

**Péter Mezei - Dóra Hajdú**

***INTRODUCTION TO DIGITAL COPYRIGHT LAW***

Textbook

**Second Edition**

© Szeged, 2015

University of Szeged  
Faculty of Law

ISBN 978-963-306-406-1

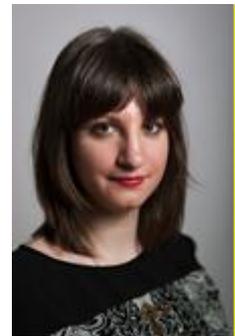
Supported by TÁMOP-4.2.1.D-15/1/KONV-2015-0002

## ABOUT THE AUTHORS



*Péter Mezei* is an associate professor of law at the Institute of Comparative Law, Faculty of Law, University of Szeged. He has been selected as an adjunct professor (dosentti) of the University of Turku, Finland. He currently functions as the Associate Dean for Strategic Affairs of the Faculty of Law, University of Szeged. He is a member of the Hungarian Copyright Expert Board. He is the author of over 65 publications. He has held lectures on comparative digital copyright law at universities in Finland, France, the United States of America and Germany over 30 times since 2007. He prepared the national report for the 18<sup>th</sup> International Congress of Comparative Law (2010) on the limitations and exceptions in Hungarian copyright law and he co-authored the national report for the 19<sup>th</sup> International Congress of Comparative Law (2014) on license contracts, free software and Creative Commons. He participated in several research projects run by the Hungarian Copyright Forum Association, the Hungarian Intellectual Property Office; De Wolf & Partners Law Firm (Belgium); KEA European Affairs and the Research Center in Information, Law and Society, University of Namur (Belgium), Public Policy and Management Institute (Lithuania). Mr. Mezei may be contacted at [mezei@juris.u-szeged.hu](mailto:mezei@juris.u-szeged.hu).

*Dóra Hajdú* is a PhD candidate at the Institute of Comparative Law, Faculty of Law, University of Szeged (Szeged, Hungary) and at the Centre d'Études et de Recherche en Droit de l'Immatériel, Université Paris-Sud (Paris, France). She conducts her research in the field of collective rights management of copyright. She graduated from the Faculty of Law, University of Szeged and also holds a Master in European Union Law from Université Lyon III (Lyon, France). Ms. Hajdú may be contacted at [hajdudora.hd@gmail.com](mailto:hajdudora.hd@gmail.com).



## TABLE OF CONTENTS

<b>ABOUT THE AUTHORS</b>	2
<b>TABLE OF CONTENTS</b>	3
<b>INTRODUCTION</b>	
Péter Mezei - Dóra Hajdú: <i>How to use the book?</i>	4
<b>CHAPTER I</b>	
Péter Mezei: <i>The Role of Technology and Consumers' Needs in the Evolution of Copyright Law</i>	7
<b>CHAPTER II</b>	
<i>The Cartoon Network, LLLP v. CSC Holdings, Inc.</i> , 536 F.3d 121 (2 <sup>nd</sup> Cir. 2008)	13
<i>Case C-466/12 - Nils Svensson and Others v. Retriever Sverige AB</i> , Judgment of the Court (Fourth Chamber), 13 February 2014	20
<i>Flava Works, Inc., v. Marques Rondale Gunter</i> , 689 F.3d 754 (7 <sup>th</sup> Cir. 2012)	27
<b>CHAPTER III</b>	
Péter Mezei: <i>The future of library digitization in the European Union and Hungary</i> (excerpt)	34
<i>The Authors Guild, Inc., et al. v. Google Inc.</i> , 954 F.Supp.2d 282 (U.S. Southern District of New York 2013)	45
Dóra Hajdú: <i>French Legislation on the Digitization of Out-of-Commerce Works Memorandum of Understanding - Key Principles on the Digitisation and Making Available of Out-of-Commerce Works</i> , 20 September 2011	52
<b>CHAPTER IV</b>	
<i>Case C-128/11 - UsedSoft GmbH v. Oracle International Corp.</i> , Judgment of the Court (Grand Chamber), 3 July 2012	59
<i>Capitol Records, LLC, v. ReDigi Inc.</i> , 934 F.Supp.2d 640 (U.S. Southern District of New York 2013)	71
Péter Mezei: <i>Digital First Sale Doctrine Ante Portas - Exhaustion in the Online Environment</i> (excerpt)	82
<b>CHAPTER V</b>	
Péter Mezei: <i>Dont't Call Me Pirate!</i>	94
<i>Columbia Pictures Industries, Inc., et al. v. Gary Fung, et al.</i> , 710 F.3d 1020 (9 <sup>th</sup> Cir. 2013)	99
<i>The Pirate Bay verdict</i> , Stockholm District Court, B13301-06, 17 April 2009	115
<i>BMG Music, et al., v. Cecilia Gonzalez</i> , 430 F.3d 888 (7 <sup>th</sup> Cir. 2005)	128
<i>Case C-275/06 - Productores de Música de España (Promusicae) v. Telefónica de España SAU</i> , Judgment of the Court (Grand Chamber), 29 January 2008	132
<i>Case C-70/10 - Scarlet Extended SA v. Société belge des auteurs, compositeurs et éditeurs SCRL (SABAM)</i> , Judgment of the Court (Third Chamber), 24 November 2011	144
<i>The Football Association Premier League Ltd. v. British Sky Broadcasting Ltd., et al.</i> [2013] EWHC 2058 (Ch), 16 July 2013	152
<b>TEST YOUR KNOWLEDGE</b>	162
<b>BIBLIOGRAPHY</b>	163

## INTRODUCTION

### How to use the book?

*Péter Mezei - Dóra Hajdú*

When the first copyright statute was signed by Stuart Anne, Queen of England, in 1709, nobody expected that this fresh territory of law will develop into such an economically and socially important, enormous issue in the 20<sup>th</sup>-21<sup>st</sup> century. The *Statute of Anne* tried to reach consensus between the interests of printers, booksellers and the authors. Three hundred years later stakeholders also include painters, sculpturers, sound recording producers, radio and television companies, database producers, performers (for example singers, dancers etc.) and so on. The task of legislators and judges in striking the balance of interests seems to be therefore extremely hard in our age. Similarly, the protected subject matter expanded from literary works (writings) to musical compositions, sculptures, paintings and other fine art works, motion pictures and other audiovisual works, database, software, performances and many more. Authors were originally granted protection against illegal reproduction and distribution of their works. Nowadays the list of their exclusive rights is much longer than ever before (including moral rights as well). Notwithstanding the above these rights are controlled through many ways, including notable limitations and exceptions, like free uses, collective rights management, territorial and term restrictions, just to mention a few of these.

The broadening of copyright regulation has always been due to different factors since the appearance of Gutenberg's printing press in the middle of the 15<sup>th</sup> century. Amongst these factors the technological innovation and the constant changes of the copyright holders' and members of the society's needs have been the most notable ones. However, the first two centuries of copyright law might be characterized as the age of slow development. Contrary to this the importance of copyright regulation has extremely expanded in the last half century. The invention of photocopying machines and audio and video tape recorders that are capable for multiple reproduction of protected subject matter (mainly literary works, sound recordings and audiovisual contents) has speed up disputes between the different stakeholders. It has therefore become urgent to settle the emerging economic, social and legal disputes.

The authors of this book take steps to introduce students some of the most recent and relevant examples of these disputes. Digitization has become such a dominant activity that it similarly can contribute to the preservation of our culture. Therefore issues of digitization by libraries and private corporations. The emergence of the problematic of and the solution for the orphan works dilemma also worth to mention and discuss. P2P file-sharing is a relatively new area of digital copyright law, but belongs to the most important question everywhere. The United States and the EU Member States follow, however, different paths in resolving this problem. The United States concept of contributory and vicarious liability doesn't exist on the European Continent, where – on the other hand – the public law and technological control seems to be much more effective than private law (copyright law). Related to the question of P2P file-sharing, the question of private copying exception rises up. In the past few years the Court of Justice of the European Union has been elaborating a new approach of the theory of private copying levies. Finally, the digital natives (as Viviane Reding has called the young generation that use internet as a main way of communication) contribute to the improvement of our culture as well. These usages have constantly contributed, however, to the emergence of several remarkable concerns, too. It is therefore necessary to discuss the interplay of copyright law and the web 2.0 phenomenon.

The list of these „hot topics” is definitely selective. The main purpose of the selection was to comply with the needs of a course offered for Chinese and Hungarian students at the Faculty of Law. Through the topics covered by the book students will get familiarized with elements of the copyright law of the European Union and the United States of America, and will gather the knowledge how to handle similar copyright problems during their future career.

Readings include chapters discussing the problems through comparative method, analysing statutory sources and case law from multiple jurisdictions. These theoretical, analytical readings are supplemented by court decisions. The latter are edited where necessary, leaving only the most important elements of the – sometimes really long – judgments for discussion and debate. Decisions might be analysed through two different approaches. The lecturers of the course prefer to use both the U.S. „IRAC” method and a revised version of the traditional French method of “*fiche d’arrêt*”.

The term „IRAC” is the abbreviation of the process through which the case is dissected into four parts. „I” is for issue, „R” is for the rules, „A” is for the arguments and finally „C” is for conclusion. The *issue* includes all the relevant facts of the case. The correct understanding of these facts is the cornerstone of a further proper analysis of any decision. This requires the accurate knowledge of both basic legal definitions and – in case of digital copyright disputes – the skill to correctly categorize technological features of the quarrels. *Rules* include both statutes (and other regulations) and precedents. As students will experience, referring to former court decisions has become general both in the Anglo-Saxon countries (like the United States and the United Kingdom) and more recently in the case law of the Court of Justice of the European Union. *Arguments* cover both the statements and evidences of parties and the reasoning used by judges in reaching the final conclusion. Law students are the lawyers of the future and they might face similar legal troubles during their career. It is really important for students to properly understand these arguments. Studying how parties succeeded or failed to win a case is extremely useful to improve students’ personal skills of argumentation. Similarly, learning how judges reach a specific conclusion is inevitable to acquire the ability to effectively predict future court decisions. And finally *conclusion* is the heart of the judgment: material facts, binding rules and relevant arguments mixed into sentences that sum up precisely how the judge solves the whole debate.

“*Fiche d’arrêt*” means an abstract of the given judgement. This traditional French method requires the answer of five questions. Similarly to the “IRAC” method, the first step is the *identification* and selection of the relevant facts of the case. Therefore the separation between the relevant and non-relevant elements implies a prequalification of the material facts. This step is highly important while reading a complex case with several legal questions: usually diverse facts are related to each and every question. The mention of *previous procedures* is the second part of the analysis. In the case law of the Court of Justice of European Union the questions referred for a preliminary ruling by the national court fit in that part of the analysis. *Arguments* of the parties cover the third main chapter of the abstract. Paying attention to distinguish between arguments of the parties and arguments of the judge is the hardest part of the analysis: sometimes the former ones don’t appear in the case. After having answered these three warming up questions, a real legal analysis begins in two phases. First of all, students have to *find the legal problem(s)*, in other words they have to precise the question(s) to which the court gives the answer(s). Speaking of the case law of the European Union, this step seems easy to be taken: the national court has already asked the questions. However, it is important to rephrase them with the own words of the student in order to profoundly understand the legal problem. The final phase is to determine the arguments of the court and the *conclusion* to answer the separate questions.

The second edition of the textbook further adds three new ways to support studying. Each case is followed by a “Think it over” section that tries to call attention to substantial questions related to the discussed topics. “Further case law” and “Recommended readings” sections, in accordance with their names, provide further tips for enthusiastic students what to read in order to broadening their knowledge on this territory. Furthermore, the book includes a chapter titled “Test Your Knowledge”. Here, the authors have included several essay questions that were formerly assigned to participants of their courses on digital copyright law. You might use all the readings included into the book. Indeed, never forget that a proper answer to the essay question might require further research. You can find relevant sources in the “Further case law” and “Recommended readings” sections as well.

The authors of this book are convinced that participants of the planned course will get familiarized with the practice-oriented, analytical aspect on the hot topics mentioned above. The comparative legal aspect allows the students to understand the major differences between the common law and the continental legal systems to be able to study or criticize the different legal solutions. This approach will help the students to use European, American and international copyright law rules in their future career at law firms or at courts, and to undertake independent research on the subject, using both traditional and internet resources.

*The Authors*  
*Szeged, October 2015*

## CHAPTER I

### The Role of Technology and Consumers' Needs in the Evolution of Copyright Law

Mezei Péter

[Originally published in Éva Jakab (Ed.): *Geistiges Eigentum und Urheberrecht aus der historischen Perspektive, Lectiones Iuridicae 10, Pólay Elemér Alapítvány, Szeged, 2014: p. 71-79.*]

*“Copyright laws become obsolete when technology renders the assumptions on which they were based outmoded.”<sup>1</sup>*

*(Jessica Litman)*

The motto of the present article symbolizes the close intertwining between technological development and copyright law. The symbiosis of copyright protection and technological innovation dates back to centuries and has been closely connected ever since the modern printing press was invented by Gutenberg. In most cases, both society and the rights holders have profited from this symbiotic interconnection, since the new technologies were created for the sake of the people and rights holders became entitled for compensation for the new types of uses as well. The other lesson of Litman's thoughts is that copyright law has become more fragile. There are reasons for this. One is that copyright statutes have almost always been one step behind the technological achievements. The other reason is that users have always seen more options in taking advantage of innovations rather than following the provisions of copyright law (and paying royalty to the authors).

This is evidenced by the heated debates about the emergence of technological innovations. As soon as some new technologies appeared on the market, copyright law and the rightholders reacted on them rapidly: they usually tried to force them back into the shadows. However, the rightholders always understood it within a short period of time that the new technologies are capable to create new works, new types of works, new type of data carriers and new business models as well. The clash between the rightholders' and the society's interests was speeded up by the emergence of digital technologies,<sup>2</sup> and copyright holders seem to struggle with the permanent lag to address the above challenges. For example before the appearance of digital reproduction machines the multiplication of copyrighted works for private purposes was successfully controlled by the royalty on blank data carriers (tapes, CDs etc.). The massive spread of these machines has led, however, to unexpected results. The rightholders have both witnessed the decrease of the amount of the above royalty and the number of the legally purchased copies of their works. The legislators responded to this by the introduction of technological protection measures (or digital rights management)<sup>3</sup> and stricter law enforcement. The efficiency and popularity of DRM was refuted shortly after their introduction. Shortly after the “Content Scrambling System” (CSS) was introduced a talented Norwegian youngster invented the DeCSS software to help the circumvention of the CSS. Within a couple of weeks the DeCSS became widely popular and CSS became technically ineffective means to protect DVDs from unauthorized reproduction.<sup>4</sup> Similarly, the Sony BMG “rootkit” scandal is a great example how DRM protections might lose their popularity. The Japanese company placed a DRM tool on millions of legally produced and acquired CDs. The “rootkit” software activated itself as soon as the purchaser of the CD tried to reproduce the content of the disc and it injured the CD-ROMs of the users. The scandal led to multi-million dollar damages and an immeasurable loss of prestige on behalf of Sony BMG.<sup>5</sup>

---

<sup>1</sup> Litman (2006) 22.

<sup>2</sup> Mezei (2010) 9-13.

<sup>3</sup> WIPO Copyright Treaty, adopted in Geneva on December 20, 1996 (*WCT*), Article 11; WIPO Performances and Phonograms Treaty, adopted in Geneva on December 20, 1996 (*WPPT*), Article 18; Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (*InfoSoc-Directive*), Article 6; Copyright Law of the United States of America and Related Laws Contained in Title 17 of the United States Code, §1201 (*USCA*).

<sup>4</sup> Universal City Studios, Inc., et al., v. Shawn C. Reimerdes, et al., 111 *F.Supp.2d* 294 (2000).

<sup>5</sup> Mulligan - Perzanowski (2007).

*It has to be stressed that the late and partially inadequate legal responses on the borderless internet freedoms and the increased needs of consumers, further the ever stricter law enforcement have extremely deepened the abyss between the rights holders and the users.*

This paper emphasizes that the obstacle of P2P filesharing is not a unique feature of our times – it is part of the centuries old legal narrative between symbiosis of technology and copyright law. The first chapter summarizes the factors that were necessary to the emergence of copyright protection including the technology (originally the printing press), authors, consumers and legislature. The second chapter will present that the evolution of copyright law is mainly led by users' demands and the massively accessible supply of new technologies.

## **1. The prerequisites of copyright protection**

The emergence of copyright protection is due to the appearance and conjunction of four different factors.

The first and most well-known reason is the (European) invention of the printing press. This device reformed the manual multiplication market and led to massive reproduction and distribution of written works (mainly books). This factor was known as “*material side*” by the classic Hungarian copyright commentators.<sup>6</sup> According to Rudolf Müller-Erbach, the representative of the “jurisprudence of interests” school, the birth of copyright law was clearly determined by the invention of printing technology, since copying by hand did not carry the interest to protect manuscripts in the lack of marketability.<sup>7</sup> The intellectual creations have turned to be marketable due to the emergence of multiplication technologies.<sup>8</sup> Elemér Balás P. remarked that “the intellectual creations have become negotiable, thus goods”.<sup>9</sup>

Subsequently, authors demanded an increased protection of their personal/intellectual interests.<sup>10</sup> This movement (usually called as “*personal side*”) was speed up by the appearance of individualism. From the end of the Middle Age, an increasing number of creators had the ambition to preserve their names for the future. The art historian Jacob Burckhardt noted that the subjective element rose from the renaissance; and humans became intellectual individualities. He argued that no one was averse to attract attention, to be different or look different than the others.<sup>11</sup>

The third reason is the “*consumption side*”, where the consumers' demand to become owners of physical copies of intellectual creations has been strengthened in the last two centuries as well. According to Ferencz Toldy “where scientific education and passing the time with reading literature is not a necessity, there isn't any need for intellectual works, and being an author is not a way of living”.<sup>12</sup> The economic potential of the citizens grew rapidly as soon as reading and writing ceased to be a secret knowledge of priest and nobles and literacy of ordinary people increased.

Finally the prevailing *legislative (political) environment* had to be open to settle and regulate the order (balance) between the different interests and actors of publishing industry and the consumers. It is important that the first “copyright related regulations” date back to the 15<sup>th</sup>-16<sup>th</sup> century: the kings granted so called “patents” to specific printers, who used these monopolies to exclusively print

---

<sup>6</sup> Balás P. (1941) 664.

<sup>7</sup> Nizsalovszky (1984) 15.

<sup>8</sup> Matthews (1890) 586.

<sup>9</sup> Balás P. (1941) 684.

<sup>10</sup> Nizsalovszky (1984) 15.

<sup>11</sup> Burckhardt (1978) 94.

<sup>12</sup> Toldy (1838) 712.

specific or any kind of books at a designated geographical territory.<sup>13</sup> However, these “patents” were not based on balancing the interests of the authors, publishers and consumers, indeed, they supported only the printers. After a few centuries the debate flared up in respect of the imbalance of interests, which necessarily led to legislation by the kings or Parliaments.

All these factors are clearly evidenced by the first copyright statute of the world. Before the Statute of Anne came into force on April 10<sup>th</sup>, 1710, printers from the Stationers Company controlled the monopolistic publishing of books. The Company’s monopoly was supported (and constantly renewed) by the King as the Company acted as a censor on behalf of the Crown. The need for censorship in England arose from the invention of the printing press occurring roughly at the same time as Reformation and the great geographical discoveries of this time period. These monumental developments opened up the world and consequently the minds of the Europeans and the English Crown felt itself uncomfortable with the possibility that books could become the means of free flow of ideas. Thus, the Stationers Company’s printing monopoly guaranteed the publishing of material which would not endanger the privileges of the King.<sup>14</sup> Printers, who were not members of the Stationers Company, could only reach the market with cheap and low quality reprints of books. Tensions originating from this practice were fueled by the borderless distribution of reprints (between Scotland, Ireland and England).<sup>15</sup> The interests of the authors were rarely articulated in the heated debate either, as the Stationers Company’s model was based on the exploitation of authors’ manuscripts without the constant appreciation of the creators’ efforts. The authors could sell their “copy rights” to the printers for a one-time fee but the income from the publications, the author's royalties, was not shared with them.

The legislative intent of the Crown brought an important shift in thinking at the turn of the 18<sup>th</sup> century. Daniel Defoe’s arguments in favor of free press served the basis for the protection of authors. Defoe claimed that the ineffective censorship shall be abolished by the introduction of liability for the content of the speech, but as a counterpart to this the rights for the works shall be granted to the authors. The Statute of Anne declared that the rights of reproduction and distribution should be vested in the authors. Although these rights remained transferable, but due to the elimination of the Stationers Company’s monopoly anyone could get the authors’ permission to print their books. The statute similarly introduced a limited term of protection, which was subject to renewal. This resulted in the elimination of *de facto* monopolies (everlasting publishing rights) and led to the emergence of the doctrine of public domain.<sup>16</sup>

This British example is unique. The conjunction of the above discussed four factors was optimal to give birth for the Statute of Anne. All the other countries of the world faced different economical, technological, intellectual, social and political challenges when creating their own national rules on copyright law. One of the results of this is that the content and sometimes the objectives of the domestic statutes differ more or less. The first French Copyright (the so called “Chénier”) Statute was created in 1793, the bloody years of the French Revolution. The basic objective of this statute was the introduction of liability for the content of speech.<sup>17</sup> The first Copyright Statute of the United States, created similarly in 1793, was based upon the exclusive legislative power of the Congress (Art. 1., Sec. 8., Par. 8) and intended to “promote the progress of science and useful arts”. These provisions focused mainly on new copyrightable works and inventions for the sake of the whole society rather than providing strong and wide protection for unique authors and inventors.

The balanced environment for the first Hungarian copyright act rose in the second half of the 19<sup>th</sup> century. At that time, the Hungarian publishing industry was strong, new newspapers and journals

---

<sup>13</sup> Matthews (1890) 587-589.

<sup>14</sup> *Ibid.* at 589-590.

<sup>15</sup> *Ibid.* at 599-601.

<sup>16</sup> Patterson et al. (2009) p. 244-256.

<sup>17</sup> Latournerie (2001) 43-46.

appeared on the market, and the Hungarian literature and theaters shined brightly. Although the first few proposals for the copyright code were defeated due to the destructive political climate of pre- and post-Revolution period of 1849-1849, the codex written in 1884 (named after the minister of justice, István Apáthy) was finally supported by all relevant actors of the “copyright industry”.

## 2. The dominance of technology and consumers’ needs in the development of copyright law

The history of copyright law undeniably proves that the development of technology has instigated the most legal changes. This is perfectly shown by the granting of the original privileges/monopolies by the monarchy to book publishers,<sup>18</sup> and the first copyright statutes similarly declared only books and other printed works to be protected subject matters, and reproduction (printing/reprinting) and distribution/sale of the physical copies to be exclusive rights of the authors. Hence, copyright protection originally did not cover other works of authorship, like sculptures, paintings, choreographs, or buildings. Such (usually unique, not massively marketable) creations were included into the list of subject matters later, when the intellectual interest to protect all creators became strong enough. This list has further expanded as soon as the business and moral advantages of new technological innovations were recognized. Such a great example is the relatively fresh protection of computer programs.

