company which manages copyright for the French, German-speaking, and Belgian press. The complaint was that Google News – by providing hyperlinks, snippets of information and cached copies of news-stories from the plaintiffs' websites – was, in effect, limiting the control over the use of copyrighted material and potential advertising revenue. Interestingly, Google argued in their defence that the onus for enforcing copyright protection was, in fact, on Copiepresse and the copyrights holder. Rachel Whetstone, Google's European Director of Communications and Public Affairs, saw the problem in relatively clear terms:

[Google News] goes to the heart of how search engines work: showing snippets of text and linking users to the websites where the information resides is what makes them so useful. And after all, it's not just users that benefit from these links but publishers do too – because we drive huge amounts of web traffic to their sites...if a newspaper does not want to be part of Google News we remove their content from our index – all they have to do is ask.⁷⁸

This reasoning, that the primary responsibility for policing the internet should be on the rights' holder and not on the mediator is a logic which is, as described above, currently being applied in the *Viacom v YouTube* case. Whether or not this defence will be successful is difficult to judge, but clearly the Belgian courts did not buy this argument in the context of, what might be termed – and as Google themselves have rightly pointed out – a primary or core activity of search engines. This is an activity which, at least in the United States, has been protected in the courts. In the case of *Viacom v YouTube* it would seem that the alleged infringement is both much more widespread as well as severe. Therefore the pertinence of this type of defence would seem to be in doubt.

This leads us into the second most important aspect of the above cases, the responsibilities of mediators in the event of copyright infringement. Ever since the Supreme Court ruled in the *Betamax*

⁷⁸ Google's reaction to Copiepresse case, from 'Search Engines, data aggregators and UK copyright law: a proposal', European Intellectual Property Review, Ben Allgrove and Paul Ganley, 2007, p. 2.

case that the concept of fair use could be applied to instances when the infringement of copyright did actually take place, both potential infringers as well as technological mediators have had a ray of legal hope. **Far from a blank cheque, however, according to the ruling fair use would only apply if the noninfringing potential of the new technology or activity was substantial enough to outweigh the infringing activity, and that control over whether or not such activity takes place was outside the hands of the technology provider.** From the recent rulings in *Napster*, and especially *Grokster*, it would seem that with regards to P2P technologies this was not the case. In both instances it was deemed that the infringing uses were much greater than the potential noninfringing ones and that the companies concerned did have a very palpable link to the infringement activities taking place. Indeed, the Supreme Court ruling in *Grokster* explicitly reprimanded both lower courts for using the *Sony* ruling as a basis for dismissing the claims of infringement and allowing P2P file-sharing under fair use. Underpinning this ruling was the Supreme Court's freshly developed theory of inducement. This theory would seem to be a key aspect of interpreting YouTube's role and its responsibilities with regard to the infringing activities which have taken and are taking place.

In summary, it would seem that there are two quite distinct legal patterns emerging from these cases: one is that internet mediators are – Copiepresse notwithstanding – allowed to engage in activities of a functional use such as indexing, hyperlinking and caching. The above rulings seem to be saying that where internet mediators perform what is perceived as a functional, public interest job, fair use is applicable as a shield against infringement claims. Secondly, it is also quite clear that mediators must not only prove that their roles are overwhelmingly for noninfringing uses, but that they do not also induce users to engage in infringing activities. With regards to data aggregation sites and search engines it would seem **that their original remit seems to be protected by fair use but that there is some doubt as to how recent extensions of what they do – including providing uploadable and downloadable sites and online books – will affect their protection under the fair use and safe harbor provisions** of the Copyright Act and DMCA respectively.

Illustrating this dilemma is the widespread move among mediators and computer companies towards book digitisation. The process of digitising books began in earnest in 2004 with Google's Library Project and the Publisher Program; these two programs have since merged and become "Google Book Search", a search tool available within the Google search engine forum. Together with partners from some of the world's biggest public, private and university libraries – including Harvard, Oxford, Stanford, and Michigan Universities and the New York Public Library – the aim was to digitise the published written word. Within the last few years other internet mediators such as Microsoft, Yahoo! and Amazon have launched their own versions of this project. There are currently several running court cases – the most notable being two separate suits filed against Google in 2005 by the Authors' Guild and the Association of American Publishers – and the debate over book digitisation is as intense as that over music or film copyright protection.