Yoshiyuki Tamura depicts the joint evolution of technology and copyright law with three “waves”. The first wave was the European invention of printing press that – as mentioned before – served as the cornerstone of the emergence of copyright protection. This original “copy right” protected rights holders reliably against usurpers as long as access to printing machines and the multiplication of printed books remained expensive. The second wave came in the second half of the 20<sup>th</sup> century with the appearance of analogue reproduction technologies (like the video tape recorders). Consequently, a larger portion of the society had the ability to reproduce protected materials. This second wave led to the modification of several crucial points of the copyright system, especially in respect of the economic rights and the term of protection. Finally, the third wave of the evolution appeared with the spread of digital technologies and the internet. Since these offer the chance for masses worldwide to have easy, fast and cheap access to and use (perfect reproduction) of copyrighted works, the third wave has caused unforeseen challenges for the legislature and the rights holders.<sup>19</sup>

Tamura’s conception seems to be too selective, since it gears the waving development of copyright law only to the degree of consumers’ access to protected materials. Contrary to Tamura’s theory, numerous other technologies (for example, cameras, television, radio, satellite broadcasting etc.) have been invented during the course of time that led to the codification of new protectable subject matters (for example photographs, motion picture and other audiovisual works, radio and television programs etc.) and exclusive economical rights (including neighboring rights).<sup>20</sup> Notwithstanding the above, Tamura’s theory correctly points out that during the last three centuries *most of the challenges, changes and amendments to the copyright system were induced by the newly invented and massively accessible technologies.*

This recognition is mirrored by the constant modifications of domestic copyright statutes and international copyright treaties and agreements as well. On the international level, both the WCT and the WPPT preambles recognize “the impact of the development and convergence of information and communication technologies on the creation and use of literary and artistic works” and “the production and use of performances and phonograms”. Similarly both WCT and WPPT recognizes “the need to introduce new international rules and clarify the interpretation of certain existing rules in order to provide adequate solutions to the questions raised by economic, social, cultural and technological developments”.

---

<sup>18</sup> Matthews (1890) 587-589.; Kenedi (1908) 7.; Patterson et al. (2009) 246-248.

<sup>19</sup> Tamura (2009) 66-68.

<sup>20</sup> David (2004) p. 5-10.

It is similarly undeniable that *the technological development has always correlated with the needs of the consumers' side*. It can be seen that the fate of a given technology depends upon the positive or negative reception for given equipment. Also, many new technological solutions were invented by the producers in the light of consumers' needs. In order to prove the above statements we might take a short look at the history of copyright protection of musical works and sound recordings.

The first copyright statutes of the world did not acknowledge musical works as protectable subject matters as in the majority of cases, the enjoyment of these works took place in closed communities, theaters, churches or nobles' palaces. Later, the increasing popularity of the performance and listening of musical works has guaranteed of marketability of these creations and were finally acknowledged as protectable subject matter in the 19<sup>th</sup> century.

Besides the revenue from sheet music publications, the composers could have been certain to profit from public performances of musical works as performances required the purchase of sheet music. Before the end of the 19<sup>th</sup> century, there was not any technology that made it possible to reproduce and distribute sheet music at a low expense. This was dramatically changed by the invention of those technologies that were capable to record and/or display musical works (sound recordings), such as barrel-organ, gramophone, phonogram or radio frequency transmission. Due to these technological developments, however, it has become a real danger that the reproduction or the public display of musical works (sound recordings) might occur without the permission of the rights holders.<sup>21</sup> It is not surprising therefore that the invention of any new technology that was capable to use copyrighted works in any way led to intense debates amongst the rights holders.<sup>22</sup> Indeed, most of these debates were settled by the legislators by the widening of economic rights and the institutionalization of licensing (by the introduction of the system of collective rights management).

John Philip Sousa, the famous US composer and conductor, testified the following on a congressional hearing (of the third US Copyright Act, finally accepted in 1909) in 1906:

*„These talking machines are going to ruin the artistic development of music in this country. When I was a boy (...) in front of every house in the summer evenings you would find young people together singing the songs of the day or the old songs. Today you hear these infernal machines going night and day. We will not have a vocal cord left. The vocal cords will be eliminated by a process of evolution, as was the tail of man when he came from the ape.”<sup>23</sup>*

Sousa's fears were well-grounded in the sense that the age of communal singing (as he described it) was on the decline. However, *in case the consumers' need would have been different the talking machines (Sousa was referring to player piano) would disappear from the market*. Indeed, no other new equipment would have been invented in the course of time that would be capable to record, reproduce or display music. To say it differently: *the society took sides with those machines that provided wide access to works rather than the existing copyright regime*. Consequently many new equipments and different data carriers appeared on the market that were designed to enjoy sound recordings mechanically. The new home equipments that were capable to display and copy sound recordings made the majority of the society potential infringers. The copyright regime reacted on this challenge successfully by the introduction of royalty on blank tape (later any kind of data carrier).

The copyright status quo was wounded by the appearance of digital technologies. One of the greatest advantages of Compact Discs was that the quality of the copy was not deteriorated by the reproduction. Another consequence of the spread of digital technologies was that the costs of the

---

<sup>21</sup> Litman (2006) 22-23.

<sup>22</sup> *Ibid.* at 23.

<sup>23</sup> Lessig (2008) 24-25.

production and multiplication of copies decreased radically. The massive expansion of internet, which made the distribution and making available of sound recordings extremely simple, heavily fueled the flames of the copyright war and consequently overwrote the rules of the “digital arena”. As a group of Dutch researchers emphasized:

*„Skilful consumers mastering information and communication technology have combined with the development of network capacity to increasingly squeeze the entertainment industry’s traditional business model. Digital consumers, wise to technological possibilities and new applications in the digital arena, are now making demands of products and services – demands that the entertainment industry, stuck in its traditional practices, has failed to meet sufficiently over the past few years.”<sup>24</sup>*

The chain of thoughts could naturally be continued with the introduction of the history and evolution of any other technology that was relevant from the perspective of copyright law, especially like photocopying, photographing or television. However, this is not necessary at the moment.

The present short article was willing to emphasize how the development of technologies and the copyright system correlates with each other. In the light of the above historical experiences, it has been shown why (among others) P2P filesharing – as one of the leading digital challenge of copyright law – appeared so easily at the end of the previous millennium and why did it conquer the heart of the users so rapidly and readily. The standardization of mp3 compression and wide-spread Internet adoption and accessibility resulted in the reality of sharing small size audio files via faster Internet connections. It is therefore unquestionable which option do the users choose to access musical works: cheap (almost free) filesharing portals or via purchasing (lawful) copies in music stores (or later online).

To sum up: people (especially copyright lawyers), who are interested in understanding the phenomenon and changes of P2P filesharing should first understand that there is nothing revolutionary in the appearance of this technology. *The emergence of P2P filesharing was a necessity in the light of technological improvement and the constant development of users’ demands.*<sup>25</sup>

---

<sup>24</sup> Helberger et al. (2009) 19.

<sup>25</sup> Mezei (2012) 13-63.

## CHAPTER II

**The Cartoon Network, LLLP v. CSC Holdings, Inc.**  
536 F.3d 121 (2<sup>nd</sup> Cir. 2008)

WALKER, JR., Circuit Judge

### BACKGROUND

Today's television viewers increasingly use digital video recorders ("DVRs") instead of video cassette recorders ("VCRs") to record television programs and play them back later at their convenience. DVRs generally store recorded programming on an internal hard drive rather than a cassette. But, as this case demonstrates, the generic term "DVR" actually refers to a growing number of different devices and systems. Companies like TiVo sell a stand-alone DVR device that is typically connected to a user's cable box and television much like a VCR. Many cable companies also lease to their subscribers "set-top storage DVRs," which combine many of the functions of a standard cable box and a stand-alone DVR in a single device.

In March 2006, Cablevision, an operator of cable television systems, announced the advent of its new "Remote Storage DVR System." As designed, the RS-DVR allows Cablevision customers who do not have a stand-alone DVR to record cable programming on central hard drives housed and maintained by Cablevision at a "remote" location. RS-DVR customers may then receive playback of those programs through their home television sets, using only a remote control and a standard cable box equipped with the RS-DVR software. Cablevision notified its content providers, including plaintiffs, of its plans to offer RS-DVR, but it did not seek any license from them to operate or sell the RS-DVR.

Plaintiffs, which hold the copyrights to numerous movies and television programs, sued Cablevision for declaratory and injunctive relief. They alleged that Cablevision's proposed operation of the RS-DVR would directly infringe their exclusive rights to both reproduce and publicly perform their copyrighted works. Critically for our analysis here, plaintiffs alleged theories only of direct infringement, not contributory infringement, and defendants waived any defense based on fair use.

Ultimately, the United States District Court for the Southern District of New York (Denny Chin, Judge), awarded summary judgment to the plaintiffs and enjoined Cablevision from operating the RS-DVR system without licenses from its content providers.

#### **I. Operation of the RS-DVR System**

Cable companies like Cablevision aggregate television programming from a wide variety of "content providers" – the various broadcast and cable channels that produce or provide individual programs – and transmit those programs into the homes of their subscribers via coaxial cable. At the outset of the transmission process, Cablevision gathers the content of the various television channels into a single stream of data. Generally, this stream is processed and transmitted to Cablevision's customers in real time. Thus, if a Cartoon Network program is scheduled to air Monday night at 8pm, Cartoon Network transmits that program's data to Cablevision and other cable companies nationwide at that time, and the cable companies immediately re-transmit the data to customers who subscribe to that channel.

Under the new RS-DVR, this single stream of data is split into two streams. The first is routed immediately to customers as before. The second stream flows into a device called the Broadband Media Router ("BMR"), which buffers the data stream, reformats it, and sends it to the "Arroyo Server," which consists, in relevant part, of two data buffers and a number of high-capacity hard disks. The entire stream of data moves to the first buffer (the "primary ingest buffer"), at which point the server automatically inquires as to whether any customers want to record any of that programming. If a customer has requested a particular program, the data for that program move from the primary buffer

into a secondary buffer, and then onto a portion of one of the hard disks allocated to that customer. As new data flow into the primary buffer, they overwrite a corresponding quantity of data already on the buffer. The primary ingest buffer holds no more than 0.1 seconds of each channel's programming at any moment. Thus, every tenth of a second, the data residing on this buffer are automatically erased and replaced. The data buffer in the BMR holds no more than 1.2 seconds of programming at any time. While buffering occurs at other points in the operation of the RS-DVR, only the BMR buffer and the primary ingest buffer are utilized absent any request from an individual subscriber.

(...) To the customer, however, the processes of recording and playback on the RS-DVR are similar to that of a standard set-top DVR. Using a remote control, the customer can record programming by selecting a program in advance from an on-screen guide, or by pressing the record button while viewing a given program. A customer cannot, however, record the earlier portion of a program once it has begun. To begin playback, the customer selects the show from an on-screen list of previously recorded programs. The principal difference in operation is that, instead of sending signals from the remote to an on-set box, the viewer sends signals from the remote, through the cable, to the Arroyo Server at Cablevision's central facility. In this respect, RS-DVR more closely resembles a VOD service, whereby a cable subscriber uses his remote and cable box to request transmission of content, such as a movie, stored on computers at the cable company's facility. But unlike a VOD service, RS-DVR users can only play content that they previously requested to be recorded. ...

## **II. The District Court's Decision**

In the district court, plaintiffs successfully argued that Cablevision's proposed system would directly infringe their copyrights in three ways. First, by briefly storing data in the primary ingest buffer and other data buffers integral to the function of the RS-DVR, Cablevision would make copies of protected works and thereby directly infringe plaintiffs' exclusive right of reproduction under the Copyright Act. Second, by copying programs onto the Arroyo Server hard disks (the "playback copies"), Cablevision would again directly infringe the reproduction right. And third, by transmitting the data from the Arroyo Server hard disks to its RS-DVR customers in response to a "playback" request, Cablevision would directly infringe plaintiffs' exclusive right of public performance. Agreeing with all three arguments, the district court awarded summary declaratory judgment to plaintiffs and enjoined Cablevision from operating the RS-DVR system without obtaining licenses from the plaintiff copyright holders. (...)

## **DISCUSSION**

(...) "Section 106 of the Copyright Act grants copyright holders a bundle of exclusive rights..." This case implicates two of those rights: the right "to reproduce the copyrighted work in copies," and the right "to perform the copyrighted work publicly." 17 U.S.C. §106(1), (4). As discussed above, the district court found that Cablevision infringed the first right by 1) buffering the data from its programming stream and 2) copying content onto the Arroyo Server hard disks to enable playback of a program requested by an RS-DVR customer. In addition, the district court found that Cablevision would infringe the public performance right by transmitting a program to an RS-DVR customer in response to that customer's playback request. We address each of these three allegedly infringing acts in turn.

### **I. The Buffer Data**

It is undisputed that Cablevision, not any customer or other entity, takes the content from one stream of programming, after the split, and stores it, one small piece at a time, in the BMR buffer and the primary ingest buffer. As a result, the information is buffered before any customer requests a recording, and would be buffered even if no such request were made. The question is whether, by buffering the data that make up a given work, Cablevision "reproduce[s]" that work "in copies," 17 U.S.C. §106(1), and thereby infringes the copyright holder's reproduction right.

“Copies,” as defined in the Copyright Act, “are material objects ... in which a work is fixed by any method ... and from which the work can be ... reproduced.” Id. §101. The Act also provides that a work is “‘fixed’ in a tangible medium of expression when its embodiment ... is sufficiently permanent or stable to permit it to be ... reproduced ... for a period of more than transitory duration.” Id. We believe that this language plainly imposes two distinct but related requirements: the work must be embodied in a medium, i.e., placed in a medium such that it can be perceived, reproduced, etc., from that medium (the “embodiment requirement”), and it must remain thus embodied “for a period of more than transitory duration” (the “duration requirement”). Unless both requirements are met, the work is not “fixed” in the buffer, and, as a result, the buffer data is not a “copy” of the original work whose data is buffered.

The district court mistakenly limited its analysis primarily to the embodiment requirement. As a result of this error, once it determined that the buffer data was “[c]learly ... capable of being reproduced,” i.e., that the work was embodied in the buffer, the district court concluded that the work was therefore “fixed” in the buffer, and that a copy had thus been made. In doing so, it relied on a line of cases beginning with *MAI Systems Corp. v. Peak Computer Inc.*, 991 F.2d 511 (9th Cir. 1993). (...)

The district court’s reliance on cases like *MAI Systems* is misplaced. In general, those cases conclude that an alleged copy is fixed without addressing the duration requirement; it does not follow, however, that those cases assume, much less establish, that such a requirement does not exist. Indeed, the duration requirement, by itself, was not at issue in *MAI Systems* and its progeny. As a result, they do not speak to the issues squarely before us here: If a work is only “embodied” in a medium for a period of transitory duration, can it be “fixed” in that medium, and thus a copy? And what constitutes a period “of more than transitory duration”? (...)

Accordingly, we construe *MAI Systems* and its progeny as holding that loading a program into a computer’s RAM can result in copying that program. We do not read *MAI Systems* as holding that, as a matter of law, loading a program into a form of RAM always results in copying. Such a holding would read the “transitory duration” language out of the definition, and we do not believe our sister circuit would dismiss this statutory language without even discussing it. (...)

In sum, no case law or other authority dissuades us from concluding that the definition of “fixed” imposes both an embodiment requirement and a duration requirement. We now turn to whether, in this case, those requirements are met by the buffer data.

Cablevision does not seriously dispute that copyrighted works are “embodied” in the buffer. (...) The result might be different if only a single second of a much longer work was placed in the buffer in isolation. In such a situation, it might be reasonable to conclude that only a minuscule portion of a work, rather than “a work” was embodied in the buffer. Here, however, where every second of an entire work is placed, one second at a time, in the buffer, we conclude that the work is embodied in the buffer.

Does any such embodiment last “for a period of more than transitory duration”? No bit of data remains in any buffer for more than a fleeting 1.2 seconds. And unlike the data in cases like *MAI Systems*, which remained embodied in the computer’s RAM memory until the user turned the computer off, each bit of data here is rapidly and automatically overwritten as soon as it is processed. While our inquiry is necessarily fact-specific, and other factors not present here may alter the duration analysis significantly, these facts strongly suggest that the works in this case are embodied in the buffer for only a “transitory” period, thus failing the duration requirement. (...)

## **II. Direct Liability for Creating the Playback Copies**

In most copyright disputes, the allegedly infringing act and the identity of the infringer are never in doubt. These cases turn on whether the conduct in question does, in fact, infringe the plaintiff's copyright. In this case, however, the core of the dispute is over the authorship of the infringing conduct. After an RS-DVR subscriber selects a program to record, and that program airs, a copy of the program – a copyrighted work – resides on the hard disks of Cablevision's Arroyo Server, its creation unauthorized by the copyright holder. The question is who made this copy. If it is Cablevision, plaintiffs' theory of direct infringement succeeds; if it is the customer, plaintiffs' theory fails because Cablevision would then face, at most, secondary liability, a theory of liability expressly disavowed by plaintiffs. ...

When there is a dispute as to the author of an allegedly infringing instance of reproduction, [the earlier cases] ... direct our attention to the volitional conduct that causes the copy to be made. There are only two instances of volitional conduct in this case: Cablevision's conduct in designing, housing, and maintaining a system that exists only to produce a copy, and a customer's conduct in ordering that system to produce a copy of a specific program. In the case of a VCR, it seems clear – and we know of no case holding otherwise – that the operator of the VCR, the person who actually presses the button to make the recording, supplies the necessary element of volition, not the person who manufactures, maintains, or, if distinct from the operator, owns the machine. We do not believe that an RS-DVR customer is sufficiently distinguishable from a VCR user to impose liability as a direct infringer on a different party for copies that are made automatically upon that customer's command. ...

The district court found Cablevision analogous to a copy shop that makes course packs for college professors. In the leading case involving such a shop, for example, “[t]he professor [gave] the copyshop the materials of which the coursepack [was] to be made up, and the copyshop [did] the rest.” There did not appear to be any serious dispute in that case that the shop itself was directly liable for reproducing copyrighted works. The district court here found that Cablevision, like this copy shop, would be “doing” the copying, albeit “at the customer's behest.”

But because volitional conduct is an important element of direct liability, the district court's analogy is flawed. In determining who actually “makes” a copy, a significant difference exists between making a request to a human employee, who then volitionally operates the copying system to make the copy, and issuing a command directly to a system, which automatically obeys commands and engages in no volitional conduct. ... Here, by selling access to a system that automatically produces copies on command, Cablevision more closely resembles a store proprietor who charges customers to use a photocopier on his premises, and it seems incorrect to say, without more, that such a proprietor “makes” any copies when his machines are actually operated by his customers. (...)

### **III. Transmission of RS-DVR Playback**

Plaintiffs' final theory is that Cablevision will violate the Copyright Act by engaging in unauthorized public performances of their works through the playback of the RS-DVR copies. The Act grants a copyright owner the exclusive right, “in the case of ... motion pictures and other audiovisual works, to perform the copyrighted work publicly.” 17 U.S.C. §106(4).

§101, the definitional section of the Act, explains that

*[t]o perform or display a work “publicly” means (1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or (2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.*

The parties agree that this case does not implicate clause (1). Accordingly, we ask whether these facts satisfy the second, “transmit clause” of the public performance definition: Does Cablevision “transmit ... a performance ... of the work ... to the public”? No one disputes that the RS-DVR playback results in the transmission of a performance of a work – the transmission from the Arroyo Server to the customer’s television set. Cablevision contends that (1) the RS-DVR customer, rather than Cablevision, does the transmitting and thus the performing and (2) the transmission is not “to the public” under the transmit clause.

As to Cablevision’s first argument, we note that our conclusion in Part II that the customer, not Cablevision, “does” the copying does not dictate a parallel conclusion that the customer, and not Cablevision, “performs” the copyrighted work. The definitions that delineate the contours of the reproduction and public performance rights vary in significant ways. For example, the statute defines the verb “perform” and the noun “copies,” but not the verbs “reproduce” or “copy.” We need not address Cablevision’s first argument further because, even if we assume that Cablevision makes the transmission when an RS-DVR playback occurs, we find that the RS-DVR playback, as described here, does not involve the transmission of a performance “to the public.”

The statute itself does not expressly define the term “performance” or the phrase “to the public.” It does explain that a transmission may be “to the public ... whether the members of the public capable of receiving the performance ... receive it in the same place or in separate places and at the same time or at different times.” This plain language instructs us that, in determining whether a transmission is “to the public,” it is of no moment that the potential recipients of the transmission are in different places, or that they may receive the transmission at different times. The implication from this same language, however, is that it is relevant, in determining whether a transmission is made to the public, to discern who is “capable of receiving” the performance being transmitted. The fact that the statute says “capable of receiving the performance,” instead of “capable of receiving the transmission,” underscores the fact that a transmission of a performance is itself a performance. (...)

From the foregoing, it is evident that the transmit clause directs us to examine who precisely is “capable of receiving” a particular transmission of a performance. Cablevision argues that, because each RS-DVR transmission is made using a single unique copy of a work, made by an individual subscriber, one that can be decoded exclusively by that subscriber’s cable box, only one subscriber is capable of receiving any given RS-DVR transmission. This argument accords with the language of the transmit clause, which, as described above, directs us to consider the potential audience of a given transmission. We are unpersuaded by the district court’s reasoning and the plaintiffs’ arguments that we should consider a larger potential audience in determining whether a transmission is “to the public.”

The district court, in deciding whether the RS-DVR playback of a program to a particular customer is “to the public,” apparently considered all of Cablevision’s customers who subscribe to the channel airing that program and all of Cablevision’s RS-DVR subscribers who request a copy of that program. Thus, it concluded that the RS-DVR playbacks constituted public performances because “Cablevision would transmit the same program to members of the public, who may receive the performance at different times, depending on whether they view the program in real time or at a later time as an RS-DVR playback.” In essence, the district court suggested that, in considering whether a transmission is “to the public,” we consider not the potential audience of a particular transmission, but the potential audience of the underlying work (i.e., “the program”) whose content is being transmitted.

We cannot reconcile the district court’s approach with the language of the transmit clause. That clause speaks of people capable of receiving a particular “transmission” or “performance,” and not of the potential audience of a particular “work.” Indeed, such an approach would render the “to the public” language surplusage. Doubtless the potential audience for every copyrighted audiovisual work is the general public. As a result, any transmission of the content of a copyrighted work would constitute a public performance under the district court’s interpretation. But the transmit clause obviously

contemplates the existence of non-public transmissions; if it did not, Congress would have stopped drafting that clause after “performance.” ...

Although the transmit clause is not a model of clarity, we believe that when Congress speaks of transmitting a performance to the public, it refers to the performance created by the act of transmission. Thus, HBO transmits its own performance of a work when it transmits to Cablevision, and Cablevision transmits its own performance of the same work when it retransmits the feed from HBO.

Furthermore, we believe it would be inconsistent with our own transmit clause jurisprudence to consider the potential audience of an upstream transmission by a third party when determining whether a defendant’s own subsequent transmission of a performance is “to the public.” (...)

In sum, none of the arguments advanced by plaintiffs or the district court alters our conclusion that, under the transmit clause, we must examine the potential audience of a given transmission by an alleged infringer to determine whether that transmission is “to the public.” And because the RS-DVR system, as designed, only makes transmissions to one subscriber using a copy made by that subscriber, we believe that the universe of people capable of receiving an RS-DVR transmission is the single subscriber whose self-made copy is used to create that transmission.

Plaintiffs contend that it is “wholly irrelevant, in determining the existence of a public performance, whether ‘unique’ copies of the same work are used to make the transmissions.” But plaintiffs cite no authority for this contention. And our analysis of the transmit clause suggests that, in general, any factor that limits the potential audience of a transmission is relevant.

Furthermore, no transmission of an audiovisual work can be made, we assume, without using a copy of that work: to transmit a performance of a movie, for example, the transmitter generally must obtain a copy of that movie. As a result, in the context of movies, television programs, and other audiovisual works, the right of reproduction can reinforce and protect the right of public performance. If the owner of a copyright believes he is injured by a particular transmission of a performance of his work, he may be able to seek redress not only for the infringing transmission, but also for the underlying copying that facilitated the transmission. Given this interplay between the various rights in this context, it seems quite consistent with the Act to treat a transmission made using Copy A as distinct from one made using Copy B, just as we would treat a transmission made by Cablevision as distinct from an otherwise identical transmission made by Comcast. Both factors – the identity of the transmitter and the source material of the transmission – limit the potential audience of a transmission in this case and are therefore germane in determining whether that transmission is made “to the public.”

Indeed, we believe that *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3<sup>rd</sup> Cir. 1984), relied on by both plaintiffs and the district court, supports our decision to accord significance to the existence and use of distinct copies in our transmit clause analysis. In that case, defendant operated a video rental store, Maxwell’s, which also housed a number of small private booths containing seats and a television. Patrons would select a film, enter the booth, and close the door. An employee would then load a copy of the requested movie into a bank of VCRs at the front of the store and push play, thereby transmitting the content of the tape to the television in the viewing booth.

The Third Circuit found that defendants’ conduct constituted a public performance under both clauses of the statutory definition. In concluding that Maxwell’s violated the transmit clause, that court explicitly relied on the fact that defendants showed the same copy of a work seriatim to its clientele, and it quoted a treatise emphasizing the same fact:

Professor Nimmer’s examination of this definition is particularly pertinent: “if the same copy ... of a given work is repeatedly played (i.e., ‘performed’) by different members of the public, albeit at different times, this constitutes a ‘public’ performance.” Although Maxwell’s has only one copy of

each film, it shows each copy repeatedly to different members of the public. This constitutes a public performance.

Unfortunately, neither the Redd Horne court nor Prof. Nimmer explicitly explains why the use of a distinct copy affects the transmit clause inquiry. But our independent analysis confirms the soundness of their intuition: the use of a unique copy may limit the potential audience of a transmission and is therefore relevant to whether that transmission is made “to the public.” Plaintiffs’ unsupported arguments to the contrary are unavailing.

Given that each RS-DVR transmission is made to a given subscriber using a copy made by that subscriber, we conclude that such a transmission is not “to the public,” without analyzing the contours of that phrase in great detail. No authority cited by the parties or the district court persuades us to the contrary. (...)

In sum, we find that the transmit clause directs us to identify the potential audience of a given transmission, i.e., the persons “capable of receiving” it, to determine whether that transmission is made “to the public.” Because each RS-DVR playback transmission is made to a single subscriber using a single unique copy produced by that subscriber, we conclude that such transmissions are not performances “to the public,” and therefore do not infringe any exclusive right of public performance. We base this decision on the application of undisputed facts; thus, Cablevision is entitled to summary judgment on this point.

This holding, we must emphasize, does not generally permit content delivery networks to avoid all copyright liability by making copies of each item of content and associating one unique copy with each subscriber to the network, or by giving their subscribers the capacity to make their own individual copies. We do not address whether such a network operator would be able to escape any other form of copyright liability, such as liability for unauthorized reproductions or liability for contributory infringement.

In sum, because we find, on undisputed facts, that Cablevision’s proposed RS-DVR system would not directly infringe plaintiffs’ exclusive rights to reproduce and publicly perform their copyrighted works, we grant summary judgment in favor of Cablevision with respect to both rights.

**THINK IT OVER!**

1. ***How different would be the outcome of the case, if Cablevision would provide a VOD (“video-on-demand”) service, where the service provider would record and store all available content on its central server without any request from its subscribers, and would provide access to these fixed copies on a temporary basis? For Hungarian students:*** compare this issue to the expert opinion No. 31/07/1 of the Hungarian Copyright Expert Board, where the panel differentiated between multiple types of VOD services, depending upon the service provider’s active contribution to the recording of TV-shows or its passive supply of digital services (“personal video recorder” or PVR service; “network PVR service” and “time-shifting”).

2. The Cablevision court excluded the treatment of the copies made in the primary ingest buffer and the data buffer in the BMR as fixations. ***How would these copies be treated under EU copyright law?*** Compare to Art. 5(1) of the InfoSoc-Directive on “temporary acts of reproduction”.

3. ***Is the Cablevision decision wholly or partially applicable to copies made by the users in the cloud?*** In the Hotfile case the trial judge found the service provider liable under contributory liability for direct infringements committed by the users of Hotfile’s “cyberlocker” (file-hosting) service.

## FURTHER CASE LAW

### *In English*

Perfect 10, Inc., v. Rapidshare A.G., et al., 09-CV-2596 H (WMC), US District Court for the Southern District of California (2010)  
Disney Enterprises, Inc. et al., v. Hotfile Corp. et al., 2013 WL 6336286 (2013)

### *In Hungarian*

SzJSzT 31/07/1 – “IPTV szolgáltatás szerzői jogi megítélése”. In: *Iparjogvédelmi és Szerzői Jogi Szemle*, Issue 1/2008: p. 166-178.

## RECOMMENDED READINGS

### *In English*

Kim, Vivian I.: The Public Performance Right in the Digital Age: Cartoon Network LP v. CSC Holdings, Inc., *Berkeley Technology Law Journal*, 2009: p. 263-297.  
Malkan, Jeffrey: The Public Performance Problem in Cartoon Network LP v. CSC Holdings, Inc., *Oregon Law Review*, 2010: p. 505-555.  
Pla, Irene M.: This Picture is Coming Fuzzy: Cartoon Network v. CSC Holdings Blurs the Line Between Direct and Secondary Copyright Infringement, *AIPLA Quarterly Journal*, Winter 2010, p. 85-111.  
Drath, Ross: Hotfile, Megaupload, and the Future of Copyright on the Internet: What Can Cyberlockers Tell us about DMCA Reform?, *John Marshall Review of Intellectual Property Law*, 2012: p. 220-231.  
Bodner, Carrie: Master Copies, Unique Copies and Volitional Conduct: Cartoon Network’s Implications for the Liability of Cyber Lockers, *Columbia Journal of Law & the Arts*, Spring 2013, p. 491-525.  
Falcon, Ernesto Omar: The Value of Cablevision and its Implications on International Copyright Law and the Internet, *Pacific McGeorge Global Business & Development Law Journal*, 2015: p. 303-329.

### *In Hungarian*

Mezei Péter - Németh László: A Direct Download Link (DDL) szolgáltatás szerzői jogi megítélése, *Infokommunikáció és Jog*, Issue 5/2009, p. 179-186.  
Mezei Péter: Tisztul a kép a RapidShare körül? A DDL szolgáltatók felelősségének a korlátozása, *Infokommunikáció és Jog*, Issue 6/2010, p. 187-191.  
Faludi Gábor - Grad-Gyenge Anikó: A cloud computing-alapú szolgáltatások szerzői jogi megítéléséről, *Infokommunikáció és Jog*, Issue 3/2012, p. 105-108.  
Mezei Péter: Egyedül a sötétben - a DDL szolgáltatók felelősségének aktuális fejleményei, *Infokommunikáció és Jog*, Issue 1/2014, p. 29-38.

## **Nils Svensson and Others v. Retriever Sverige AB**

JUDGMENT OF THE COURT (Fourth Chamber)

13 February 2014

Case C-466/12

### **(...) Legal context**

*International law*

The WIPO Copyright Treaty

3 The World Intellectual Property Organisation (WIPO) adopted the WIPO Copyright Treaty ('the WIPO Copyright Treaty') in Geneva on 20 December 1996. It was approved on behalf of the European Community by Council Decision 2000/278/EC of 16 March 2000.

4 Article 1(4) of the WIPO Copyright Treaty provides that the contracting parties are to comply with Articles 1 to 21 of the Convention for the Protection of Literary and Artistic Works, signed at Berne on 9 September 1886 (Paris Act of 24 July 1971), as amended on 28 September 1979 ('the Berne Convention').

#### The Berne Convention

5 Article 20 of the Berne Convention, entitled 'Special Agreements Among Countries of the Union', states:

*'The Governments of the countries of the Union reserve the right to enter into special agreements among themselves, in so far as such agreements grant to authors more extensive rights than those granted by the Convention, or contain other provisions not contrary to this Convention. The provisions of existing agreements which satisfy these conditions shall remain applicable.'*

#### *European Union law*

6 Recitals 1, 4, 6, 7, 9 and 19 in the preamble to Directive 2001/29 state:

*'(1) The Treaty provides for the establishment of an internal market and the institution of a system ensuring that competition in the internal market is not distorted. Harmonisation of the laws of the Member States on copyright and related rights contributes to the achievement of these objectives.*

*(4) A harmonised legal framework on copyright and related rights, through increased legal certainty and while providing for a high level of protection of intellectual property, will foster substantial investment in creativity and innovation, including network infrastructure, and lead in turn to growth and increased competitiveness of European industry, both in the area of content provision and information technology and more generally across a wide range of industrial and cultural sectors.*

*(6) Without harmonisation at Community level, legislative activities at national level which have already been initiated in a number of Member States in order to respond to the technological challenges might result in significant differences in protection and thereby in restrictions on the free movement of services and products incorporating, or based on, intellectual property, leading to a refragmentation of the internal market and legislative inconsistency. The impact of such legislative differences and uncertainties will become more significant with the further development of the information society, which has already greatly increased transborder exploitation of intellectual property. This development will and should further increase. Significant legal differences and uncertainties in protection may hinder economies of scale for new products and services containing copyright and related rights.*

*(7) The Community legal framework for the protection of copyright and related rights must, therefore, also be adapted and supplemented as far as is necessary for the smooth functioning of the internal market. To that end, those national provisions on copyright and related rights which vary considerably from one Member State to another or which cause legal uncertainties hindering the smooth functioning of the internal market and the proper development of the information society in Europe should be adjusted, and inconsistent national responses to the technological developments should be avoided, whilst differences not adversely affecting the functioning of the internal market need not be removed or prevented.*

*(9) Any harmonisation of copyright and related rights must take as a basis a high level of protection, since such rights are crucial to intellectual creation. Their protection helps to ensure the maintenance and development of creativity in the interests of authors, performers, producers, consumers, culture, industry and the public at large. ...*

*(19) The moral rights of rightholders should be exercised according to the legislation of the Member States and the provisions of the Berne Convention ...[,] the WIPO Copyright Treaty and of the WIPO Performances and Phonograms Treaty.'*

7 Article 3 of Directive 2001/29 provides:

*'1. Member States shall provide authors with the exclusive right to authorise or prohibit any communication to the public of their works, by wire or wireless means, including the making available to*

*the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them.*

*3. The rights referred to in paragraphs 1 and 2 shall not be exhausted by any act of communication to the public or making available to the public as set out in this Article.'*

### **The dispute in the main proceedings and the questions referred for a preliminary ruling**

8 The applicants in the main proceedings, all journalists, wrote press articles that were published in the Göteborgs-Posten newspaper and on the Göteborgs-Posten website. Retriever Sverige operates a website that provides its clients, according to their needs, with lists of clickable Internet links to articles published by other websites. It is common ground between the parties that those articles were freely accessible on the Göteborgs-Posten newspaper site. According to the applicants in the main proceedings, if a client clicks on one of those links, it is not apparent to him that he has been redirected to another site in order to access the work in which he is interested. By contrast, according to Retriever Sverige, it is clear to the client that, when he clicks on one of those links, he is redirected to another site.

9 The applicants in the main proceedings brought an action against Retriever Sverige before the Stockholms tingsrätt (Stockholm District Court) in order to obtain compensation on the ground that that company had made use, without their authorisation, of certain articles by them, by making them available to its clients.

10 By judgment of 11 June 2010, the Stockholms tingsrätt rejected their application. The applicants in the main proceedings then brought an appeal against that judgment before the Svea hovrätt (Svea Court of Appeal).

11 Before that court, the applicants in the main proceedings claimed, inter alia, that Retriever Sverige had infringed their exclusive right to make their respective works available to the public, in that as a result of the services offered on its website, Retriever Sverige's clients had access to the applicants' works.

12 Retriever Sverige contends, in defence, that the provision of lists of Internet links to works communicated to the public on other websites does not constitute an act liable to affect the copyright in those works. Retriever Sverige also contends that it did not carry out any transmission of any protected work; its action is limited to indicating to its clients the websites on which the works that are of interest to them are to be found.

13 In those circumstances, the Svea hovrätt decided to stay the proceedings and to refer the following questions to the Court of Justice for a preliminary ruling:

*'(1) If anyone other than the holder of copyright in a certain work supplies a clickable link to the work on his website, does that constitute communication to the public within the meaning of Article 3(1) of Directive [2001/29]?*

*(2) Is the assessment under question 1 affected if the work to which the link refers is on a website on the Internet which can be accessed by anyone without restrictions or if access is restricted in some way?*

*(3) When making the assessment under question 1, should any distinction be drawn between a case where the work, after the user has clicked on the link, is shown on another website and one where the work, after the user has clicked on the link, is shown in such a way as to give the impression that it is appearing on the same website?*

*(4) Is it possible for a Member State to give wider protection to authors' exclusive right by enabling communication to the public to cover a greater range of acts than provided for in Article 3(1) of Directive 2001/29?'*

### **Consideration of the questions referred**

#### *The first three questions*

14 By its first three questions, which it is appropriate to examine together, the referring court asks, in essence, whether Article 3(1) of Directive 2001/29 must be interpreted as meaning that the provision, on a website, of clickable links to protected works available on another website constitutes an act of communication to the public as referred to in that provision, where, on that other site, the works concerned are freely accessible.

15 In this connection, it follows from Article 3(1) of Directive 2001/29 that every act of communication of a work to the public has to be authorised by the copyright holder.

16 It is thus apparent from that provision that the concept of communication to the public includes two cumulative criteria, namely, an ‘act of communication’ of a work and the communication of that work to a ‘public’.

17 As regards the first of those criteria, that is, the existence of an ‘act of communication’, this must be construed broadly, in order to ensure, in accordance with, inter alia, recitals 4 and 9 in the preamble to Directive 2001/29, a high level of protection for copyright holders.

18 In the circumstances of this case, it must be observed that the provision, on a website, of clickable links to protected works published without any access restrictions on another site, affords users of the first site direct access to those works.

19 As is apparent from Article 3(1) of Directive 2001/29, for there to be an ‘act of communication’, it is sufficient, in particular, that a work is made available to a public in such a way that the persons forming that public may access it, irrespective of whether they avail themselves of that opportunity.

20 It follows that, in circumstances such as those in the case in the main proceedings, the provision of clickable links to protected works must be considered to be ‘making available’ and, therefore, an ‘act of communication’, within the meaning of that provision.

21 So far as concerns the second of the abovementioned criteria, that is, that the protected work must in fact be communicated to a ‘public’, it follows from Article 3(1) of Directive 2001/29 that, by the term ‘public’, that provision refers to an indeterminate number of potential recipients and implies, moreover, a fairly large number of persons.

22 An act of communication such as that made by the manager of a website by means of clickable links is aimed at all potential users of the site managed by that person, that is to say, an indeterminate and fairly large number of recipients.

23 In those circumstances, it must be held that the manager is making a communication to a public.

24 None the less, according to settled case-law, in order to be covered by the concept of ‘communication to the public’, within the meaning of Article 3(1) of Directive 2001/29, a communication, such as that at issue in the main proceedings, concerning the same works as those covered by the initial communication and made, as in the case of the initial communication, on the Internet, and therefore by the same technical means, must also be directed at a new public, that is to say, at a public that was not taken into account by the copyright holders when they authorised the initial communication to the public.

25 In the circumstances of this case, it must be observed that making available the works concerned by means of a clickable link, such as that in the main proceedings, does not lead to the works in question being communicated to a new public.

26 The public targeted by the initial communication consisted of all potential visitors to the site concerned, since, given that access to the works on that site was not subject to any restrictive measures, all Internet users could therefore have free access to them.

27 In those circumstances, it must be held that, where all the users of another site to whom the works at issue have been communicated by means of a clickable link could access those works directly on the site on which they were initially communicated, without the involvement of the manager of that other site, the users of the site managed by the latter must be deemed to be potential recipients of the initial communication and, therefore, as being part of the public taken into account by the copyright holders when they authorised the initial communication.

28 Therefore, since there is no new public, the authorisation of the copyright holders is not required for a communication to the public such as that in the main proceedings.

29 Such a finding cannot be called in question were the referring court to find, although this is not clear from the documents before the Court, that when Internet users click on the link at issue, the work appears in such a way as to give the impression that it is appearing on the site on which that link is found, whereas in fact that work comes from another site.

30 That additional circumstance in no way alters the conclusion that the provision on a site of a clickable link to a protected work published and freely accessible on another site has the effect of making that work available to users of the first site and that it therefore constitutes a communication to the public. However, since there is no new public, the authorisation of the copyright holders is in any event not required for such a communication to the public.

31 On the other hand, where a clickable link makes it possible for users of the site on which that link appears to circumvent restrictions put in place by the site on which the protected work appears in order to restrict public access to that work to the latter site's subscribers only, and the link accordingly constitutes an intervention without which those users would not be able to access the works transmitted, all those users must be deemed to be a new public, which was not taken into account by the copyright holders when they authorised the initial communication, and accordingly the holders' authorisation is required for such a communication to the public. This is the case, in particular, where the work is no longer available to the public on the site on which it was initially communicated or where it is henceforth available on that site only to a restricted public, while being accessible on another Internet site without the copyright holders' authorisation.

32 In those circumstances, the answer to the first three questions referred is that Article 3(1) of Directive 2001/29 must be interpreted as meaning that the provision on a website of clickable links to works freely available on another website does not constitute an act of communication to the public, as referred to in that provision.

#### *The fourth question*

33 By its fourth question, the referring court asks, in essence, whether Article 3(1) of Directive 2001/29 must be interpreted as precluding a Member State from giving wider protection to copyright holders by laying down that the concept of communication to the public includes a wider range of activities than those referred to in that provision.

34 In this connection, it is apparent, in particular, from recitals 1, 6 and 7 in the preamble to Directive 2001/29 that the objectives of the directive are, inter alia, to remedy the legislative differences and legal uncertainty that exist in relation to copyright protection. Acceptance of the proposition that a Member State may give wider protection to copyright holders by laying down that the concept of communication to the public also includes activities other than those referred to in

Article 3(1) of Directive 2001/29 would have the effect of creating legislative differences and thus, for third parties, legal uncertainty.

35 Consequently, the objective pursued by Directive 2001/29 would inevitably be undermined if the concept of communication to the public were to be construed in different Member States as including a wider range of activities than those referred to in Article 3(1) of that directive.

36 It is true that recital 7 in the preamble to the directive indicates that the directive does not have the objective of removing or preventing differences that do not adversely affect the functioning of the internal market. Nevertheless, it must be observed that, if the Member States were to be afforded the possibility of laying down that the concept of communication to the public includes a wider range of activities than those referred to in Article 3(1) of the directive, the functioning of the internal market would be bound to be adversely affected.

37 It follows that Article 3(1) of Directive 2001/29 cannot be construed as allowing Member States to give wider protection to copyright holders by laying down that the concept of communication to the public includes a wider range of activities than those referred to in that provision.

38 Such a conclusion is not affected by the fact, highlighted by the applicants in the main proceedings in their written observations, that Article 20 of the Berne Convention stipulates that the signatory countries may enter into ‘special agreements’ among themselves with a view to granting copyright holders more extensive rights than those laid down in that Convention.

39 In this connection, suffice it to recall that, when an agreement allows, but does not require, a Member State to adopt a measure which appears to be contrary to Union law, the Member State must refrain from adopting such a measure.

40 Since the objective of Directive 2001/29 would inevitably be undermined if the concept of communication to the public were construed as including a wider range of activities than those referred to in Article 3(1) of that directive, a Member State must refrain from exercising the right granted to it by Article 20 of the Berne Convention.

41 Therefore, the answer to the fourth question is that Article 3(1) of Directive 2001/29 must be interpreted as precluding a Member State from giving wider protection to copyright holders by laying down that the concept of communication to the public includes a wider range of activities than those referred to in that provision.

**THINK IT OVER!**

1. What is the substantial difference between communication to the public and making available to the public? Art. 3(1) of the InfoSoc-Directive declares every wire or wireless means of public transmission of protected subject matter as communication to the public, whilst making available to the public means that “members of the public may access [protected subject matter] from a place and at a time individually chosen by them”. The European Copyright Society has stressed in its analysis on the Svensson case that “hyperlinks do not transmit a work, (to which they link) they merely provide the viewer with information as to the location of a page that the user can choose to access or not. There is thus no communication of the work. ” Conversely, ALAI has noted that “‘making available’ as set out in WCT article 8 necessarily encompasses not only the actual transmission of a work to members of the public, but especially the *offering* to the public of the work for individualized streaming or downloading, not merely the receipt of the stream or download”. ***Which position shall be treated as correct regarding linking?***

2. Following the CJEU's arguments in the Svensson case (compare to para. 26) **would it make any difference if the relevant protected subject matter was originally made available to the public by a third party without proper authorization by the rightholder?** The automatic response would probably be a clear "yes". See, however, CJEU's order in the BestWater case, where the judges sidestepped this material issue.

3. In its other preliminary ruling in the TVCatchup case the CJEU has noted that "by regulating the situations in which a given work is put to multiple use, the European Union legislature intended that each transmission or retransmission of a work which uses a specific technical means must, as a rule, be individually authorised by the author of the work in question. Those findings are, moreover, supported by Articles 2 and 8 of Directive 93/83, which require fresh authorisation for a simultaneous, unaltered and unabridged retransmission by satellite or cable of an initial transmission of television or radio programmes containing protected works, even though those programmes may already be received in their catchment area by other technical means, such as by wireless means or terrestrial networks. Given that the making of works available through the retransmission of a terrestrial television broadcast over the internet uses a specific technical means different from that of the original communication, that retransmission must be considered to be a 'communication' within the meaning of Article 3(1) of Directive 2001/29. Consequently, such a retransmission cannot be exempt from authorisation by the authors of the retransmitted works when these are communicated to the public." (Case C-607/11, paras. 24-26.) Some notable commentators have pointed to the flawless nature of CJEU's argumentation. As Ficsor noted: "Article 11bis(1)(ii) of the Berne Convention provides for an exclusive right not only for retransmission by cable but also for rebroadcasting which means retransmission by wireless means; that is, by the same 'specific means' as what is used for broadcasting. There is no difference from the viewpoint of the applicability of this component of the right of communication to the public under its above-mentioned broad concept depending on the question of whether the subsequent communication is made by different technical means (in the case of Article 11bis(1)(ii), by wire) or by the same (in that case, by wireless means). This shows in an unequivocal manner that the 'specific technical means' theory is in conflict with international copyright norms and the EU rules implementing them; there is no element of those norms and rules or of their 'preparatory work' that would support it." ***What are the dangers of the theory of 'specific technical means' with regards linking?***

#### FURTHER CASE LAW

*Case C-607/11 - ITV Broadcasting Ltd. and Others v. TVCatchup Ltd.*, 7 March 2013, ECLI:EU:C:2013:147

*Case C-348/13 - BestWater International GmbH v. Michael Mebes and Stefan Potsch*, 21 October 2014, ECLI:EU:C:2014:2315

BGH 17.7.2003 (I ZR 259/00) - Paperboy. In: *Gewerblicher Rechtsschutz und Urheberrecht*, Issue 11/2003, p. 958-963.

#### RECOMMENDED READINGS

##### *In English*

Bently, Lionel - Derclaye, Estelle - Dinwoodie, Greame B. - Dreier, Thomas - Dussolier, Séverine - Geiger, Christophe - Griffiths, Jonathan - Hilty, Reto - Hugenholtz, P. Bernt - Jansses, M-C - Kretschmer, Martin - Metzger, Axel - Peukert, Alexander - Ricolfi, Marco - Senftleben, Martin - Strowel, Alain - Vivant, Michel - Xalabarder, Raquel: *The Referencetothe CJEU in Case C-466/12 Svensson*, Legal Studies Research Paper Series, Paper No. 6/2013 ([http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2220326](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2220326))

de Beer, Jeremy - Burri, Mira: Transatlantic Copyright Comparisons: Making Available via Hyperlinks in the European Union and Canada, *European Intellectual Property Review*, Issue 2/2014, p. 95-105.