The issue is both one of directly infringing copyright by the wholesale copying of books which are still under copyright as well as substantial extracts from these books. The fundamental dispute here seems to be whether companies like Google and Amazon have the legal right to scan, store and display the work of someone without the right holder's consent. Google has consistently argued that it does. Its CEO Eric Schmidt wrote in *The Wall Street Journal* and in his googleblog in October 2005 that:

We have the utmost respect for the intellectual and creative effort that lies behind every grant of copyright. Copyright law, however, is all about which uses require permission and which don't; and we believe (and have structured Google Print [later Google Book Search] to ensure) that the use we make of books we scan through the Library Project is consistent with the Copyright Act, **whose "fair use" balancing of the rights of copyright-holders with the public benefits of free expression and innovation allows a wide range of activity, from book quotations in reviews to parodies of pop songs -- all without copyright-holder permission. Even those critics who understand that copyright law is not absolute argue that making a full copy of a given work, even just to index it, can never constitute fair use. If this were so, you wouldn't be able to record a TV show to watch it later or use a search engine that indexes billions of Web pages.** [Authors' emphasis] The aim of the Copyright Act is to protect and enhance the value of creative works in order to encourage more of them -- in this case, to ensure that authors write and publishers publish. We find it difficult to believe that authors will stop writing books because Google Print makes them easier to find, or that publishers will stop selling books because Google Print might increase their sales.⁷⁹

This quote illustrates how far many internet mediators – like Google – have moved away from their original remit and have incorporated new ideas and approaches to copyrighted information into their existing business models. Yet they continue to argue that the legal and philosophical protection which their original business model enjoys should be extended to their new ventures.

Although there has been no firm ruling in any case which addresses this issue, from the above rulings it would seem likely that the courts will eventually differentiate between search engine's and data aggregation sites' core functions and their new commercial interests, which risk being likened to P2P, infringement-enabling technologies. In all likelihood a Supreme Court ruling will be needed to provide the kind of clarity that is needed in this new situation, but the chances of that taking place in the near future are very slim. Until these new legal precedents are established there are a number of policies that could be implemented by both industry and regulators to improve the existing copyright protection.

Concluding Discussion and Future Policy Directions

⁷⁹ Schmidt, Eric, 'The Point of Google Print', <http://googleblog.blogspot.com/2005/10/point-of-google-print.html>

'The fundamental problem with Google and YouTube is not fair use but their desire for free use'.

- Louis M. Solomon, lawyer for plaintiff, *Viacom v YouTube*⁸⁰

The purpose of this paper has been to put the recent debate on internet mediators and the protection of intellectual property within a theoretical as well as a practical context. The paper has examined and analysed the importance of IPRs to future innovation and creativity from an economic point of view as well as a legal and practical one. Fundamentally, the protection of intellectual property is a balancing act between safeguarding the interests of creators of knowledge and content and ensuring that the general public can enjoy the benefits of it. How one goes about this is, indeed, the million dollar question.

In this context, the conflicts of interest between copyright holders and users sometimes seem unavoidable – the paradox of knowledge allows users to enjoy the benefits without hindering others from the same enjoyment and with no seemingly apparent harm to the creator. The problem of free riding is thus always present and palpable. While the sharing and copying of music, films, books and even designer dresses might seem like innocuous fun, it is in reality a real threat towards future innovation. This is particularly true with regards to the myriad technological changes and developments of the past 50 years which have transformed our daily existence – most people in the developed world now live, work, and play in an environment that is both interconnected and interdependent. At astounding speeds we now have access to the kind of information, news, and entertainment that was previously unimaginable. Enjoyable as such an environment is, it also raises a number of important questions with regards to the protection and enforcement of IPRs.

If one thing is clear from the history of IPRs in the context of copyright over the past 25 years, it is that technological changes take place with breathtaking frequency. It therefore seems to be imperative to have a regulatory and legislative framework which is flexible enough to allow technological changes to take place without putting an undue strain on either the copyrights of the rights' holder or of the general public's potential rights of use. In the United States lawmakers devised such a scheme in the 1976 Copyright Act, and they called it fair use. The basic idea of fair use was to devise the right balance between the interests of the great mass of people who would like to access copyrighted material, and the interests of those who held the copyrights. To that end, fair use has served users and content-producers well. In respect of internet mediators they have been largely allowed to operate under fair use, where it is clear that they are performing a functional task that is largely in the public interest. Data aggregation and search engine hyperlinking both fulfil these criteria. P2P file-sharing sites that overwhelmingly are used for infringing activities clearly do not.

With a set of similar goals, the safe harbor provision of the 1998 Digital Millennium Copyright Act (DMCA) sought to ensure that providers of online services were not limited in the kind of service

⁸⁰ *The New York Times*, 'Content Makers Are Accused of Exaggerating Copyright', August 2, 2007

they could offer consumers by the illegal acts of third party users. This has also been a useful piece of legislation as it has allowed search engines and internet mediators to maintain a degree of freedom of operation and non-liability with regards to the third-party actions of their users. This is in itself a good thing because if the reverse were true – that internet mediators were both liable and responsible for every activity their users engaged in – the scope and freedom of internet services available through these mediators would be drastically curtailed. Freedom of access on the net would indeed be a thing of the past and its potential usefulness to the public would be severely limited.