Association Littéraire et Artistique Internationale: Report and Opinion on the making available and communication to the public in the internet environment - focus on linking techniques on the Internet, *European Intellectual Property Review*, Issue 3/2014, p. 149-155.

Moir, Andrew - Montagnon, Rachel - Newton, Heather: Communication to the Public: the CJEU Finds Linking to Material Already „Freely Available” Cannot be Restricted by Copyright Owners: Nils Svensson and Others v. Retriever Sverige AB (C-466/12), *European Intellectual Property Review*, Issue 6/2014, p. 399-400.

Ficsor, Mihály J.: Svensson: honest attempt at establishing due balance concerning the use of hyperlinks - spoiled by the erroneous „new public” theory, *Copyright See-Saw*, May 5, 2014 ([http://www.copyrightseesaw.net/archive/?sw\\_10\\_item=63](http://www.copyrightseesaw.net/archive/?sw_10_item=63))

*In Hungarian*

Tóth, Péter Benjamin: *Jogi felelősség hiperlink alkalmazásakor*, 2002: p. 1-34. (<http://www.artisjus.hu/userfiles/file/szerzoijogrol/hiperlink.pdf>)

Mezei, Péter: A linkelés szerzői jogi vonatkozásai - négyzögletes dugó a hatszögletű lyukba?, *Infokommunikáció és Jog*, 2015. március (61. szám), p. 30-39.

**Flava Works, Inc., v. Marques Rondale Gunter**

689 F.3d 754 (7<sup>th</sup> Cir. 2012)

POSNER, Circuit Judge,

**OPINION**

(...) Flava specializes in the production and distribution of videos of black men engaged in homosexual acts. Although some people would disapprove of such a service, there is no suggestion that it is illegal; and anyway the prevailing view is that even illegality is not a bar to copyrightability. As pointed out in the *Jartech* case, “obscenity is a community standard which may vary to the extent that controls thereof may be dropped by a state altogether. Acceptance of an obscenity defense would fragment copyright enforcement, protecting registered materials in a certain community, while, in effect, authorizing pirating in another locale.” *Jartech, Inc. v. Clancy*, 666 F.2d 403, 406 (9th Cir. 1982) (...)

The websites that host them are behind a “pay wall”; that is, access to them (except for previews) is available only upon payment of a fee in advance. The user must agree not to copy, transmit, sell, etc. the video, although Flava's terms of use permit the user to download it to his computer for his “personal, noncommercial use” – only.

Enter myVidster, an online service engaged in what is called “social bookmarking” – enabling individuals who have similar tastes to point one another (and actually provide one another access) to online materials that cater to those tastes, by bookmarking materials on the social-bookmarking service's website. We need to describe how this works.

Patrons of myVidster find videos on the Internet, and if they want to make them available to other patrons of myVidster (who apparently can be anyone – as far as we can discern from the record all content on myVidster is publicly accessible) “bookmark” (note) them on myVidster's website. Upon receiving the bookmark myVidster automatically requests the video's “embed code” from the server that hosts (that is, stores) the video. In the present context “server” denotes a specialized computer for storing and transmitting bulky online materials, like videos. When you upload a video to the Internet, the video is stored on a server that transmits the video to other Internet users' computers on request.

The embed code contains the video's web address plus instructions for how to display the video. Armed with that code, myVidster creates a web page that makes the video appear to be on myVidster's

site. When you visit the site, that video and other videos appear, each in the form of a “thumbnail,” a miniature picture of a video's opening screen shot. A click on a thumbnail activates computer code that connects the visitor's computer to the server; the connection made, the visitor is now watching the video. He's watching it through a frame that myVidster has put around it, containing ads (it's by selling ads for display on its website that myVidster finances its operation). He may think, therefore, that he's seeing the video on myVidster's website. But actually the video is being transmitted directly from the server on which the video is stored to the viewer's computer. Someone had uploaded the video to that server, and later a subscriber to myVidster had come across it and decided to bookmark it. This led to the creation of a page on myVidster's website and by clicking on the page other visitors to myVidster can now view the video – but on the server that hosts the video, not on myVidster's website; the bookmarked video is not posted on myVidster's website.

Uploading a video to the Internet is commonplace and simple to do. And once uploaded it is easy to send to a friend to view and is easily found in a search of the web and viewed. Uploading is the source of the immense number of videos viewable on YouTube. But if the uploaded video is copyrighted, the uploader has (depending on the terms of use) infringed the copyright. A customer of Flava is authorized only to download the video (or if he obtained it on a DVD sold by Flava, to copy it to his computer) for his personal use. If instead he uploaded it to the Internet and so by doing so created a copy (because the downloaded video remains in his computer), he was infringing.

Is myVidster therefore a contributory infringer if a visitor to its website bookmarks the video and later someone clicks on the bookmark and views the video? myVidster is not just adding a frame around the video screen that the visitor is watching. Like a telephone exchange connecting two telephones, it is providing a connection between the server that hosts the video and the computer of myVidster's visitor. But as long as the visitor makes no copy of the copyrighted video that he is watching, he is not violating the copyright owner's exclusive right, conferred by the Copyright Act, “to reproduce the copyrighted work in copies” and “distribute copies ... of the copyrighted work to the public.” 17 U.S.C. §106(1), (3). His bypassing Flava's pay wall by viewing the uploaded copy is equivalent to stealing a copyrighted book from a bookstore and reading it. That is a bad thing to do (in either case) but it is not copyright infringement. The infringer is the customer of Flava who copied Flava's copyrighted video by uploading it to the Internet.

The right to control copying is not the only exclusive right of a copyright owner. That would make life too simple for us. He also has an exclusive right “to perform the copyrighted work publicly.” §106(4). But we begin our analysis with the right to prevent copying and ask whether myVidster is the copiers' accomplice.

A typical, and typically unhelpful, definition of “contributory infringer” is “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another.” *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). Such a one “may be held liable as a ‘contributory’ infringer.” *Id.* But does “may be held liable” mean that a person who fits the definition of “contributory infringer” may nevertheless not be a contributory infringer after all? And what exactly does “materially contribute” mean? And how does one materially contribute to something without causing or inducing it? And how does “cause” differ from “induce”?

Brevity is the soul of wit and tediousness its limbs and outward flourishes. We therefore prefer the succinct definition of contributory infringement in *Matthew Bender & Co. v. West Publishing Co.*, 158 F.3d 693, 706 (2d Cir. 1998): “personal conduct that encourages or assists the infringement.”

Flava contends that by providing a connection to websites that contain illegal copies of its copyrighted videos, myVidster is encouraging its subscribers to circumvent Flava's pay wall, thus reducing Flava's income. No doubt. But unless those visitors copy the videos they are viewing on the infringers' websites, myVidster isn't increasing the amount of infringement. An employee of Flava who

embezzled corporate funds would be doing the same thing – reducing Flava's income – but would not be infringing Flava's copyrights by doing so. myVidster displays names and addresses (that's what the thumbnails are, in effect) of videos hosted elsewhere on the Internet that may or may not be copyrighted. Someone who uses one of those addresses to bypass Flava's pay wall and watch a copyrighted video for free is no more a copyright infringer than if he had snuck into a movie theater and watched a copyrighted movie without buying a ticket. The facilitator of conduct that doesn't infringe copyright is not a contributory infringer.

A practical objection to stretching the concept of contributory infringement far enough to make a social-bookmarking service a policeman of copyright law is that the service usually won't know whether a video that a visitor bookmarks on the service's website is protected by copyright. Congress addressed this problem in the Digital Millennium Copyright Act of 1998. The Act provides a safe harbor to Internet service providers. It states that a provider isn't liable for copyright infringement by “referring or linking users to an online location containing infringing material” if it meets certain conditions – it doesn't know the material is infringing, it isn't aware of facts that would make the infringement apparent, upon learning such facts it acts expeditiously to remove or disable access to the infringing material, it doesn't receive a financial benefit directly attributable to the infringing activity, 17 U.S.C. §512(d), and it terminates repeat infringers. §512(i)(1)(A). myVidster received “takedown” notices from Flava designed to activate the duty of an Internet service provider to ban repeat infringers from its website, and Flava contends that myVidster failed to comply with the notices. But this is irrelevant unless myVidster is contributing to infringement; a noninfringer doesn't need a safe harbor. As the record stands (a vital qualification, given that the appeal is from the grant of a preliminary injunction and may therefore be incomplete), myVidster is not an infringer, at least in the form of copying or distributing copies of copyrighted work. The infringers are the uploaders of copyrighted work. There is no evidence that myVidster is encouraging them, which would make it a contributory infringer.

It might seem that the mention in the Digital Millennium Copyright Act of “referring or linking users to an online location containing infringing material” expands the concept of contributory infringement to any reference to, or linkage in the sense of facilitating access to, copyrighted material. But this is implausible, and anyway is not argued by Flava. Taken literally it would make the publication, online or otherwise, of any contact information concerning a copyrighted work a form of contributory infringement. A more plausible interpretation is that Congress wanted to make the safe harbor as capacious as possible – however broadly contributory infringement might be understood, the Internet service provider would be able to avoid liability.

Now if myVidster invited people to post copyrighted videos on the Internet without authorization or to bookmark them on its website, it would be liable for inducing infringement (...). But inducing infringement was not a ground of the preliminary injunction issued by the district judge in this case and anyway there is no proof that myVidster has issued any such invitations.

myVidster knows that some of the videos bookmarked on its site infringe copyright, but that doesn't make it a facilitator of copying. Although visitors who view those videos are viewing infringing material, they are paying nothing for it and therefore not encouraging infringement, at least in a material sense, unless perhaps the infringer gets ad revenue every time someone plays the video that he posted on the Internet – but there is no evidence of that. True, bookmarking is a way of making friends on a social network, and one needs something to bookmark, and so if you want to make friends with people who like the kind of videos that Flava produces you may be inclined to upload those videos to the Internet in the hope that someone will bookmark them on myVidster's website and someone else will watch them and be grateful to you. But this is very indirect. For will a visitor to myVidster who watches a bookmarked infringing video know whom to be grateful to – know who uploaded it, thus enabling it to be bookmarked and viewed? That is unlikely. The unauthorized copier – the uploader of the copyrighted video – is not a part of the social network unless he's a myVidster member and uploads the Flava video for the purpose of its being bookmarked on myVidster and

somehow gets credit for the bookmarking and for the ensuing viewing of the bookmarked video. There is no evidence that there are any such people.

A term in the conventional definition of contributory infringement – “material contribution” – invokes common law notions of remoteness that limit efforts to impose liability for speculative imaginings of possible causal consequences. As we said in *BCS Services, Inc. v. Heartwood 88, LLC*, 637 F.3d 750, 755 (7th Cir. 2011), “An injury will sometimes have a cascading effect that no potential injurer could calculate in deciding how carefully to act. The effect is clear in hindsight – but only in hindsight.” The absence of evidence of myVidster's effect on the amount of infringement of Flava's videos brings concern about remoteness into play.

The absence of evidence arises in part from the fact that although Flava has a specialized subject matter, myVidster does not. It's like YouTube, except that YouTube hosts the videos it provides access to and myVidster as we know does not. Another difference, however, is that YouTube refuses to provide access to pornography, and myVidster, as we also know, is not so choosy – on the contrary. It's true that its home page (...) lists videos that range from the fighting in Syria to “Obamacare” and “Ugliest Tattoos” and “Why You Should Spiral - Cut Your Wiener” (...), with nary a pornographic video among them. But this is misleading, because in the default setting on myVidster (the setting when you first click on its website) the “family filter” is turned on; if you turn it off, your visit will reveal a mixture of pornographic and nonpornographic videos, with the former predominating, and of those the majority are homosexual and many of the actors in the homosexual videos are black.

But Flava is not the only producer of such videos, and there is no information in the record concerning its market share. All we glean from the record – and it is of no help to Flava – is that of the 1.2 million bookmarks that have been made on myVidster's website, Flava has been able to identify only 300 as bookmarks of copyrighted Flava videos; and we don't know whether any visitors to myVidster's website clicked on any of them and thus actually watched an unauthorized copy of a Flava video. Flava claims that its sales have fallen by 30 to 35 percent and that as a result it probably has lost more than \$100,000 in revenue. But it doesn't say over what period the decline in revenue has occurred and it acknowledges that there are at least a dozen websites besides myVidster's on which access to unauthorized copies of Flava's videos can be obtained. So the \$100,000 loss in revenue can't be ascribed entirely to myVidster. Indeed, myVidster may have very little – even nothing – to do with Flava's financial troubles.

Google and Facebook in a joint amicus curiae brief friendly to myVidster manage to muddy the waters by analyzing remoteness of injury from an alleged infringement not as a matter of general tort principles but as a species of layer cake. There are the “direct” infringers, who upload copyrighted videos to the Internet without authorization. There are myVidster members who bookmark videos illegally uploaded by the “direct” infringers – the brief describes the bookmarking visitors as “secondary” infringers. And finally there is myVidster, which connects visitors to its website to the servers that host the infringing videos. The brief describes myVidster as being at worst a “tertiary” infringer, beyond the reach of copyright law because the law doesn't recognize tertiary copyright infringement. But the law doesn't recognize “secondary infringement” either. The only distinctions relevant to this case are between direct infringement (which really ought just to be called infringement – the law doesn't speak of “direct negligence” versus “contributory negligence” or “direct murder” versus “aiding and abetting murder”) and contributory infringement, and between contributory infringement and noninfringement. The direct infringers in this case are the uploaders; myVidster is neither a direct nor a contributory infringer – at least of Flava's exclusive right to copy and distribute copies of its copyrighted videos.

That is an essential qualification. So far we've been discussing infringement just by copying, and we can't stop there. For remember that the Copyright Act also makes it unlawful “to perform the copyrighted work publicly,” 17 U.S.C. §106(4), defined, so far as relates to this case, as “to transmit or otherwise communicate a performance ... of the work ... to the public ... whether the members of the

public capable of receiving the performance ... receive it in the same place or in separate places and at the same time or at different times.” §101. One possible interpretation is that uploading plus bookmarking a video is a public performance because it enables a visitor to the website to receive (watch) the performance at will, and the fact that he will be watching it at a different time or in a different place from the other viewers does not affect its “publicness,” as the statute makes clear. We’ll call this interpretation, for simplicity, “performance by uploading.” An alternative interpretation, however – call it “performance by receiving” – is that the performance occurs only when the work (Flava’s video) is transmitted to the viewer’s computer (...).

On the first interpretation, performance by uploading, the performance of a movie in a movie theater might by analogy be said to begin not when the audience is seated and the movie begins but a bit earlier, when the operator of the projector loads the film and puts his finger on the start button; while on the second interpretation, performance by receiving, it begins when he presses the button and the reel begins to unwind. The second interpretation is certainly more plausible in the movie-theater setting. But in the setting of our case the viewer rather than the sender (the latter being the uploader of the copyrighted video) determines when the performance begins, and it is odd to think that every transmission of an uploaded video is a public performance. The first interpretation – public performance occurs when the video is uploaded and the public becomes capable of viewing it – is better at giving meaning to “public” in public performance but worse at giving meaning to “performance.” Legislative clarification of the public-performance provision of the Copyright Act would therefore be most welcome.

The second interpretation – the performance occurs when the video is viewed – is more favorable to Flava, because myVidster plays a role there and not in up-loading. So we’re surprised that Flava doesn’t urge it. The first interpretation is hopeless for Flava. For there is no evidence that myVidster is contributing to the decision of someone to upload a Flava video to the Internet, where it then becomes available to be bookmarked on myVidster’s website. myVidster is giving web surfers addresses where they can find entertainment. By listing plays and giving the name and address of the theaters where they are being performed, the New Yorker is not performing them. It is not “transmitting or communicating” them.

Is myVidster doing anything different? To call the provision of contact information transmission or communication and thus make myVidster a direct infringer would blur the distinction between direct and contributory infringement and by doing so make the provider of such information an infringer even if he didn’t know that the work to which he was directing a visitor to his website was copyrighted. Then he would have to search for a safe harbor in the Digital Millennium Copyright Act. myVidster doesn’t touch the data stream, which flows directly from one computer to another, neither being owned or operated by myVidster.

But if the public performance is the transmission of the video when the visitor to myVidster’s website clicks on the video’s thumbnail (the second interpretation) and viewing begins, there is an argument that even though the video uploader is responsible for the transmitting and not myVidster, myVidster is assisting the transmission by providing the link between the uploader and the viewer, and is thus facilitating public performance. There is a remote analogy to the “swap meet” operated by the defendant in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996). That was a flea market in which, as the defendant knew, pirated recordings of music copyrighted by the plaintiff were sold in such bulk that the subsequent performance by the buyers (when they played the recordings) may have satisfied the broad definition of public performance in the Copyright Act, although the opinion doesn’t say whether the infringement consisted of unauthorized distribution of copies or unauthorized public performance and probably meant the former. Under either interpretation the swap meet operator was providing “support services” without which “it would [have been] difficult for the infringing activity to take place in the massive quantities alleged.” *Id.* at 264.

In contrast, Flava's pirated videos are not sold, and there isn't even admissible evidence that they're actually being accessed via myVidster, rather than via other websites, and if they are not, myVidster is not contributing to their performance. Unlike the defendant in Fonovisa, myVidster is not providing a market for pirated works, because infringers who transmit copyrighted works to myVidster's visitors are not selling them. That isn't determinative, because copyrights can be infringed without a pecuniary motive. But it is relevant to whether myVidster's bookmarking service is actually contributing significantly to the unauthorized performance of Flava's copyrighted works by visitors to myVidster's website. It's not as if myVidster were pushing the uploading of Flava videos because it had a financial incentive to encourage performance of those works, as the swap meet did.

Nor is this case like our Aimster case, cited earlier. That was a file-sharing case. Kids wanted to swap recorded music (often copyrighted) over the Internet. The swapping required special software – which Aimster provided. By doing so it created the online equivalent of a swap meet, since anyone equipped with Aimster's software could easily obtain copies of copyrighted songs in AOL chat rooms; the first three letters in “Aimster” were an acronym for “AOL instant messaging.” Although it wasn't proved that all the swapped recordings were copyrighted, it was apparent that most were – and maybe all, for we noted that “Aimster has failed to produce any evidence that its service has ever been used for a noninfringing use.” In *re Aimster Copyright Litigation*, 334 F.3d 643, 653 (7th Cir. 2003). That can't be said about myVidster's social-bookmarking service. Unlike Aimster, it's not encouraging swapping, which in turn encourages infringement, since without infringement there is nothing to swap.

As should be clear by now, on the record compiled so far in this litigation there is no basis for the grant of a preliminary injunction. That is not to say that Flava can't establish grounds for such an injunction, consistent with the eBay standard. It seems at least entitled to an injunction against myVidster's uploading to its website videos in which Flava owns copyrights. Before it was sued by Flava, myVidster had been doing that – making copies of videos that some of its subscribers had posted, including videos copyrighted by Flava. Although myVidster doesn't charge for membership in its social network, it charges a fee for a premium membership that included the backup service. That service infringed Flava's copyrights directly – it didn't just abet others' infringements.

myVidster has stopped offering it. But Flava would still be entitled to an injunction – cessation of an unlawful practice doesn't exonerate a defendant, since unless enjoined he might resume infringing. It's thus a surprise that the preliminary injunction doesn't enjoin the backup service, especially since the district judge considered it evidence that myVidster was contributing to the infringing activity of its members. (...) But the judge said that while the “plaintiff also referred in closing argument to its claims of direct copyright infringement and inducement of copyright infringement, ... its motion for a preliminary injunction is not based on those claims.” The backup service was direct infringement – myVidster was copying videos, including some of Flava's, without authorization. Yet as the judge said, Flava didn't make a claim for direct infringement a basis for its motion for preliminary relief. It doesn't seem to be interested in such an injunction. At oral argument, however, myVidster's lawyer said his client wouldn't oppose such an injunction, and maybe this will awaken Flava's interest. This is something for consideration on remand.

Flava may be entitled to additional preliminary injunctive relief as well, if it can show, as it has not shown yet, that myVidster's service really does contribute significantly to infringement of Flava's copyrights. The preliminary injunction that the district court entered must, however, be

**VACATED.**

THINK IT OVER!

1. Judge Posner used an analogy when he tried to categorize deep-linking. As a part of that he

differentiated between two forms of performance: “performance by uploading” (“begin[s] not when the audience is seated and the movie begins but a bit earlier, when the operator of the projector loads the film and puts his finger on the start button”) and “performance by receiving” (“begins when [the operator of the projector] presses the button and the reel begins to unwind”). He refused to accept linking as “performance by uploading” (“the first interpretation is hopeless for Flava”). ***Is this argument acceptable, if we know that the United States has signed the WIPO’s Copyright Treaty and Performances and Phonograms Treaty, that required signatories to protect*** (in a freely selected way and form) ***the making available to the public right of authors and related right holders?*** (Compare to the Svensson ruling as well that declared deep-linking as making available to the public.)

2. Linking has several forms other than deep-linking that has been discussed by the Svensson or Flava Works decisions. Embedding audiovisual contents and framing visual contents serve the *same function* as surface and deep-linking of textual contents, however they lead to *direct representation* of the relevant data. (When an audiovisual content is embedded from YouTube a simple click on the start button leads to the communication of the video without, however, any visible notice of “linking”. Technically, the content is not hosted on the linking website, but only by YouTube. The click on the start button initiates, however, a virtual transfer of the content on the screen of the end-user.) The Supreme Court of Canada has stressed in its Crookes v. Newton decision that it has direct relevance with respect to liability “whether the link was user-activated or automatic”. ***Shall embedding or framing specially treated, if they lead to direct visualization of protected subject matter?***

#### FURTHER CASE LAW

Universal City Studios v. Shawn C. Reimerdes, 111 *F.Supp.2d* 294 (2000)

Lesley A. Kelly v. Arriba Soft, 336 *F.3d* 811 (2003)

Perfect 10, Inc. v. Amazon.com, Inc., 487 *F.3d* 701 (2007)

Wayne Crookes and West Coast Title Search Ltd. v. Jon Newton, 2011 SCC 47, [2011] 3 *S.C.R.* 269

#### RECOMMENDED READINGS

##### *In English*

Strowel, Alain - Ide, Nicholas: Liability with Regard to Hyperlinks, *Columbia Journal of Law and the Arts*, 2001: p. 403-448.

Galaif, Jessica: Flava Works, Inc. v. Gunter 689 F.3d 754 (7th Cir. 2012), *Intellectual Property Law Bulletin*, Fall 2012, p. 93-97.

Ginsburg, Jane C.: Hyperlinking and “making available”, *European Intellectual Property Review*, Issue 3/2014: p. 147-148

##### *In Hungarian*

Mezei, Péter: A linkelés szerzői jogi vonatkozásai - négyzetes dugó a hatszögletű lyukba?, *Infokommunikáció és Jog*, 2015. március (61. szám), p. 30-39.

### CHAPTER III

#### The future of library digitization in the European Union and Hungary

Péter Mezei

*„Why, Mars Tom, if you knowed what chuckle-heads dem painters is (...) I see one of 'em a-paintin' away, one day, down in ole Hank Wilson's back lot, en I went down to see, en he was paintin' dat old brindle cow wid de near horn gone—you knows de one I means. En I ast him what he's paintin' her for, en he say when he git her painted, de picture's wuth a hundred dollars. Mars Tom, he could a got de cow fer fifteen, en I tole him so. Well, sah, if you'll b'lieve me, he jes' shuck his head, dat painter did, en went on a-dobbin'. Bless you, Mars Tom, DEY don't know nothin'.”<sup>1</sup>*

The conflict of interests' of rightholders and consumers has reached an unforeseen level in the world of intellectual creations. One of the most often blamed cause for this is the Internet. The situation is, however, more complex. It is undeniable that the level of Internet access has constantly grown worldwide; and the proportion of home broadband Internet subscriptions in the developed countries is outstandingly high in our times. The population, consequently the potential number and the appetite of consumers grows inevitably in the developing and least developed countries as well.<sup>2</sup> Similarly, important changes have been observed in respect of the consumers' behavior. Especially the consumption of music has shifted from purchased physical data carriers towards services that offer instant access to contents (like streaming sites). Reading habits changed as well. It is evidenced by the strengthening of the e-book (and e-book reader) market.

It is also well-known that copyright law and technology have developed hand in hand in the course of time. As soon as some new technologies emerged, copyright law and the rightholders reacted on them: they usually tried to force them back into the shadows. However, the rightholders always understood it within a short period of time that the new technologies are capable to create new works, new types of works, new type of data carriers and new business models as well. The clash between the rightholders' and the society's interests was speeded up by the emergence of digital technologies, and copyright holders seem to struggle with the permanent lag to address the above challenges. For example before the appearance of digital reproduction machines the multiplication of copyrighted works for private purposes was successfully controlled by the royalty on blank data carriers (tapes, CDs etc.). The massive spread of these machines has led, however, to unexpected results. The rightholders have both witnessed the decrease of the amount of the above royalty and the number of the legally purchased copies of their works. The legislators responded to this by the introduction of technological protection measures (or digital rights management) and stricter law enforcement. The efficiency and popularity of DRM was refuted shortly after their introduction. Similarly, the secret negotiations on the ACTA were heavily attack by the society.<sup>3</sup> This ultimately led to public protests against the agreement in many countries of the world. A more serious consequence was attached to the use of these measures and stricter law enforcement as well: an ever bigger abyss appeared between the rightholders and the consumers. The P2P filesharing applications that started their conquest in 1999 have deepened this gap. On the one hand user-friendliness, availability, quality and free access to copyrighted materials is extremely attractive for users, on the other hand rightholders have historically tried to stifle this new phenomenon rather than exploiting its advances. This has consequently led to the estrangement of consumers from the legal markets, to the strengthening of filesharing (pirate) communities, and, finally, to the emergence of the copyright wars.<sup>4</sup>

---

<sup>1</sup> Twain (2004) 29-30.

<sup>2</sup> This will logically lead to a crossover point, where these countries will choose to protect intellectual property rights rather than ignoring (or even supporting) illegal uses. As Peter Yu emphasized in one of his recent articles: “it is only a matter of time before China and other latecomers in the developing world reach a crossover point where stronger protection will be in their self-interests”. See: Yu (2012) 542-543.

<sup>3</sup> Yu (2011) 975-1094.

<sup>4</sup> Patry (2009).

This war finally reached the coasts of book industry as well. The battle of digital technologies and copyright law expanded therefore with a new dimension. Although there have been several programs before the Google Books Project (GBP) whose aim was the (digital) preservation and making available to the public of culturally valuable creations, Google was the first to conduct book digitization on a mass scale and at the same time without asking for the permission of the rightholders. This is why the GBP necessarily led to court proceedings. The parties decided, however, to settle the dispute out of court. They published their original Settlement Agreement in 2008 and their Amended Settlement Agreement (ASA) in 2009. Judge Chin declared the ASA as not fair, adequate and reasonable in March 2011, mainly due to the copyright problematic of Google's opt-out policy, the class action settlement objections and the constructive monopoly of Google over the content of the digital archive and the foremost over orphan works.<sup>5</sup>

Most recently the United States Court of Appeals for the Second Circuit concluded in its decision that "class certification was premature in the absence of a determination by the District Court of the merits of Google's 'fair use' defense".<sup>6</sup> The Second Circuit's conclusion meant that Judge Chin had to make a decision on the merits of the case rapidly. The district court's decision was published in November 2013. There Judge Chin concluded that Google's book scanning project is fair use. As he observed "Google Books provides significant public benefits. It advances the progress of the arts and sciences, while maintaining respectful consideration for the rights of authors and other creative individuals, and without adversely impacting the rights of copyright holders. It has become an invaluable research tool that permits students, teachers, librarians, and others to more efficiently identify and locate books. It has given scholars the ability, for the first time, to conduct full-text searches of tens of millions of books. It preserves books, in particular out-of-print and old books that have been forgotten in the bowels of libraries, and it gives them new life. It facilitates access to books for print-disabled and remote or underserved populations. It generates new audiences and creates new sources of income for authors and publishers. Indeed, all society benefits."<sup>7</sup>

Although the ASA was originally refused by Judge Chin, and the fair use finding by the same judge is still not *res judicata*, it is implausible that Google will abandon its book digitization plans. Google's ambitions opened the eyes of the rightholders and the legislators that on the one hand private digitization projects are unstoppable,<sup>8</sup> and on the other hand an enormous (economical, cultural and last but not least copyright related) potential is concealed beneath the digitization and making available to the public of the book heritage that one estimates to involve 174 million unique works. It is therefore a vital question, who and how should act towards the archiving and dissemination of European cultural/book heritage in order to avoid being at a disadvantage compared to Google. Indeed, Mtima and Jamar argued that "[m]ass digitization of the world's books is the answer to many copyright social utility dilemmas."<sup>9</sup>

I share their opinion, and I believe that the European Union has to take the lead in cultural preservation for the sake of the society even though the current legal framework hinders the digital reproduction and dissemination of copyrighted works from several perspectives. This latter was noted by Commissioner Viviane Reding in 2009: "[w]e should create a modern set of European rules that encourage the digitisation of books".<sup>10</sup> Just a bit more than a year after this, the Comité des Sages published its New Renaissance report that included many straightforward but naturally non-compulsory recommendations about the topic of digital preservation, including the issue of orphan works and the role of Europeana in this process. In March 2011 Commissioner Neelie Kroes declared

---

<sup>5</sup> The Authors Guild, et al., v. Google, Inc., 770 *F.Supp.2d* 666 (2011).

<sup>6</sup> The Authors Guild, et al., v. Google, Inc., 721 *F.3d* 132 (2013).

<sup>7</sup> The Authors Guild, et al., v. Google, Inc., 954 *F.Supp.2d* 282 (U.S. Southern District of New York 2013).

<sup>8</sup> De La Durantaye (2010) 167-168.

<sup>9</sup> Mtima - Jamar (2010) 103.

<sup>10</sup> Reding (2009) 9.

that “[t]here is a serious risk that there will be a ‘20th century black hole’ on the internet. It is a duty of our time not to let this happen.”<sup>11</sup> She was actually referring to the orphan works question in the previous sentences. “Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works” was finally published in October 2012.

There is some indicia as well that the European Union is open and ready to amend its legal system related to library digitization. The Belgian De Wolf & Partners Law Firm recently published an enormous paper – commission by the European Commission (DG MARKT) – that analyzed the possibilities of a future reform.<sup>12</sup> Likewise, the European Commission initiated a public consultation on the same matter in December 2013. The Commission understood that [q]uestions arise as to whether the current framework continues to achieve the objectives envisaged or whether it needs to be clarified or updated to cover use in digital networks”.<sup>13</sup> It therefore urges interested parties to express their opinion on questions related to preservation and archiving of, off-premises access to, e-lending of and finally mass digitization of library collections.<sup>14</sup>

The present analysis is willing to discuss whether – using the words of Jim, the black slave friend of Tom Sawyer and Huckleberry Finn, quoted at the beginning of the article – the European Union and especially Hungary (*the painters*) can successfully deal with the copyright problematic of the cultural/book heritage (*paint down the one horn cow*) in a landscape that is colored with digital technologies, the Internet and the ever growing number of services related to digitization and preservation (*in ole Hank Wilson’s back lot*).

## 1. The one horn cow

*“Copyright laws become obsolete when technology renders the assumptions on which they were based outmoded.”<sup>15</sup>*  
(Jessica Litman)

The debate on the effective and “digital world friendly” preservation and dissemination of the collective memory by libraries, educational establishments, museums, archives, film or audio heritage institutions and public-service broadcasting organisations needs the analysis of the following issues:

- (1) the types of works that may be archived;
- (2) the number of copies allowed;
- (3) the possibility to “format-shift” the original work; and
- (4) the economical rights involved.

Each of these dimensions of the debate evidence the collision of interests of the society and of the rightholders.

1. In respect of the first issue it is worth to mention that libraries historically focus on the conservation of written heritage. This is the main reason why the term “cultural preservation” is regularly substituted by the term “book digitization”. This terminology is partially correct, since the leading projects of archiving involve books, journals, periodicals, etc. It is similarly true that digitization of written documents is cheaper than the perpetuation of sculptures, paintings, audio or audiovisual works. Indeed, the role and purpose of libraries that keep mainly written documents and museums or other archives or public-service broadcasting organisations where fine art works or broadcasts are deposited are different. It is possible to have access to multiple copies of books or periodicals in libraries. The opposite is true in respect of unique artistic creations, audio and audiovisual creations or the broadcasts. Even though it is easy to understand, why the digitization of books became the leading

---

<sup>11</sup> Kroes (2011).

<sup>12</sup> Triaille (2013) 257-352.

<sup>13</sup> Public Consultation on the Review of the EU Copyright rules (2013) 19.

<sup>14</sup> *Ibid.* at 19-23.

<sup>15</sup> Litman (2006) 22.

issue of cultural preservation, our cultural heritage includes every type of creations. A balanced regulation should therefore apply to every copyright subject matter. The Orphan Works Directive is a great example for this statement. Art 1(2) of the final text of the directive applies to books, journals, newspapers, magazines or other writings, cinematographic or audiovisual works and phonograms as well. Under Art 1(4) the directive applies to other types of works, like photographs or fine art works, only if they are “embedded or incorporated in, or constitute an integral part of” the above works.

The copyright status of a specific work similarly needs attention. From the perspective of the copyright term we can distinguish between in-copyright and public domain works. Public domain works are those works that are not protected by the copyright statutes either due to the elapse of the copyright term or due to the specific statutory exclusion of the subject matter from the protected materials. This means that public domain works may be used freely and without the permission of any person. Libraries therefore enjoy almost unlimited freedom regarding the use of the public domain works. This is evidenced by the efforts of the European Union to set up and operate a library for the preservation of European cultural heritage. Europeana was launched in 2008. That time it provided online access to 2 million works. Currently more than 26 million digitized objects from the collection of more than 2200 cultural institutions are available via Europeana. It is therefore undeniable that Europeana has a central place “in the strategy to bring Europe’s cultural heritage online and to make cultural material available for work, education or leisure”.<sup>16</sup>

The use of in-copyright works needs, however, the consent of their rightholders. Many of these works are still available on the market and/or their authors are identified or located, that is, the opportunity to ask for a license is (theoretically) given. During the course of time two special problems arose in respect of in-copyright works: the issue of out-of-print or out-of-commerce and the issue of orphan works. In the first situation the copies of the work are not accessible on the market, in the second case the rightholder of the work is not identified or she cannot be located. Libraries have an important role in respect of both of these types of creations. The fact that a work is out-of-commerce doesn’t mean that its copies are not available in libraries. The orphan status is a more acute obstacle to the utilization of any work. Except in those countries where specific provisions exist in respect of orphan works (for example Canada, Hungary or the United Kingdom) there might be no legal way to reproduce, distribute or otherwise use the work in the lack of the rightholders’ permission. These works, however, belong to our cultural heritage as well and therefore the lack of their preservation could lead to irreversible harms. Libraries shall take the leading role in perpetuating, granting access to and disseminating these types of works.

2. The number of acceptable (and therefore legal) copies made by libraries is another clash territory of the interests of the rightholders and the society. The authors’ perspective is generally mirrored by the “three-step test” that sets the general boundaries of every limitations and exceptions regulated by the domestic statutes. WIPO’s Copyright Treaty, one of the most recent international treaties, says: “Contracting Parties may, in their national legislation, provide for limitations of or exceptions to the rights granted to authors of literary and artistic works under this Treaty in certain special cases that do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the author”.<sup>17</sup> In light of the above rules libraries are bound to limit the amount of copies they produced or the channels of dissemination of works they use in order to fit into the exceptions granted to them. On the contrary, making only a few copies or a single one by these organizations is usually insufficient to meet the interests of the society. The UK Intellectual Property Office argued that “the issue becomes more acute where works are of high cultural importance and where only one copy ever existed e.g. manuscripts of literary and political figures. It would not appear sensible to impose a limit on the number of copies of such work if made for preservation purposes.”<sup>18</sup> The debate

---

<sup>16</sup> The New Renaissance (2011) 6.2.1.

<sup>17</sup> WCT, Article 10(1). See further: *Berne Convention*, Article 9(2); *TRIPS Agreement*, Art. 13.; *WPPT*, Article 16(1); *Infosoc-Directive*, Article 5(5).

<sup>18</sup> UK Intellectual Property Office (2008) 29.

on the number of physical copies seems to be inessential compared to the quarrel that encompasses the possibilities of libraries in respect of the dissemination of digitized materials. Whilst making digital duplicates of copyrighted works available online does not fit into the current frames of exceptions granted for libraries, the call of 21<sup>st</sup> century and the behavior of the society makes it more and more inevitable.

3. Similarly, the issue of “format-shifting” has a great importance in the field of cultural preservation. From a cultural perspective, the prohibition on format-shifting can have significant and harmful consequences. For example, archiving archaic motion pictures from celluloid reels would be infringing in the lack of the possibility of format-shifting from many aspects. Until these old motion pictures are copyrighted, they can be copied only with the authors’ permission; however, in case it is impossible to get the permission, the limitation on archiving can lead to the significant injury of many motion picture copyrights or even the destruction of the data carrier. A further limitation of archiving is that without format-shifting works can be copied only in the same format as the original.<sup>19</sup> This means that an original data carrier must be obtained, which may no longer be produced or available on the market. Naturally, the expenses of obtaining an original data carrier do not fit into an average library’s budget. The European Commission argued in the following way in its i2010 communication on digital libraries: “there are different causes for the loss of digital content. A first reason is the succession of generations of hardware that can render files unreadable. (...) The rapid succession and obsolescence of computer programmes is another factor. Unless data are migrated to current programs or care is taken to preserve the original source code, retrieval of information may become very costly, if not impossible. This is particularly true of ‘closed’ data formats, for which the source code is not publicly known. The limited lifetime of digital storage devices, for example CD-ROMs is another reason for the loss of digital content.”<sup>20</sup>

4. Finally, the last challenge is related to the economical rights involved in the activity of cultural institutions. Libraries are traditionally leaders of *collecting* the cultural heritage and they similarly participate in the *preservation* and *dissemination* of this knowledge. Whilst the first task is usually not problematic from the perspective of copyright law, conservation and dissemination are closely related to the exclusive economic rights. The former clearly requires permanent reproduction, and the latter – depending upon the form and technology that is used by the institution – could result in distribution, public display, communication or making available to the public. As it was mentioned before the exceptions granted for the benefit of libraries are regularly limited to the right of reproduction. Those narrow provisions that offer libraries the ability to make protected materials available to the public are inapplicable in an online context, which, however, leads to tensions between the law and the social needs.

This is the point where we should return to Jessica Litman’s thoughts, which symbolize the close intertwining between technological development and copyright law. History justifies that copyright law has become more fragile. There are two reasons for this. One is that copyright statutes have almost always been one step behind the technological achievements. The other reason is that users have always seen more options in taking advantage of innovations rather than following the provisions of copyright law (and paying royalty to the authors). If we agree with this argument we should not be surprised that in case the copyright provisions related to library digitization are not in accordance with the social needs or would unreasonably restrict the use of technological achievements than they will succumb to them.

## 2. Ole Hank Wilson’s back lot

*“The burning of the library of Wheaton would not be the intellectual catastrophe that the burning of the library of Alexandria, Egypt, was. There were no duplicates of many of the books at Alexandria.*

---

<sup>19</sup> Gowers (2006) 65-66.

<sup>20</sup> Communication „i2010: Digital Libraries” (2005) 7.

*Our civilization has since developed a mania for duplication. Because there are so many duplicates of everything, our culture can be said to be fireproof.*<sup>21</sup>  
(Kurt Vonnegut)

Although Vonnegut's memorable thought originates from the analogue age the above motto clearly highlights two important features of humanity and of our history: first, the willingness and need for the everlasting preservation of the (written) culture, and second, the fragility of this expectation. The first feature is encoded into mankind: perpetuating our thoughts is a part of our culture. The latter might be evidenced by any public (or private) library catastrophe. As long as preservation meant the storage of destructible copies of works in destructible buildings the burning of these collections could lead to irreversible cultural losses. The emergence of digital technologies has therefore enriched the ways of archiving with a new dimension: indestructible digital copies can be stored on indestructible (and multiple number of) data carriers. Our culture has therefore become digitally fireproof to use Vonnegut's terms.

Historically, publishers were those who had the right and ability to control the use of works and the flow of information. After printing a specific work they had the right to choose between republishing it (during the period of copyright protection) or allowing it to enter the public domain. Except of the extraordinary popular writings that were and are reprinted continuously the majority of public domain works are only accessible from the shelves of libraries (or of private collections). Nowadays in-copyright and public domain works are equally accessible from multiple channels. Libraries, book stores, second hand shops are the most typical types of distributors. With the appearance of digital technologies and especially the Internet, the variety of the distributors of written, audio and visual culture has been multiplied. The traditional intermediaries appeared online as well. Authors accessed modern technologies and opted to publish their works on their own. Another recent dimension of this process is the emergence of web 2.0 applications, where creators and users equally have the ability to share and store culturally important goods online. The landscape of digitization, preservation and dissemination is therefore filled with multiple (unlimited) numbers of actors. Consequently, the society is getting interested in the better (best) options to use the cultural goods. It is therefore inevitable that new services and service providers appear on the market that in most of the cases do act in accordance with the rightholders' intents.

In respect of book preservation this is clearly indicated by the Google Books Library Project, as it was discussed in the introduction of the present article. Under the current copyright regime, however, those actors of "Ole Hank Wilson's back lot", who are not original rightholders, licensed users or beneficiaries of the statutes (free or fair users) cannot enjoy the advantages originating from the copyright law. We have to agree, however, with the Comité des Sages' opinion on the public-private partnerships. The Comité understands it well that the private partners have the funding, technology and expertise in the field of digital preservation. This is why the New Renaissance said that "[t]he key question is not whether public-private partnerships for digitisation should be encouraged, but 'how' and 'under which conditions'".<sup>22</sup> The European Commission also stressed it in Art. 6(4) of the Orphan Works Directive that "[t]his Directive is without prejudice to the freedom of contract of such organisations in the pursuit of their public-interest missions, particularly in respect of public-private partnership agreements."

The wording of the latter text is, however, notable. This document subordinates the participation of private partners to the public (social) interests, rather than giving free hands to the private partners. This might be the future of digitization in the European Union.

Another notable path that can be followed, especially by scholars and other professionals, comes from the phenomenon of web 2.0. Websites, like Social Science Research Network (SSRN), allow creators

---

<sup>21</sup> Vonnegut (1974) 209.

<sup>22</sup> The New Renaissance (2011) 9.3.6.

to upload, share and distribute their manuscripts or published articles to any other academics or practitioners of the world. Sites like SSRN serve, however, as direct counterparts of libraries, which have been the traditional sources of research. Indeed, “netizens” of our age are keen on having as fast access to materials as possible. With the increasing popularity of these web 2.0 platforms the traditional channels of collecting and distributing knowledge (especially non-profit libraries) have to reconsider their goals and possibilities in the digital age. At the moment it seems so that these institutions are *unable to keep up with the fast development of digital technologies and services*.

### 3. The painters

*“Mass digitisation and dissemination of works is therefore a means of protecting Europe's cultural heritage.” (Orphan Works Directive, Recital 5)*

#### 3.1. The canvas – the status quo

The existing rules of the European Union on library digitization, as every other provision regarding the limitations and exceptions applicable in the EU, are located in the Infosoc-Directive. This directive includes two major points related to libraries. First, under Art. (5)(2)(c) publicly accessible libraries, educational establishments, museums, and archives are allowed to reproduce copyrighted materials if it is not for direct or indirect economic or commercial advantage. Reading this section together with the relevant part of recital 40 of the directive it is clear that the above non-profit organizations do not enjoy a blanket exception from the right of reproduction. Indeed, recital 40 uniquely refers to the first limb of the three-step test, reproduction is therefore only allowed in specific cases, when it stresses that “Member States may provide for an exception or limitation for the benefit of certain non-profit making establishments, such as publicly accessible libraries and equivalent institutions, as well as archives. However, this should be limited to certain special cases covered by the reproduction right. Such an exception or limitation should not cover uses made in the context of on-line delivery of protected works or other subject-matter.” Reproductions include copies of works and other subject-matter that are in the establishments’ catalogues for purposes such as preservation or granting access to the copies within the premises of the specific establishment. This latter purpose, as the second major point related to libraries, is explicitly stated in Art. 5(3)(n) of the InfoSoc-Directive: the above organizations are allowed to communicate or make available the copies made under the reproduction limitation or exception to the public, for the purpose of research or private study, to individual members of the public by dedicated terminals that are located on the premises of these establishments.

In the current digital age the search for and the methods of access to information have gone through, however, significant changes. Therefore even though the above rules cover clearly special, narrow uses and consequently they fit into the three-step test, they seem to be unable to fulfill the needs of digital consumers. First, they address only the fourth dimension of the copyright problematic related to library digitization as discussed above. None of the affected scope of subject-matter, number of copies and the issue of format-shifting is discussed by the Infosoc-Directive. Second, since none of these provisions are mandatory, the norms were inevitably implemented by the member states in various ways. Third, the Infosoc-Directive doesn’t answer the question whether and how the libraries might create copies of protected subject-matter for the request and solely for private purposes of their patrons, that is, whether it is allowed for libraries to act as a third person (intermediary) in the reproduction of a work for private purposes. National solutions for this issue vary heavily as well. As one of the most detailed study on the implementation of the Infosoc-Directive concluded: “some Member States only allow reproductions to be made in analogue format; others restrict the digitisation to certain types of works, while yet other Member States allow all categories of works to be reproduced in both analogue and digital form. In addition, Member States have identified different beneficiaries of this limitation. Some have simply replicated the wording of article 5(2)b, while others

have limited its application to public libraries and archives to the exclusion of educational institutions.”<sup>23</sup>

We might take a look at how the relevant sections of the Infosoc-Directive were implemented by the Hungarian legislator. First, Art. 35(4)(a)-(d) of the Hungarian Copyright Act says that publicly accessible libraries, educational establishments, museums, archives as well as audiovisual or sound archives qualified as a public collection can freely create copies for internal purposes, if such activity does not serve to generate or increase income, and the use aims to reach specific, certain purposes. Such purposes are scientific research or archiving, public library supply, communication and making available of works on dedicated terminals of the institution, and in exceptional cases for other purposes regulated by a separate law. Second, under Art. 38(5) of the HCA the above establishments are also allowed to display (by communication or making available to the public) works they administer to the public on the screens of computer terminals operated by them for individual members of the general public for purposes of scientific research or learning. Further rules on the execution of the latter provision are included in a government decree.<sup>24</sup> Art. 2(1)-(2) of the decree requires the above beneficiary establishments to apply technological protection measures to hinder the modification and reproduction of the works made available as well as their communication and making available outside the circle of their patrons, to inform their patrons that they can use the works that the establishments made available for the purposes of research of private study, and to define for the users the order of access to computer terminals. Art. 3(1) of the decree, however, grants the establishments the right to connect to other institutions as well, and to allow these interconnected beneficiary establishments to communicate (make available) the works kept in the collection of the original library to the patrons of the interconnected beneficiary establishment on dedicated terminals. Third, we mentioned a specific question above, whether libraries are allowed to create copies for their patrons for private purposes or not. The Hungarian Copyright Act is partially restrictive on this issue. As Art. 35(3) of the statute states: “it shall not be considered as free use to have a work copied by someone else by means of a computer and/or on an electronic data carrier, even if it is done for private purposes”. This means that libraries are allowed to reproduce copyrighted materials kept in their collections for their patrons for free only with analogue technologies (that is mainly photocopying). In case libraries are willing to use digital technologies (write the copy on CDs or attach the digital file to an e-mail) for the above purposes they have to sign individual licensing agreements with every rightholder.