The idea of fair use and the safe harbor provisions of the DMCA are important to the global health of online IPRs, particularly as virtually all online providers and mediators are based in the United States and the American market is by far their biggest and most lucrative. Due to this fact, virtually all of the most important copyright cases in the last 25 years have taken place in the United States and this is why American court rulings are so important to the international standards of the protection of intellectual property, and of copyrights in particular.

However, one of the more ominous implications of the safe harbor provision is that the policing of copyright infringement by third-parties has, chiefly, been in the hands of the content creators themselves. The idea that online mediators should not be held responsible for infringing activities committed by third parties is enshrined in the DMCA:

(i) [if a service provider] does not have actual knowledge [that the material or an activity using the material on the system or network is infringing];

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material⁸¹

Due to the enormity of the web and the growing number of users, web sites, infringers and infringing activities, this arrangement is highly unsatisfactory as it puts too great a strain on content creators to relay that information to internet mediators. When even large corporations and organisations like the English Premiership are forced to spend a considerable amount of their own resources as well as hiring external businesses to police the net for infringement activity, then the situation for smaller rights' holders will be even more difficult. It is therefore imperative that the onus of policing the internet be shared, and not squarely placed on the content creators. If, as Google's CEO Eric Schmidt has intimated, YouTube has successfully created a filtering service that does this, and they will actually implement it, then this would be an important step towards industry self-regulation. But whether or not this will happen and other mediators will follow is a moot point.

With this in mind there are 3 main policy changes that can take place to rectify this situation:

⁸¹ DMCA, Section 512, paragraph C, I, A, i-iii

- The safe harbor provision of the DMCA needs to be redefined and a due diligence clause on part of mediators needs to be inserted;
- If the technology to filter out copyright content is not available and the sheer volume of such infringements is too great for even mediators to deal with, then some form of monetary compensation to copyright holders must be established. A levy system based on website hits or a small percentage of advertising revenues based on website hits caused by users searching for infringing material will not eliminate the problem of control, but it will at least provide some form of compensation for content creators. However, such a levy system should not be seen as replacing the tradition of copyright protection, but simply be used as a supplement to cases where the technology to hinder such infringement and practical considerations – in this case the sheer scope of the web – place severe limits on the extent copyright can be enforced; and
- Finally, the balance established in *Sony v Universal* must be upheld with regards to search engines and data aggregations sites. Their noninfringing use and benefits overwhelmingly outweigh the infringing elements and they should therefore be allowed to continue performing the service they do. There should not be a draconian push to hold them responsible or liable for all illegal activities third parties engage in as this would surely limit their use by, and usefulness to, the public.

In practice, recommendation number 1 would mean a greater use of filtering technologies and disclaimers by online mediators. An active discouragement and filtering of infringing material by sites such as YouTube may result in both lower rates of infringement as well as a better relationship with content creators who would be confident that sites such as YouTube were doing everything within their power to stop infringing activities. Albeit described by many critics as draconian – see the recent debate over changes agreed by the German Parliament in July this year⁸² – a levy system based on a combination of website hits and a percentage of advertising revenue would do much to share responsibility and lead to greater enforcement of existing copyright infringement. A small levy system would act as an inducement to mediators to act with greater urgency against acts of copyright infringement and would also strengthen cooperation between content providers and mediators who would have much more of a common cause. Finally, the courts should urgently take up the relevant cases and provide further guidance as to how fair use and the safe harbor provision should be applied to the current disputes.

While perhaps not providing a definitive answer to the current dispute over copyright infringement between internet mediators and creators of content, these policy recommendations point the respective parties in a direction which recognises the important contributions both parties make to the public, yet also balances their responsibilities and seeks to protect their core business models. The old saying – allegedly coined by a Leonard P. Ayers of the Cleveland Trust Company in the mid

⁸² *Intellectual Property Watch*, 'German Parliament Reforms Copyright Law, Leaves Unfinished Work' <http://www.ip-watch.org/weblog/index.php?p=677&res=1024&print=0>

1940s and used profusely by Milton Friedman and other luminaries – that “there ain’t no such thing as a free lunch” needs to be more actively applied to the world of online copyright. The current situation whereby many mediators have been, and are, enjoying a free lunch on behalf of many content producers is neither fair, nor in the long run productive for the producers or users of knowledge. The problem with free lunches is that someone always ends up paying for them sooner or later. It would be a shame if this meant that knowledge producers would think twice about producing and sharing their knowledge with a wider audience. The result would be that the public would end up having to pay more and enjoy less of the benefits than they could in a system of mutual recognition and respect for IPRs.