### 3.2. *New canvas for the painters?*

As we could see it in the previous section the exceptions granted to libraries are far from optimal. This is the reason why this topic is constantly debated in the European Union and globally as well. From the perspective of copyright law there are at least three different approaches that might be followed in this context: keeping the *status quo* (and leaving it to the market to solve the debate), *broadening* the limitations and exceptions granted to libraries, urging libraries and copyright holders and in several cases private corporations to *cooperate* with each other (creating best practices for cooperative projects of cultural preservation).

The first option is not really an option for the future. Several important arguments – related to the legal uncertainties of private digitization projects, the emergence of private interests and the limited and therefore ineffective nature of the current library exceptions – were covered by the previous chapters. Besides these the inadequacy of the status quo to handle the library digitization issue is similarly evidenced by the growing popularity of illegal services and the consequences related thereto. First, access to e-books via P2P filesharing websites or direct download linking sites (so-called

---

<sup>23</sup> Institute for Information Law (2007) 46-47.

<sup>24</sup> Government Decree 117/2004 (28.04.) on the determination of the manner and conditions of the communication and making available to the public in the case of free use provided for in Article 38(5) of Act LXXVI of 1999 on Copyright.

“cyberlockers”) has become increasingly popular in our times,<sup>25</sup> which decreases the interest of the society in acquiring the works through legal channels (for example physical or online bookstores, libraries). Second, the growth of e-book business and the threat of illegal appropriation of these formats led to a counter effect in respect of the relation between publishers and libraries as well. Whilst publishers are struggling with the illegal uses, they are getting more resistant at the same time to allow libraries to lend e-books to their patrons (that would otherwise be able to compete with illegal appropriation of literary works).

A comparative study emphasized recently that „copyright owners are increasingly resorting to contractual terms and conditions in order to more clearly delineate the scope of what libraries and archives purchasing or licensing the copyright material may do with the works in their collections. Libraries are increasingly limited by the rightholders in what they can do with the content, although certain copyright limitations would normally apply.”<sup>26</sup> We should similarly agree with Commissioner Viviane Reding, who highlighted the necessity of digitization of our cultural heritage and that the current copyright framework is unsatisfactory to reach this goal.<sup>27</sup> The popularity of the arguments against keeping the status quo is similarly evidenced by the handling of orphan works. The European Commission originally listed six options for solving the orphan works dilemma. Five of them recommended some changes to the European Union’s and its Member States’ legal system. The sixth option (“do nothing”) was simply refused.<sup>28</sup>

It seems therefore so that the European Union supports both the idea of limited modernization and of cooperation between libraries, rightholders and private corporations. Both of these approaches are evidenced by a mass of reports and legal sources. The i2010 initiation of the European Commission emphasized the dangers of varying implementations by member states and the disincentives for digitisation caused by the limited exceptions regulated by the Infosoc-Directive.<sup>29</sup> Consequently, an Impact Assessment, a Communication, a Recommendation, and a Green Paper discussed the possibility of broadening the existing copyright rules. A High Level Expert Group was founded within the frames of the i2010 initiation as well, which published several important reports during the course of time.

The limited modernization approach is visible from almost all of the relevant solutions recommended or codified in the previous years. We might take three short examples to evidence this. The Copyright Subgroup of the High Level Expert Group stressed in its final report on digital preservation that all of its recommendations “deal with digital copying for the purpose of preservation only and are strictly limited to the purpose of preserving, for the long term, items of cultural and national heritage produced and distributed in different formats and editions”.<sup>30</sup> The handling of the orphan works issue offers an even better example for this approach. The Orphan Works Directive is limited in its nature since it covers only works whose rightholders cannot be identified or located and applies to a restricted scope of subject matter. It urges, however, modernization, since the directive requires member states to implement compulsorily a new limitation or exception for orphan works. Finally, a memorandum of understanding signed by the representatives of authors, publishers and competent collective rights management associations clearly evidences the willingness of different stakeholders to settle the uncertainties of the use of out-of-commerce works with mutual agreements.

The cooperative efforts approach is similarly popular to handle the problematic related to library digitization. Indeed, it seems so that the competent authorities and experts of the European Union have noticed that since preservation of the European cultural heritage is a priority it shall be reached with

---

<sup>25</sup> Mezei (2012) 74.

<sup>26</sup> Institute for Information Law (2007) 49.

<sup>27</sup> Reding (2009) 8.

<sup>28</sup> Impact Assessment on the Cross-border Online Access to Orphan Works (2011) 21-38.

<sup>29</sup> Communication „i2010: Digital Libraries” (2005) 6.

<sup>30</sup> Final Report on Digital Preservation, Orphan Works, and Out-of-Print Works (2008) 8.

the utilization of each interested parties' potentials. The Commission recommended already in 2006 to "encourage partnerships between cultural institutions and the private sector in order to create new ways of funding digitisation of cultural material"<sup>31</sup> and "[to] encourag[e] cultural institutions, as well as publishers and other rightholders to make their digitised material searchable through the European digital library".<sup>32</sup> The Copyright Subgroup of the High Level Expert Group called for agreements between rightholders and libraries in respect of preservation, where, however, the Copyright Subgroup clearly envisaged a subsidiary role for the libraries. Another body of experts, The Comité des Sages, correctly noted that digitization by private corporations is unstoppable, since they have the necessary budget, technology and experience for digitization projects. These conditions are listed in The New Renaissance and they equally mirror the experts' vision to create advantageous conditions for the European cultural institutions on the one hand and to control the activity of those private companies that are involved in the preservation of the cultural heritage on the other hand.<sup>33</sup> Similarly, Art. 6(4) and recital 21 of the Orphan Works Directive supports the conclusion of cooperative agreements in order to achieve the mission to preserve and to make digitized orphan works available to the public.

In respect of the out-of-commerce works the Commission stressed the need to establish or promote "on a voluntary basis, to facilitate the use of works that are out of print or out of distribution, following consultation of interested parties".<sup>34</sup> Details for such a mechanism were visualized by different expert groups. The Copyright Subgroup of the High Level Expert Group set up for example a detailed scheme for the digitization and making available of out-of-commerce works that included model agreements between libraries and rightholders; recommended to set up national right clearance centers to administer granting permissions for the libraries and databases to register permissions and to avoid duplication of efforts.<sup>35</sup>

The Comité des Sages followed a partially different model. The Comité concluded that the digitization of out-of-commerce works shall be vested with the rightholders; however, if they are not willing to use their rights public money shall be used for the preservation of these materials. In this case the digitized materials should become freely accessible online, but an adequate remuneration should be paid to the rightholders. Notwithstanding the above the rightholders should have the possibility to opt-out from this model at any time.<sup>36</sup>

The most recent development of this territory is the MoU. The signatories of the understanding expressed their willingness to set up the frames of a mutually beneficial model for the digitization and making available of out-of-commerce books and journals. The MoU declared that rightholders should have the priority to digitize and make available their works, however, libraries might get the permission from the competent collective rights management association to use the out-of-commerce works kept in their collection for non-profit purposes, where rightholders have the right to opt-out from the agreement.

Nonetheless, it should be admitted that besides several key developments on the European level there is not that much (or not enough) advancement in respect of modernizing libraries' abilities related to cultural preservation. The Orphan Works Directive deals only with a limited scope and use of works. Similarly, Europeana is willing to include more and more in-copyright works into its collection; however, most of the items stored by the establishment are in the public domain, whose digitization doesn't raise any significant copyright concerns. Besides that the most recent web traffic report clearly indicates the extremely low popularity of Europeana. Similarly, the MoU is a soft-law, sector specific

---

<sup>31</sup> Commission Recommendation 2006/585/EC, Point 3.

<sup>32</sup> Commission Recommendation 2006/585/EC, Point 5(a).

<sup>33</sup> The New Renaissance (2011) 9.3.6.

<sup>34</sup> Commission Recommendation 2006/585/EC, Point 6(b).

<sup>35</sup> Final Report on Digital Preservation, Orphan Works, and Out-of-Print Works (2008) 17-24.

<sup>36</sup> The New Renaissance (2011) 5.4.6.i-ii) and 5.4.7.iii).

initiative. It further misses to understand that collective rights management on the territory of literary works is rarely present in the European Union member states.

The author of the present article stresses therefore that none of the possible approaches are optimal at the moment. As it was mentioned above, keeping the status quo is not a real option, and cannot be supported. The greatest impediment of the cooperative efforts approach is the striking difference between the policies and interests of the probable cooperative partners in respect of digitization and dissemination of literary works. The content producers fear of losing their market share due to the massive access to e-books (and other subject matter) via libraries (or other public institutions). Aggregator sites (like Google) are governed by a different business policy, under which the broader access is granted to contents, the greater benefit is realized. Libraries generally fear of losing their socially valuable job: collecting and disseminating the knowledge. In the lack of support from the content producers (like in respect of e-book lending), and due to the emergence of private parties on the book market (once again like Google) that have more stable financial and IT background, libraries cannot offer digital world friendly services to their patrons. These institutions might become a graveyard for books and other contents, if no further legal freedoms are granted for them. This is something that the European Union cannot wait for.

This is why the author of the present article supports the limited modernization approach as the example to be followed. Clearly, this method needs a wise balancing from the European Union and its member states, since the multilateral and the regional (EU level) copyright norms equally tie the hands of legislators. The three-step test is a strong safeguard of the rightsholders' interests. Notwithstanding the above the introduction of an equitable remuneration for the benefit of affected copyright holders in exchange of the introduction of a new limitation in favour of collective memories institutions shall not be objected from a legal perspective. The new regime would need the amendment of the InfoSoc-Directive and consequently the domestic copyright statutes of the member states. This might be, however, the most effective way to handle the dilemma related to the cultural preservation and dissemination of in-copyright works via libraries and other cultural institutions.

So long as this method is not followed, the "golden mean" might be to spend enormous amounts of money on funding national and multinational library digitalization projects, as the European Union does. Although there is a vast amount of national initiatives in each EU member state, the current article has the capacity to introduce only the most recent, relevant Hungarian projects of digitization done by publicly accessible cultural institutions.

The Library of the Parliament recently accomplished the Digitized Repository of Legislature project, in which it digitized around 2 million pages of legislative documents (bills, statutes, and minutes of sessions) of the last one and a half century; books, journals, periodicals. The project had a 200 million Forints (over 700.000€) budget. The Szeged University library (SZTE Klebelsberg Library) succeeded to digitize all scientific journals, periodicals, annals, university related publications, and student newspapers ever published by or at the Szeged University from only about 15 million Forints (around 50.000€). This digital repository (CONTENTA) provides access to all major theses written by the students of the university as well. Finally, 250 million Forints (around 800-900.000€) was recently granted to the National Széchényi Library to digitize almost 4 million unique items kept in its collection and to provide access to these materials online. The "ELDORADO" project is aimed to work from 2014.

Notwithstanding the above initiatives and projects the future of library digitization seems to be shady in Hungary. The Hungarian government has accepted its national strategy for the strengthening of intellectual property in September 2013. Amongst others the "Jedlik Plan" emphasized the importance of preservation of culture, however, the document stops at initiating the (otherwise compulsory) implementation of the Orphan Works Directive or the application of the MoU. The "Jedlik Plan" is a draft document of the government's future IP strategy and it is subject to public consultation. The fact that it doesn't include any proposal for the improvement of libraries' position in respect of cultural

preservation regrettably means that the government is not willing to do more than what was envisaged by the European Union and its expert groups. This logically means that the Hungarian cultural establishments have to preserve and disseminate the in-copyright works in accordance with the existing copyright rules or take steps to sign agreements (use contracts) with the copyright holders. None of these seem to be enough effective on the short term.

#### **4. Closing remarks**

In order to close the present article we have to return to the words of Jim and we should rephrase it into the following form: “Bless you, Mars Tom, *DEY know somethin*”. I claim that the painters of the EU know something, but not enough yet.

Remember the motto I used at the beginning. Even if Mark Twain died before the First World War, and therefore his works are practically in the public domain, that quote was available on the website of Google Books and the Project Gutenberg, but not on the Europeana. This evidences the fact that even though the EU cultural preservation projects are useful and necessary, they are partially shortsighted. Any online platform that can be generally accessed by the “netizens”, however, has some limitation on its content, will inevitably be in a disadvantageous situation compared to others, especially Google Books Project.

I truly believe that the European Union is on the right track, both in respecting the interests of the rightholders and in meeting the needs of the digital society. This was indicated through several examples and the detailed analysis of both regulations and the real life practice. But a lot of things need to be done to help the digital preservation of and granting access to culturally important creations by the tools of the legal system. As the Comité des Sages correctly emphasized: any solution on this territory shall be in accordance with the interests of the copyright holders. However, the experiences of the past one or two decades suggest that it might be necessary to reset the frames of the copyright balance. There might be an urgent need to overrule the present law on cultural preservation. The author of the present article stresses that this aim seems to be possible to meet through the introduction of a much broader limitation in favour of cultural institutions in exchange of an equitable remuneration for the benefit of the affected rightholders.

#### **The Authors Guild, Inc., et al. v. Google Inc.**

954 *F.Supp.2d* 282 (U.S. Southern District of New York 2013)

CHIN, Circuit Judge, sitting by designation

### **(...) BACKGROUND**

#### **A. The Facts**

For purposes of this motion, the facts are not in dispute. They are summarized as follows:

##### **1. The Parties**

Plaintiff Jim Bouton, the former pitcher for the New York Yankees, is the legal or beneficial owner of the U.S. copyright in the book *Ball Four*. Plaintiff Betty Miles is the legal or beneficial owner of the U.S. copyright in the book *The Trouble with Thirteen*. Plaintiff Joseph Goulden is the legal or beneficial owner of the U.S. copyright in the book *The Superlawyers: The Small and Powerful World of the Great Washington Law Firms*. All three books have been scanned by Google and are available for search on Google's website, without plaintiffs' permission. Plaintiff The Authors Guild, Inc., is the nation's largest organization of published authors and it advocates for and supports the copyright and contractual interests of published writers.

Google owns and operates the largest Internet search engine in the world. Each day, millions of people use Google's search engine free of charge; commercial and other entities pay to display ads on Google's websites and on other websites that contain Google ads. Google is a for-profit entity, and for the year ended December 31, 2011, it reported over \$36.5 billion in advertising revenues.

## ***2. The Google Books Project***

In 2004, Google announced two digital books programs. The first, initially called "Google Print" and later renamed the "Partner Program," involved the "hosting" and display of material provided by book publishers or other rights holders. The second became known as the "Library Project," and over time it involved the digital scanning of books in the collections of the New York Public Library, the Library of Congress, and a number of university libraries.

The Partner Program and the Library Project together comprise the Google Books program ("Google Books"). All types of books are encompassed, including novels, biographies, children's books, reference works, textbooks, instruction manuals, treatises, dictionaries, cookbooks, poetry books, and memoirs. Some 93% of the books are non-fiction while approximately 7% are fiction. Both in-print and out-of-print books are included, although the great majority are out-of-print.

In the Partner Program, works are displayed with permission of the rights holders. The Partner Program is aimed at helping publishers sell books and helping books become discovered. Initially, Google shared revenues from ads with publishers or other rights holders in certain circumstances. In 2011, however, Google stopped displaying ads in connection with all books. Partners provide Google with a printed copy of their books for scanning, or a digital copy if one already exists. Partners decide how much of their books - from a few sample pages to the entire book - are browsable. As of early 2012, the Partner Program included approximately 2.5 million books, with the consent of some 45,000 rights holders.

As for the Library Project, Google has scanned more than twenty million books, in their entirety, using newly-developed scanning technology. Pursuant to their agreement with Google, participating libraries can download a digital copy of each book scanned from their collections. Google has provided digital copies of millions of these books to the libraries, in accordance with these agreements. Some libraries agreed to allow Google to scan only public domain works, while others allowed Google to scan in-copyright works as well.

Google creates more than one copy of each book it scans from the library collections, and it maintains digital copies of each book on its servers and back-up tapes. Participating libraries have downloaded digital copies of in-copyright books scanned from their collections. They may not obtain a digital copy created from another library's book. The libraries agree to abide by the copyright laws with respect to the copies they make.

Google did not seek or obtain permission from the copyright holders to digitally copy or display verbatim expressions from in-copyright books. Google has not compensated copyright holders for its copying of or displaying of verbatim expression from in-copyright books or its making available to libraries for downloading of digital copies of in-copyright books scanned from their collections.

## ***3. Google Books***

In scanning books for its Library Project, including in-copyright books, Google uses optical character recognition technology to generate machine-readable text, compiling a digital copy of each book. Google analyzes each scan and creates an overall index of all scanned books. The index links each word or phrase appearing in each book with all of the locations in all of the books in which that word or phrase is found. The index allows a search for a particular word or phrase to return a result that

includes the most relevant books in which the word or phrase is found. Because the full texts of books are digitized, a user can search the full text of all the books in the Google Books corpus.

Users of Google's search engine may conduct searches, using queries of their own design. In response to inquiries, Google returns a list of books in which the search term appears. A user can click on a particular result to be directed to an "About the Book" page, which will provide the user with information about the book in question. The page includes links to sellers of the books and/or libraries that list the book as part of their collections. No advertisements have ever appeared on any About the Book page that is part of the Library Project.

For books in "snippet view" (in contrast to "full view" books), Google divides each page into eighths - each of which is a "snippet," a verbatim excerpt. Each search generates three snippets, but by performing multiple searches using different search terms, a single user may view far more than three snippets, as different searches can return different snippets. For example, by making a series of consecutive, slightly different searches of the book *Ball Four*, a single user can view many different snippets from the book.

Google takes security measures to prevent users from viewing a complete copy of a snippet-view book. For example, a user cannot cause the system to return different sets of snippets for the same search query; the position of each snippet is fixed within the page and does not "slide" around the search term; only the first responsive snippet available on any given page will be returned in response to a query; one of the snippets on each page is "black-listed," meaning it will not be shown; and at least one out of ten entire pages in each book is black-listed. An "attacker" who tries to obtain an entire book by using a physical copy of the book to string together words appearing in successive passages would be able to obtain at best a patchwork of snippets that would be missing at least one snippet from every page and 10% of all pages. In addition, works with text organized in short "chunks," such as dictionaries, cookbooks, and books of haiku, are excluded from snippet view.

#### ***4. The Benefits of the Library Project and Google Books***

The benefits of the Library Project are many. First, Google Books provides a new and efficient way for readers and researchers to find books. It makes tens of millions of books searchable by words and phrases. It provides a searchable index linking each word in any book to all books in which that word appears. Google Books has become an essential research tool, as it helps librarians identify and find research sources, it makes the process of interlibrary lending more efficient, and it facilitates finding and checking citations. Indeed, Google Books has become such an important tool for researchers and librarians that it has been integrated into the educational system - it is taught as part of the information literacy curriculum to students at all levels.

Second, in addition to being an important reference tool, Google Books greatly promotes a type of research referred to as "data mining" or "text mining." Google Books permits humanities scholars to analyze massive amounts of data - the literary record created by a collection of tens of millions of books. Researchers can examine word frequencies, syntactic patterns, and thematic markers to consider how literary style has changed over time. Using Google Books, for example, researchers can track the frequency of references to the United States as a single entity ("the United States is") versus references to the United States in the plural ("the United States are") and how that usage has changed over time. The ability to determine how often different words or phrases appear in books at different times "can provide insights about fields as diverse as lexicography, the evolution of grammar, collective memory, the adoption of technology, the pursuit of fame, censorship, and historical epidemiology."

Third, Google Books expands access to books. In particular, traditionally underserved populations will benefit as they gain knowledge of and access to far more books. Google Books provides print-disabled individuals with the potential to search for books and read them in a format that is compatible with

text enlargement software, text-to-speech screen access software, and Braille devices. Digitization facilitates the conversion of books to audio and tactile formats, increasing access for individuals with disabilities. Google Books facilitates the identification and access of materials for remote and underfunded libraries that need to make efficient decisions as to which resources to procure for their own collections or through interlibrary loans.

Fourth, Google Books helps to preserve books and give them new life. Older books, many of which are out-of-print books that are falling apart buried in library stacks, are being scanned and saved. These books will now be available, at least for search, and potential readers will be alerted to their existence.

Finally, by helping readers and researchers identify books, Google Books benefits authors and publishers. When a user clicks on a search result and is directed to an “About the Book” page, the page will offer links to sellers of the book and/or libraries listing the book as part of their collections. The About the Book page for *Ball Four*, for example, provides links to Amazon.com, Barnes & Noble.com, Books-A-Million, and IndieBound. A user could simply click on any of these links to be directed to a website where she could purchase the book. Hence, Google Books will generate new audiences and create new sources of income.

As *amici* observe: “Thanks to ... [Google Books], librarians can identify and efficiently sift through possible research sources, amateur historians have access to a wealth of previously obscure material, and everyday readers and researchers can find books that were once buried in research library archives.” (...)

## DISCUSSION (...)

### A. Applicable Law

Fair use is a defense to a claim of copyright infringement. The doctrine permits the fair use of copyrighted works “to fulfill copyright's very purpose, ‘[t]o promote the Progress of Science and useful Arts.’” *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575 (1994). Copyright law seeks to achieve that purpose by providing sufficient protection to authors and inventors to stimulate creative activity, while at the same time permitting others to utilize protected works to advance the progress of the arts and sciences. As the Supreme Court has held, “[f]rom the infancy of copyright protection, some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright's very purpose.” 510 U.S. at 575.

The fair use doctrine is codified in § 107 of the Copyright Act, which provides in relevant part as follows:

*[T]he fair use of a copyrighted work, ... for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include-*

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;*
- (2) the nature of the copyrighted work;*
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and*
- (4) the effect of the use upon the potential market for or value of the copyrighted work.*

The determination of fair use is “an open-ended and context-sensitive inquiry,” *Blanch v. Koons*, 467 F.3d at 251, and thus the fair use doctrine calls for “case-by-case analysis”. The four factors enumerated in the statute are non-exclusive and provide only “general guidance”; they are to be explored and weighed together, “in light of the purposes of copyright.” 510 U.S. at 578-79. As fair use is an affirmative defense to a claim of copyright infringement, the proponent carries the burden of

proof as to all issues in dispute.

A key consideration is whether, as part of the inquiry into the first factor, the use of the copyrighted work is “transformative,” that is, whether the new work merely “supersedes” or “supplants” the original creation, or whether it: instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is “transformative.” 510 U.S. at 579. Although transformative use is not “absolutely necessary” to a finding of fair use, “the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works.” 510 U.S. at 579.

## **B. Application**

I discuss each of the four factors separately, and I then weigh them together.

### **1. Purpose and Character of Use**

The first factor is “the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.” 17 U.S.C. §107(1).

Google's use of the copyrighted works is highly transformative. Google Books digitizes books and transforms expressive text into a comprehensive word index that helps readers, scholars, researchers, and others find books. Google Books has become an important tool for libraries and librarians and cite-checkers as it helps to identify and find books. The use of book text to facilitate search through the display of snippets is transformative. The display of snippets of text for search is similar to the display of thumbnail images of photographs for search or small images of concert posters for reference to past events, as the snippets help users locate books and determine whether they may be of interest. Google Books thus uses words for a different purpose - it uses snippets of text to act as pointers directing users to a broad selection of books.

Similarly, Google Books is also transformative in the sense that it has transformed book text into data for purposes of substantive research, including data mining and text mining in new areas, thereby opening up new fields of research. Words in books are being used in a way they have not been used before. Google Books has created something new in the use of book text- the frequency of words and trends in their usage provide substantive information.

Google Books does not supersede or supplant books because it is not a tool to be used to read books. Instead, it “adds value to the original” and allows for “the creation of new information, new aesthetics, new insights and understandings.” Leval, *Toward a Fair Use Standard*, 103 Harv. L.Rev. at 1111. Hence, the use is transformative.

It is true, of course, as plaintiffs argue, that Google is a for-profit entity and Google Books is largely a commercial enterprise. The fact that a use is commercial “tends to weigh against a finding of fair use.” On the other hand, fair use has been found even where a defendant benefitted commercially from the unlicensed use of copyrighted works. Here, Google does not sell the scans it has made of books for Google Books; it does not sell the snippets that it displays; and it does not run ads on the About the Book pages that contain snippets. It does not engage in the direct commercialization of copyrighted works. *See* 17 U.S.C. §107(1). Google does, of course, benefit commercially in the sense that users are drawn to the Google websites by the ability to search Google Books. While this is a consideration to be acknowledged in weighing all the factors, even assuming Google's principal motivation is profit, the fact is that Google Books serves several important educational purposes.

Accordingly, I conclude that the first factor strongly favors a finding of fair use.

### **2. Nature of Copyrighted Works**

The second factor is “the nature of the copyrighted work.” 17 U.S.C. §107(2). Here, the works are books - all types of published books, fiction and non-fiction, in-print and out-of-print. While works of fiction are entitled to greater copyright protection, *Stewart v. Abend*, 495 U.S. 207, 237 (1990), here the vast majority of the books in Google Books are non-fiction. Further, the books at issue are published and available to the public. These considerations favor a finding of fair use.

### ***3. Amount and Substantiality of Portion Used***

The third factor is “the amount and substantiality of the portion used in relation to the copyrighted work as a whole.” 17 U.S.C. §107(3). Google scans the full text of books - the entire books - and it copies verbatim expression. On the other hand, courts have held that copying the entirety of a work may still be fair use. Here, as one of the keys to Google Books is its offering of full-text search of books, full-work reproduction is critical to the functioning of Google Books. Significantly, Google limits the amount of text it displays in response to a search.

On balance, I conclude that the third factor weighs slightly against a finding of fair use.

### ***4. Effect of Use Upon Potential Market or Value***

The fourth factor is “the effect of the use upon the potential market for or value of the copyrighted work.” 17 U.S.C. §107(4). Here, plaintiffs argue that Google Books will negatively impact the market for books and that Google's scans will serve as a “market replacement” for books. It also argues that users could put in multiple searches, varying slightly the search terms, to access an entire book.

Neither suggestion makes sense. Google does not sell its scans, and the scans do not replace the books. While partner libraries have the ability to download a scan of a book from their collections, they owned the books already - they provided the original book to Google to scan. Nor is it likely that someone would take the time and energy to input countless searches to try and get enough snippets to comprise an entire book. Not only is that not possible as certain pages and snippets are blacklisted, the individual would have to have a copy of the book in his possession already to be able to piece the different snippets together in coherent fashion.

To the contrary, a reasonable factfinder could only find that Google Books enhances the sales of books to the benefit of copyright holders. An important factor in the success of an individual title is whether it is discovered - whether potential readers learn of its existence. Google Books provides a way for authors' works to become noticed, much like traditional in-store book displays. Indeed, both librarians and their patrons use Google Books to identify books to purchase. Many authors have noted that online browsing in general and Google Books in particular helps readers find their work, thus increasing their audiences. Further, Google provides convenient links to booksellers to make it easy for a reader to order a book. In this day and age of on-line shopping, there can be no doubt but that Google Books improves books sales.

Hence, I conclude that the fourth factor weighs strongly in favor of a finding of fair use.

### ***5. Overall Assessment***

Finally, the various non-exclusive statutory factors are to be weighed together, along with any other relevant considerations, in light of the purposes of the copyright laws.

In my view, Google Books provides significant public benefits. It advances the progress of the arts and sciences, while maintaining respectful consideration for the rights of authors and other creative individuals, and without adversely impacting the rights of copyright holders. It has become an invaluable research tool that permits students, teachers, librarians, and others to more efficiently

identify and locate books. It has given scholars the ability, for the first time, to conduct full-text searches of tens of millions of books. It preserves books, in particular out-of-print and old books that have been forgotten in the bowels of libraries, and it gives them new life. It facilitates access to books for print-disabled and remote or underserved populations. It generates new audiences and creates new sources of income for authors and publishers. Indeed, all society benefits.

Similarly, Google is entitled to summary judgment with respect to plaintiffs' claims based on the copies of scanned books made available to libraries. Even assuming plaintiffs have demonstrated a *prima facie* case of copyright infringement, Google's actions constitute fair use here as well. Google provides the libraries with the technological means to make digital copies of books that they already own. The purpose of the library copies is to advance the libraries' lawful uses of the digitized books consistent with the copyright law. The libraries then use these digital copies in transformative ways. They create their own full-text searchable indices of books, maintain copies for purposes of preservation, and make copies available to print-disabled individuals, expanding access for them in unprecedented ways. Google's actions in providing the libraries with the ability to engage in activities that advance the arts and sciences constitute fair use.

To the extent plaintiffs are asserting a theory of secondary liability against Google, the theory fails because the libraries' actions are protected by the fair use doctrine. Indeed, in the *HathiTrust* case, Judge Baer held that the libraries' conduct was fair use. See *Authors Guild, Inc. v. HathiTrust*, 902 F.Supp.2d 445, 460-61, 464 (S.D.N.Y. 2012). The fair use analysis set forth above with respect to Google Books applies here as well to the libraries' use of their scans, and if there is no liability for copyright infringement on the libraries' part, there can be no liability on Google's part.

## CONCLUSION

For the reasons set forth above, plaintiffs' motion for partial summary judgment is denied and Google's motion for summary judgment is granted. Judgment will be entered in favor of Google dismissing the Complaint. Google shall submit a proposed judgment, on notice, within five business days hereof.

**SO ORDERED.**

THINK IT OVER!

***What are the consequences of Judge Chin's decision on an international level? Is the confirmation of the fair nature of Google Books a guarantee that the service falls under any limitation or exception under the European Union copyright law?*** Compare to Art. 5(2)-(3) of the Information Society Directive. Most notably, Art. 5(2)(c) of the Directive might allow Member States to introduce limitations or exceptions to the *reproduction right* in respect of specific acts of reproduction made by publicly accessible libraries, educational establishments or museums, or by archives, which are not for direct or indirect economic or commercial advantage". See further Art 5(3)(n) of the Directive that allows Member States to introduce limitations or exceptions with regards „communication or making available, for the purpose of research or private study, to individual members of the public by dedicated terminals on the premises of establishments referred to in paragraph 2(c) of works and other subject-matter not subject to purchase or licensing terms which are contained in their collections". ***Does Google fit into such provisions?*** Compare to the preliminary ruling of the CJEU in the *TUD v. Ulmer* case. ***Would HathiTrust's service compatible with the copyright law of the European Union?***

FURTHER CASE LAW

The Authors Guild, Inc., et al., v. HathiTrust, et al., 755 F.3d 87 (2014)

RECOMMENDED READINGS

*In English*

Jonathan Band: The Long and Winding Road to the Google Books Settlement, *John Marshall Review of Intellectual Property Law*, 2010: p. 227-329.

Matthew Sag: The Google Book Settlement and the Fair Use Counterfactual, *New York Law School Law Review*, 2010-2011: p. 19-75.

Lateef Mtima - Steven D. Jamar: Fulfilling the Copyright Social Justice Promise: Digitizing Textual Information, *New York Law School Law Review*, 2010/11: p. 77-108.

Katharina De La Durantaye: H is for Harmonization: The Google Book Search Settlement and Orphan Works Legislation in the European Union, *New York Law School Law Review*, 2010/11: p. 157-173.

Mary Murrell: Digital + Library: Mass Book Digitization as Collective Inquiry, *New York Law School Law Review*, 2010-2011: p. 221-249.

*In Hungarian*

Mezei Péter: A szerzői jog jövője (is) a tét - Gondolatok a Google Books könyvdigitalizálási projektről, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2011/5. szám, p. 5-47.

**French Legislation on the Digitization of Out-of-Commerce Works**

*Dóra Hajdú*

[The present paper is a summary of the following article: Dóra Hajdú: A kereskedelmi forgalomban nem kapható könyvek digitalizálása Franciaországban, *Infokommunikáció és Jog*, 2013/2, p. 53-59.]

The first country in the world to put in place a regulation on the digitization of out-of-commerce works was France. The French Parliament adopted an amendment of the Intellectual Property Code<sup>1</sup> in 2012 referring to the questions raised by the digitization of commercially unavailable books.<sup>2</sup>

The French legislation lies down on two pillars: 1) the definition of out-of-commerce book and 2) the creation of a special extended collective licensing system. These pillars are covered by the following points.

**1. The scope of the law: definition of out-of-commerce book**

The new article L.134-1 of the CPI provides the following definition: “*under this chapter an out-of-commerce book means a book published in France before the 1<sup>st</sup> January 2001 which is no longer distributed commercially by a publisher and is not currently object to publication either in print or in a digital form.*”

Three criteria need to be fulfilled for a work to fall under the scope of the act: 1) the work shall be a book, 2) published in France before a given date (1<sup>st</sup> January 2001) and 3) it shall be no longer available in the ordinary streams of commerce.

One may criticize the fact that new provisions of the CPI cover only a certain category of works: the books. Although the term “book” is enumerated in the indicative list of the CPI of protected works,<sup>3</sup>

<sup>1</sup> Code de la propriété intellectuelle, hereinafter: CPI.

<sup>2</sup> Act Nr. 2012-282 of the 1<sup>st</sup> March 2012 on the digital exploitation of unavailable books of the 20<sup>th</sup> century (Loi n° 2012-287 du 1er mars 2012 relative à l’exploitation numérique des livres indisponibles du XXe siècle).

neither the legislature, nor the jurisprudence have defined it yet.<sup>4</sup> It can be interpreted as it only refers to a carrier and not to the copyright protected work itself. However, the use of this term clearly shows the intention of the French Parliament to limit the scope of the act.<sup>5</sup>

The date of 1<sup>st</sup> January 2001 is a result of a discretionary choice of the legislature: considering that from the beginning of the 21<sup>st</sup> century publishing contracts provide clauses referring to the digital exploitation of works. This temporal boundary raises two main questions. First of all, it is not obvious whether the new rules are applicable to works under public domain. Regarding that the project named “*Gallica*”<sup>6</sup> launched by the BNF aims the digitization of public domain and the title of the act only refers to books of the 20<sup>th</sup> century, this idea may be rejected. Secondly, before the Act on the literary and artistic property was accepted on 11 March 1957<sup>7</sup> the transfer of rights by a publishing contract was possible on the basis of the revolutionary copyright act.<sup>8</sup> In 2005 the French Supreme Court, the *Cour de cassation* recognized in the “*Colette case*”<sup>9</sup> that this transfer applies even for unknown or unpredictable uses of the work at the time of the conclusion of the contract, such as audio-visual or phonographic uses.<sup>10</sup> This jurisprudence has been recently confirmed<sup>11</sup> and may be extended to digital uses. Therefore the necessity for the new regulation might be questioned, arguing that the publishers have already had the legal basis for the digitization. The fact that they didn’t insist to do so might prove a weak economical rentability of the project.

The heart of the new regime, the commercial availability of a work includes two sub-criteria. On the one hand, the book shall be no longer object to commercial distribution and on the other hand, it shall not be object to(re)publication either in print or in a digital form. These conditions are also blurred in the light of the provisions related to publishing contracts. According to article L.132-1 of CPI the publisher is charged to reassure the publication and distribution of the works. More precisely, the permanent exploitation and commercial diffusion of the books is required.<sup>12</sup> The publisher breaches this obligation if the stock is exhausted: if two requests of delivery addressed to the publisher are not satisfied within three months.<sup>13</sup> Thus, one may argue that the book has been already commercially unavailable due to the breach of contract. However, the new act differentiates this latter situation from the criteria of commercial unavailability referred to in the new act, without specifying the meaning of this category.<sup>14</sup> In fact, it is not clear if it has to be an objective and absolute unavailability (the book is completely out of stock, it might be purchased only in second-hand bookshops), or a simple relative unavailability (the book might be bought, but it requires extra fees/extra efforts) is enough.

After having a brief analysis of the scope of the new act, its the practical side should be reviewed: the system of the collective licensing of rights.<sup>15</sup>

---

<sup>3</sup> CPI article L.112-2 1°.

<sup>4</sup> Macrez (2012) paragraph 4.

<sup>5</sup> Piriou (2012) paragraph 6.

<sup>6</sup> www.gallica.bnf.fr.

<sup>7</sup> Act Nr. 57-298 of 11 March 1957 on the literary and artistic property (Loi n° 47-298 du 11 mars 1957 sur la propriété littéraire et artistique).

<sup>8</sup> Act of 19 and 24 July 1793 on property rights of authors, music composers, painters and drawers (Loi des 19 et 24 juillet 1793 relatif aux droits de propriété des auteurs, compositeurs de musiques, peintres et dessinateurs).

<sup>9</sup> Cour de cassation, chambre civile 1, du 25 mai 2005, 02-17305

<sup>10</sup> Caron (2005).

<sup>11</sup> Cass. crim., 12 mars 2013, n° 12-85.163, F-D, Alexis M. et les Éditions du Cerf: JurisData n° 2013-006702.

<sup>12</sup> CPI article L.132-12.

<sup>13</sup> CPI article L.132-17.

<sup>14</sup> CPI article L.134-2. and L.134-4 II paragraph 2.

<sup>15</sup> Collective management is a way of exercising copyright and related rights where the exercise of rights is impossible or highly impracticable on an individual basis. The owners of rights concerned authorize an organisation to exercise their rights on their behalf, more particularly to grant licences, to monitor uses, to collect the corresponding remuneration, and to distribute and transfer that remuneration to whom it may be due. WIPO (2003) 274-275.

## 2. Digitization of books via a special collective licensing system

A database<sup>16</sup> maintained by the National Library of France (*Bibliothèque Nationale de France*, hereinafter: BNF) gives the core of the new system. Anyone can ask the library to register an out-of-commerce book to the database.<sup>17</sup> Once the criteria are fulfilled, the collective management organisation representing the authors of literary works (*Société française des intérêts des auteurs de l'écrit*, hereinafter: *Sofia*) licences the digital uses of the works.<sup>18</sup> However, this system cannot be qualified as a simple compulsory collective licensing system (where the only available method of exercising rights is via the collecting societies), due to the possibility of the right-holders (the authors and, as holders of the right to reproduction by contract, the publishers) to opt out. Right-holders have two options: either they can object to the inscription of the work in the database or they can withdraw the rights directly from the collective licensing.

In principle, the objection is open without any condition to the author within six months from the registration of the book in the database.<sup>19</sup> On the contrary, the publisher may only object to the registration of the book in the database if it engages to the exploitation of the work within two years.<sup>20</sup> Related to the possible harm of the honor or reputation of the author, the act enables another way of objection after the expiry of the period of six months from the registration.<sup>21</sup> The objection is recorded in the database and the affected work doesn't enter the collective licensing regime. The following chart shows the main characteristics of the objection.

	<b>Objection</b>		
<b>Who?</b>	author	publisher	author
<b>To whom?</b>	BNF	BNF	Sofia
<b>How?</b>	in writing	in writing	in writing
<b>Deadline?</b>	6 months from the registration of the book in the database	6 months from the registration of the book in the database	after the expiry of the period of 6 months from the registration of the book in the database
<b>Condition?</b>	-----	exploitation of the work within two years	the use of the work is susceptible to harm the honor or reputation of the author
<b>Consequence?</b>	- record kept in the database - the affected book doesn't enter the collective licensing	- record kept in the database - the affected book doesn't enter the collective licensing - the publisher is obligated to exploit the affected book	- the book exits from collective licensing - applicability of sanctions for the violation of moral rights?

The other possibility to opt out is to withdraw the rights from the Sofia. The author may claim that possibility anytime if he is the sole holder of the copyrights.<sup>22</sup> From that moment the author regains

<sup>16</sup> www.relire.fr.

<sup>17</sup> CPI article L.134-2.

<sup>18</sup> CPI article L.134-3.

<sup>19</sup> CPI article L.134-4. I.

<sup>20</sup> CPI article L.134-4 II.

<sup>21</sup> CPI article L.134-4. I.

<sup>22</sup> CPI article L.134-6.

the exclusive right to license the use of his work. The author and the publisher may also opt out jointly if they commit to exploit the work.<sup>23</sup> In that particular case parallel licenses co-exist until the expiry of term of the originally granted licenses. The following chart explains the substance of the withdrawal.

	<b>Withdrawal</b>	
<b>Who?</b>	author	author + publisher
<b>To whom?</b>	Sofia	Sofia
<b>How?</b>	in writing	in writing
<b>Deadline?</b>	anytime	anytime
<b>Condition?</b>	the author is the sole right-holder	exploitation of the work within 18 months
<b>Consequence?</b>	<ul style="list-style-type: none"> <li>- record kept in the database</li> <li>- the book exits from collective licensing</li> </ul>	<ul style="list-style-type: none"> <li>- record kept in the database</li> <li>- the book exits from collective licensing</li> <li>- obligation to exploit the work within 18 months</li> <li>- Sofia informs the other users: parallel licenses</li> </ul>

If none of the right-holders opted out of the regime, the compulsory licensing mechanism applies with a priority right to the initial publisher to get an exclusive license to use the work within a period of ten years.<sup>24</sup> Non-exclusive licenses may be only granted to third parties for a period of five years if the original publisher refuses the exploitation of the work.<sup>25</sup>

The new French act relating to the digitization of out-of-commerce works is unique not only because it sets up a presumed collective licensing system, but also because the aim of the act is to push the publishers of books published in the 20<sup>th</sup> century to exploit them in a digital form. The act was criticized by scholars mostly because this system reverses the traditional form of exercising copyright rights, and its decree of implementation has been subject to a revision from a constitutional point of view by the Constitutional Council (*Conseil constitutionnel*). Two members of the collective “Le droit du Serf” launched a procedure to claim the annulation of the decree. The Council of State (*Conseil d’État*) referred a preliminary constitutional question (QPC) to the Constitutional Council. The applicants’ most important argument stated that the “reversal of the presumption of ownership of the author’s rights in his work established by the system of collective management of unavailable books directly infringed the authors’s property right protected by Article 2 and 17 of the Declaration of the Rights of Man and of the Citizen and enshrined in earlier Constitutional Council decisions.”<sup>26</sup>

In its decision the Constitutional Council repeated that intellectual property rights (including literary and artistic property) merit the constitutional protection of property rights, therefore in the absence of deprivation of property, impignements on the rights must be justified on grounds of general interest and be proportionate to the objective pursued.<sup>27</sup> The council stated the non-deprivation of the author’s property rights on the basis that his moral rights (especially the right to respect his name and the right of disclosure) are intact as well as the right to exploit his work other than a digital form.<sup>28</sup> As a second step, the council analysed the conformity of the restriction of the property right to the principles elaborated in its previous decisions. It has been stressed that the aim of the act corresponds to the (otherwise vague) concept of general interest as it resides on the (re)making commercially available

<sup>23</sup> CPI article L.134-6.

<sup>24</sup> CPI article L.134-5.

<sup>25</sup> CPI article L.134-3.

<sup>26</sup> Galopin (2015) 212-214.

<sup>27</sup> Conseil constitutionnel, 28 Feb. 2014, no. 2013-370 QPC, recital 8.

<sup>28</sup> Recital 13 of the decision.

certain protected but out-of-commerce works. The judges also stressed the limited character of the system, especially the fact that authors' and publishers' rights are protected with guarantees (especially the several forms of opting out). The council concluded that under these circumstances, the restrictions placed in the act did not constitute an impropportionate impingement in the light of the objective pursued.<sup>29</sup> The case has, however, not finished yet as the Council of State has to decide on the annulment of the decree of implementation of the act.

## **Memorandum of Understanding - Key Principles on the Digitisation and Making Available of Out-of-Commerce Works**

*Whereas:*

*(1) The scope of these principles are books and journals which have been published for the first time in the country where the Agreement is requested, and are to be digitised and made available by publicly accessible cultural institutions as contained within Art 5.2 (c) of the European Union Directive 2001/29/EC.*

*(2) "Agreement" for the purpose of this document, means a written understanding that leads to a collective licensing scheme. This is without prejudice to individual agreements with the rightholders.*

*(3) For the purpose of this document "rightholders" refer to authors of literary and artistic works and publishers.*

*(4) Considering that the large-scale digitisation and making available of Europe's cultural heritage contained in the collections of publicly accessible cultural institutions is in the public interest as well as in the interest of the cultural and creative sector.*

*(5) Being aware that the creation of such "digital libraries" has to respect the moral rights of the authors, as well as the intellectual property rights of authors and their assignees.*

*(6) Recognising that the rightholders shall always have the first option to digitise and make available an out-of-commerce work.*

*(7) Recommending that the Agreement covers embedded images in literary works, whilst having regard to the fact that efficient electronic identification of images is not yet developed.*

*(8) Recommending that embedded images are dealt with within the same Agreement as the literary work in which they are contained by the collective management organisation for visual works or the collective management organisation which is mandated to represent visual works.*

*(9) Recognising that legislation might be required to create a legal basis to ensure that publicly accessible cultural institutions and collective management organisations benefit from legal certainty when, under an applicable presumption, the collective management organisations represent rightholders that have not transferred the management of their rights to them.*

*(10) Recommending that Member States, in keeping their international obligations, may give effect to the key principles mentioned below in accordance with their national legal mechanisms and collective licensing traditions.*

*(11) Calling on the European Commission, to the extent required to ensure legal certainty in a cross-border context, to consider the type of legislation to be enacted to ensure that publicly accessible cultural institutions and collective management organisations which enter into a licence in good faith applying these key principles are legally protected with regard to licensed uses of works of rightholders who have been presumed to be within the scope of the licence.*

The undersigned participants to the Stakeholder Dialogue agree to the following guiding principles:

### **DEFINITION**

For the purpose of the dialogue on out-of-commerce works, a work is out of commerce when the whole work, in all its versions and manifestations is no longer commercially available in customary

---

<sup>29</sup> Galopin (2015) 218.

channels of commerce, regardless of the existence of tangible copies of the work in libraries and among the public (including through second hand bookshops or antiquarian bookshops).

The method for the determination of commercial availability of a work depends on the specific availability of bibliographic data infrastructure and therefore should be agreed upon in the country of first publication of the work.

### **Principle No. 1 – Voluntary Agreements on Out-of-Commerce works**

1. Agreements for the digitisation and making available of out-of-commerce works contained in publicly accessible cultural institutions, which are not for direct or indirect economic or commercial advantage, are to be negotiated on a voluntary basis amongst all relevant parties including authors and publishers ("contracting parties"). These contracting parties shall define the scope of the Agreement and applicable remuneration for rightholders, which should be defined by mutual consent.

2. The contracting parties shall agree on the type and number of works covered by the Agreement and on the fact that these works are out of commerce. The determination by the parties of whether a work is out of commerce or not shall be conducted according to the customary practices in the country of first publication of the work. Each Agreement shall stipulate the steps that have to be taken in order to verify whether a work is out of commerce.

3. Without prejudice to existing exceptions and limitations in the copyright legislations of the Member State in which the publicly accessible cultural institutions are located, each Agreement shall define commercial or non-commercial uses and shall specify which uses are authorised.

4. Each Agreement shall stipulate the author's right to claim authorship of the work, to acknowledge this authorship when known, and the author's right to object to any distortion, mutilation or other modification of his work. The author's right to object to other derogatory action in relation to the said work, which would be prejudicial to his honour or reputation, shall also be safeguarded.

### **Principle No. 2 – Practical Implementation of Collective Agreements**

1. Licences for works that are out of commerce will only be granted by collective management organisations in which a substantial number of authors and publishers affected by the Agreement are members, and appropriately represented in the key decision making bodies.

2. Each digital library project shall be widely publicised so that all stakeholders whose rights and interests might be affected can decide whether or not to participate in the project in full knowledge of its scope; and communication to rightholders shall be made sufficiently in advance of any scanning or use. If the scope of the Agreement includes translations, a specific procedure should be undertaken in order to reach the rightholders in translated works.

3. It is recommended that represented rightholders are notified individually by rightholders organisations and collective management organisations.

4. For the purpose of such an Agreement, where a rightholder whose work was first published in a particular Member State has not transferred the management of his rights to a collective management organisation, the collective management organisation which manages rights of the same category in that Member State of first publication shall be presumed to manage the rights in respect of such work. In order to benefit from this presumption the collective management organisation shall make its best efforts to alert rightholders in question in accordance with information procedure methods agreed upon with organisations representing rightholders in the country where the collective management organisation is based. The rightholder organisations will commit to assist the collective management organisation in the work to alert authors and publishers.

5. Rightholders shall have the right to opt out of and to withdraw all or parts of their works from the licence scheme derived from any such Agreement.

### **Principle No. 3 – Cross Border Access to Digital Libraries**

1. If the scope of an Agreement entered into pursuant to Principle No. 1(2) and No. 1(3) includes cross-border and/or commercial uses, the collective management organisation may limit its licence of works that are out-of-commerce to those of represented rightholders.
2. Where a licence between a collective management organisation and a publicly accessible cultural institution implementing an Agreement which includes in its scope cross-border and/or commercial uses, should rely on the presumption referred to in Principle No. 2(4), a specific procedure should be considered in order to reach the rightholders who are presumed to be represented and whose works are used frequently or intensively. It shall be a matter to be agreed between the parties concerned to decide if and when to set specific procedures and to define the relevant parameters and arrangements.
3. Subject to Principle No. 3(2), the presumption set out in Principle No. 2(4) shall also apply to acts of use of the work covered by the licence which occur in a Member State which is not the Member State in which the licence was agreed.

Brussels, 20 September 2011 (...)

#### THINK IT OVER

Two different approaches exist to regulate mass-digitization of works, but it seems that the final goal of both methods is the same: to bring a “second life” for the literary works. The first one is the library digitization and the second one(s) is (are) the project(s) realized on a commercial basis. ***How could you describe the common points of the projects and which are the main differences? Could you identify conceptual similarities or differences between the two examples of commercial digitization?***

In July 2015 a French court ultimately referred the French OOC statute to the ECJ for a preliminary ruling on the compatibility of the statute and the InfoSoc-Directive. The question was formulated properly as follows: “Do the provisions (...) of Directive 2001/29 preclude legislation... that gives approved collecting societies the right to authorise the reproduction and the representation in digital form of ‘out-of-print books’, while allowing the authors of those books, or their successors in title, to oppose or put an end to that practice, on the conditions that it lays down?” ***Does this question have any merit?***

#### FURTHER CASE LAW

Conseil constitutionnel, 28 Feb. 2014, no. 2013-370 QPC: *Propriété intellectuelle*. April 2014, no. 51, p. 168.

#### RECOMMENDED READINGS

##### *In English*

Benoit Galopin: Consequences of the Constitutional and European Nature of Authors’ Rights: a Look Back at a Few Recent Decisions, *RIDA*, Issue 1/2015, p. 206-220.

##### *In Hungarian*

Hajdú Dóra: A kereskedelmi forgalomban nem kapható könyvek digitalizálása Franciaországban, *Infokommunikáció és Jog*, 2013/2, p. 53-59.

Tarr Péter: Beszerezhetetlenné vált, ismét kapható könyvek - digitálisan pótolta „hiánycikk-könyvek” a XX. századból, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2013. december, p. 108-134.

## CHAPTER IV

**UsedSoft GmbH v. Oracle International Corp.**  
JUDGMENT OF THE COURT (Grand Chamber)  
3 July 2012  
Case C-128/11

### Legal context

#### *International law*

3 The World Intellectual Property Organisation (WIPO) adopted the WIPO Copyright Treaty ('the Copyright Treaty') in Geneva on 20 December 1996. That treaty was approved on behalf of the European Community by Council Decision 2000/278/EC of 16 March 2000 (OJ 2000 L 89, p. 6).

4 Article 4 of the Copyright Treaty, 'Computer programs', reads as follows:

*'Computer programs are protected as literary works within the meaning of Article 2 of the Berne Convention. Such protection applies to computer programs, whatever may be the mode or form of their expression.'*

5 Article 6 of the Copyright Treaty, 'Right of distribution', provides:

*'1. Authors of literary and artistic works shall enjoy the exclusive right of authorising the making available to the public of the original and copies of their works through sale or other transfer of ownership.*

*2. Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph 1 applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorisation of the author.'*

6 Article 8 of the Copyright Treaty provides:

*'... authors of literary and artistic works shall enjoy the exclusive right of authorising any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access these works from a place and at a time individually chosen by them'.*

7 In the agreed statements concerning Articles 6 and 7 of the Copyright Treaty, it is declared that:

*'As used in these Articles, the expressions "copies" and "original and copies" being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects.'*

#### *European Union law*

#### Directive 2001/29

8 Recitals 28 and 29 in the preamble to Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (OJ 2001 L 167, p. 10) state:

*'(28) Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article. The first sale in the Community of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object in the Community. This right should not be exhausted in respect of the original or of copies thereof sold by the rightholder or with his consent outside the Community. Rental and lending rights for authors have been established in Directive 92/100/EEC. The distribution right provided for in this Directive is without prejudice to the provisions relating to the rental and lending rights contained in Chapter I of that Directive.*

*(29) The question of exhaustion does not arise in the case of services and on-line services in particular. This also applies with regard to a material copy of a work or other subject-matter made by a*

*user of such a service with the consent of the rightholder. Therefore, the same applies to rental and lending of the original and copies of works or other subject-matter which are services by nature. Unlike CD-ROM or CD-I, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which should be subject to authorisation where the copyright or related right so provides.'*

9 In accordance with Article 1(2)(a) of Directive 2001/29, the directive 'shall leave intact and shall in no way affect existing Community provisions relating to ... the legal protection of computer programs'.

10 Article 3 of Directive 2001/29 provides:

*'1. Member States shall provide authors with the exclusive right to authorise or prohibit any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them.*

*3. The rights referred to in paragraphs 1 and 2 shall not be exhausted by any act of communication to the public or making available to the public as set out in this Article.'*

11 Article 4 of Directive 2001/29, 'Distribution right', provides:

*'1. Member States shall provide for authors, in respect of the original of their works or of copies thereof, the exclusive right to authorise or prohibit any form of distribution to the public by sale or otherwise.*

*2. The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.'*

#### Directive 2009/24

12 According to recital 1 in the preamble to Directive 2009/24, that directive codifies Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs (OJ 1991 L 122, p. 42).

13 According to recital 7 in that preamble, '[f]or the purpose of this Directive, the term "computer program" shall include programs in any form, including those which are incorporated into hardware.'

14 According to recital 13 in that preamble, 'the acts of loading and running necessary for the use of a copy of a program which has been lawfully acquired, and the act of correction of its errors, may not be prohibited by contract'.

15 Article 1(1) of Directive 2009/24 provides that 'Member States shall protect computer programs, by copyright, as literary works within the meaning of the Berne Convention for the Protection of Literary and Artistic Works'.

16 Under Article 1(2) of that directive, '[p]rotection in accordance with this Directive shall apply to the expression in any form of a computer program'.

17 Article 4 of the directive, 'Restricted acts', provides:

*'1. Subject to the provisions of Articles 5 and 6, the exclusive rights of the rightholder within the meaning of Article 2 shall include the right to do or to authorise:*

*(a) the permanent or temporary reproduction of a computer program by any means and in any form, in part or in whole; in so far as loading, displaying, running, transmission or storage of the computer program necessitate such reproduction, such acts shall be subject to authorisation by the rightholder;*

*(b) the translation, adaptation, arrangement and any other alteration of a computer program and the reproduction of the results thereof, without prejudice to the rights of the person who alters the program;*

*(c) any form of distribution to the public, including the rental, of the original computer program or of copies thereof.*

2. *The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.*

18 Article 5 of the directive, 'Exceptions to the restricted acts', provides in paragraph 1:

*'In the absence of specific contractual provisions, the acts referred to in points (a) and (b) of Article 4(1) shall not require authorisation by the rightholder where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction.'*

*German law*

19 Paragraphs 69c and 69d of the Law on copyright and related rights (Gesetz über Urheberrecht und verwandte Schutzrechte (Urheberrechtsgesetz)) of 9 September 1965, as amended ('the UrhG'), transpose Articles 4 and 5 of Directive 2009/24 into national law.

### **Facts of the main proceedings and questions referred for a preliminary ruling**

20 Oracle develops and markets computer software. It is the proprietor of the exclusive user rights under copyright law in those programs. It is also the proprietor of the German and Community word marks Oracle, which are registered inter alia for computer software.

21 Oracle distributes the software at issue in the main proceedings, namely databank software, in 85% of cases by downloading from the internet. The customer downloads a copy of the software directly to his computer from Oracle's website. The software is what is known as 'client-server-software'. The user right for such a program, which is granted by a licence agreement, includes the right to store a copy of the program permanently on a server and to allow a certain number of users to access it by downloading it to the main memory of their work-station computers. On the basis of a maintenance agreement, updated versions of the software ('updates') and programs for correcting faults ('patches') can be downloaded from Oracle's website. At the customer's request, the programs are also supplied on CD-ROM or DVD.

22 Oracle offers group licences for the software at issue in the main proceedings for a minimum of 25 users each. An undertaking requiring licences for 27 users thus has to acquire two licences.

23 Oracle's licence agreements for the software at issue in the main proceedings contain the following term, under the heading 'Grant of rights':

*'With the payment for services you receive, exclusively for your internal business purposes, for an unlimited period a non-exclusive non-transferable user right free of charge for everything that Oracle develops and makes available to you on the basis of this agreement.'*

24 UsedSoft markets used software licences, including user licences for the Oracle computer programs at issue in the main proceedings. For that purpose UsedSoft acquires from customers of Oracle such user licences, or parts of them, where the original licences relate to a greater number of users than required by the first acquirer.

25 In October 2005 UsedSoft promoted an 'Oracle Special Offer' in which it offered for sale 'already used' licences for the Oracle programs at issue in the main proceedings. In doing so it pointed out that the licences were all 'current' in the sense that the maintenance agreement concluded between the original licence holder and Oracle was still in force, and that the lawfulness of the original sale was confirmed by a notarial certificate.

26 Customers of UsedSoft who are not yet in possession of the Oracle software in question download a copy of the program directly from Oracle's website, after acquiring such a used licence.

Customers who already have that software and then purchase further licences for additional users are induced by UsedSoft to copy the program to the work stations of those users.

27 Oracle brought proceedings in the Landgericht München I (Regional Court, Munich I) seeking an order that UsedSoft cease the practices described in paragraphs 24 to 26 above. That court allowed Oracle's application. UsedSoft's appeal against the decision was dismissed. UsedSoft thereupon appealed on a point of law to the Bundesgerichtshof (Federal Court of Justice).

28 According to the Bundesgerichtshof, the actions of UsedSoft and its customers infringe Oracle's exclusive right of permanent or temporary reproduction of computer programs within the meaning of Article 4(1)(a) of Directive 2009/24. UsedSoft's customers cannot, in that court's view, rely on a right validly transferred to them by Oracle to reproduce the computer programs. Oracle's licence agreements state that the right to use the programs is 'non-transferable'. Oracle's customers are not therefore entitled to transfer to third parties the right of reproduction of those programs.

29 The outcome of the dispute depends, according to that court, on whether the customers of UsedSoft can successfully rely on Paragraph 69d(1) of the UrhG, which transposes Article 5(1) of Directive 2009/24 into German law.

30 The question arises, first, whether a person who, like UsedSoft's customers, does not hold a user right in the computer program granted by the rightholder, but relies on the exhaustion of the right to distribute a copy of the computer program, is a 'lawful acquirer' of that copy within the meaning of Article 5(1) of Directive 2009/24. The referring court considers that that is the case. It explains that the marketability of a copy of the computer program which arises from the exhaustion of the distribution right would be largely meaningless if the acquirer of such a copy did not have the right to reproduce the program. The use of a computer program, unlike the use of other works protected by copyright, generally requires its reproduction. Article 5(1) of Directive 2009/24 thus serves to safeguard the exhaustion of the distribution right under Article 4(2) of Directive 2009/24.

31 Next, the referring court considers whether, in a case such as that in the main proceedings, the right to distribute a copy of a computer program is exhausted under the second sentence of Paragraph 69c(3) of the UrhG, which transposes Article 4(2) of Directive 2009/24.

32 There are several possible interpretations. First, Article 4(2) of Directive 2009/24 could be applicable if the rightholder allows a customer, after the conclusion of a licence agreement, to make a copy of a computer program by downloading that program from the internet and storing it on a computer. That provision attaches the legal consequence of exhaustion of the distribution right to the first sale of a copy of the program and does not necessarily presuppose the putting into circulation of a physical copy of the program. Secondly, Article 4(2) of Directive 2009/24 could be applicable by analogy in the case of the sale of a computer program by means of on-line transmission. According to the supporters of that view, there is an unintended lacuna in the law ('planwidrige Regelungslücke') because the authors of the directive did not regulate or contemplate on-line transmission of computer programs. Thirdly, Article 4(2) of Directive 2009/24 is inapplicable because the exhaustion of the distribution right under that provision always presupposes the putting into circulation of a physical copy of the program by the rightholder or with his consent. The authors of the directive deliberately refrained from extending the rule on exhaustion to the on-line transmission of computer programs.

33 Finally, the referring court raises the question whether a person who has acquired a used licence may, for making a copy of the program (as UsedSoft's customers do in the dispute in the main proceedings by downloading a copy of Oracle's program onto a computer from Oracle's website or uploading it to the main memory of other work stations), rely on exhaustion of the right of distribution of the copy of the program made by the first acquirer, with the consent of the rightholder, by downloading it from the internet, if the first acquirer has deleted his copy or no longer uses it. The referring court considers that the application by analogy of Articles 5(1) and 4(2) of Directive 2009/24

can be ruled out. Exhaustion of the distribution right is intended solely to guarantee the marketability of a copy of a program which is incorporated in a particular data carrier and sold by the rightholder or with his consent. The effect of exhaustion should not therefore be extended to the non-physical data transmitted on-line.

34 In those circumstances the Bundesgerichtshof decided to stay the proceedings and to refer the following questions to the Court for a preliminary ruling:

*'1. Is the person who can rely on exhaustion of the right to distribute a copy of a computer program a "lawful acquirer" within the meaning of Article 5(1) of Directive 2009/24?*

*2. If the reply to the first question is in the affirmative: is the right to distribute a copy of a computer program exhausted in accordance with the first half-sentence of Article 4(2) of Directive 2009/24 when the acquirer has made the copy with the rightholder's consent by downloading the program from the internet onto a data carrier?*

*3. If the reply to the second question is also in the affirmative: can a person who has acquired a "used" software licence for generating a program copy as "lawful acquirer" under Article 5(1) and the first half-sentence of Article 4(2) of Directive 2009/24 also rely on exhaustion of the right to distribute the copy of the computer program made by the first acquirer with the rightholder's consent by downloading the program from the internet onto a data carrier if the first acquirer has erased his program copy or no longer uses it?'*

### **Consideration of the questions referred**

#### *Question 2*

35 By its second question, which should be addressed first, the referring court essentially seeks to know whether and under what conditions the downloading from the internet of a copy of a computer program, authorised by the copyright holder, can give rise to exhaustion of the right of distribution of that copy in the European Union within the meaning of Article 4(2) of Directive 2009/24.

36 It should be recalled that under Article 4(2) of Directive 2009/24 the first sale in the European Union of a copy of a computer program by the rightholder or with his consent exhausts the distribution right within the European Union of that copy.

37 According to the order for reference, the copyright holder itself, in this case Oracle, makes available to its customers in the European Union who wish to use its computer program a copy of that program which can be downloaded from its website.

38 To determine whether, in a situation such as that at issue in the main proceedings, the copyright holder's distribution right is exhausted, it must be ascertained, first, whether the contractual relationship between the rightholder and its customer, within which the downloading of a copy of the program in question has taken place, may be regarded as a 'first sale ... of a copy of a program' within the meaning of Article 4(2) of Directive 2009/24.

39 According to settled case-law, the need for a uniform application of European Union law and the principle of equality require that the terms of a provision of European Union law which makes no express reference to the law of the Member States for the purpose of determining its meaning and scope must normally be given an independent and uniform interpretation throughout the European Union.

40 The wording of Directive 2009/24 does not make any reference to national laws as regards the meaning to be given to the term 'sale' in Article 4(2) of the directive. It follows that that term must be regarded, for the purposes of applying the directive, as designating an autonomous concept of European Union law, which must be interpreted in a uniform manner throughout the territory of the European Union.

41 That conclusion is supported by the subject-matter and purpose of Directive 2009/24. Recitals 4 and 5 in the preamble to that directive, which is based on Article 95 EC, to which Article 114 TFEU corresponds, state that its objective is to remove differences between the laws of the Member States which have adverse effects on the functioning of the internal market and concern computer programs. A uniform interpretation of the term ‘sale’ is necessary in order to avoid the protection offered to copyright holders by that directive varying according to the national law applicable.

42 According to a commonly accepted definition, a ‘sale’ is an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him. It follows that the commercial transaction giving rise, in accordance with Article 4(2) of Directive 2009/24, to exhaustion of the right of distribution of a copy of a computer program must involve a transfer of the right of ownership in that copy.

43 Oracle submits that it does not sell copies of its computer programs at issue in the main proceedings. It says that it makes available to its customers, free of charge, on its website a copy of the program concerned, and they can download that copy. The copy thus downloaded may not, however, be used by the customers unless they have concluded a user licence agreement with Oracle. Such a licence gives Oracle’s customers a non-exclusive and non-transferable user right for an unlimited period for that program. Oracle submits that neither the making available of a copy free of charge nor the conclusion of the user licence agreement involves a transfer of the right of ownership of that copy.

44 In this respect, it must be observed that the downloading of a copy of a computer program and the conclusion of a user licence agreement for that copy form an indivisible whole. Downloading a copy of a computer program is pointless if the copy cannot be used by its possessor. Those two operations must therefore be examined as a whole for the purposes of their legal classification.

45 As regards the question whether, in a situation such as that at issue in the main proceedings, the commercial transactions concerned involve a transfer of the right of ownership of the copy of the computer program, it must be stated that, according to the order for reference, a customer of Oracle who downloads the copy of the program and concludes with that company a user licence agreement relating to that copy receives, in return for payment of a fee, a right to use that copy for an unlimited period. The making available by Oracle of a copy of its computer program and the conclusion of a user licence agreement for that copy are thus intended to make the copy usable by the customer, permanently, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which it is the proprietor.

46 In those circumstances, the operations mentioned in paragraph 44 above, examined as a whole, involve the transfer of the right of ownership of the copy of the computer program in question.

47 It makes no difference, in a situation such as that at issue in the main proceedings, whether the copy of the computer program was made available to the customer by the rightholder concerned by means of a download from the rightholder’s website or by means of a material medium such as a CD-ROM or DVD. Even if, in the latter case too, the rightholder formally separates the customer’s right to use the copy of the program supplied from the operation of transferring the copy of the program to the customer on a material medium, the operation of downloading from that medium a copy of the computer program and that of concluding a licence agreement remain inseparable from the point of view of the acquirer, for the reasons set out in paragraph 44 above. Since an acquirer who downloads a copy of the program concerned by means of a material medium such as a CD-ROM or DVD and concludes a licence agreement for that copy receives the right to use the copy for an unlimited period in return for payment of a fee, it must be considered that those two operations likewise involve, in the case of the making available of a copy of the computer program concerned by means of a material medium such as a CD-ROM or DVD, the transfer of the right of ownership of that copy.

48 Consequently, in a situation such as that at issue in the main proceedings, the transfer by the copyright holder to a customer of a copy of a computer program, accompanied by the conclusion between the same parties of a user licence agreement, constitutes a ‘first sale ... of a copy of a program’ within the meaning of Article 4(2) of Directive 2009/24.

49 As the Advocate General observes in point 59 of his Opinion, if the term ‘sale’ within the meaning of Article 4(2) of Directive 2009/24 were not given a broad interpretation as encompassing all forms of product marketing characterised by the grant of a right to use a copy of a computer program, for an unlimited period, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor, the effectiveness of that provision would be undermined, since suppliers would merely have to call the contract a ‘licence’ rather than a ‘sale’ in order to circumvent the rule of exhaustion and divest it of all scope.

50 Secondly, the argument put forward by Oracle and the European Commission that the making available of a copy of a computer program on the copyright holder’s website constitutes a ‘making available to the public’ within the meaning of Article 3(1) of Directive 2001/29, which, in accordance with Article 3(3) of that directive, cannot give rise to exhaustion of the right of distribution of the copy, cannot be accepted.

51 It is apparent from Article 1(2)(a) of Directive 2001/29 that the directive ‘leave[s] intact and ... in no way affect[s] existing ... provisions [of European Union law] relating to ... the legal protection of computer programs’ conferred by Directive 91/250, which was subsequently codified by Directive 2009/24. The provisions of Directive 2009/24, in particular Article 4(2), thus constitute a *lex specialis* in relation to the provisions of Directive 2001/29, so that even if the contractual relationship at issue in the main proceedings or an aspect of it might also be covered by the concept of ‘communication to the public’ within the meaning of Article 3(1) of the latter directive, the ‘first sale ... of a copy of a program’ within the meaning of Article 4(2) of Directive 2009/24 would still give rise, in accordance with that provision, to exhaustion of the right of distribution of that copy.

52 Moreover, as stated in paragraph 46 above, in a situation such as that at issue in the main proceedings, the copyright holder transfers the right of ownership of the copy of the computer program to his customer. As the Advocate General observes in point 73 of his Opinion, it follows from Article 6(1) of the Copyright Treaty, in the light of which Articles 3 and 4 of Directive 2001/29 must, so far as possible, be interpreted (...), that the existence of a transfer of ownership changes an ‘act of communication to the public’ provided for in Article 3 of that directive into an act of distribution referred to in Article 4 of the directive which, if the conditions in Article 4(2) of the directive are satisfied, can, like a ‘first sale ... of a copy of a program’ referred to in Article 4(2) of Directive 2009/24, give rise to exhaustion of the distribution right.

53 Thirdly, it must also be examined whether, as argued by Oracle, the governments which have submitted observations to the Court, and the Commission, the exhaustion of the distribution right referred to in Article 4(2) of Directive 2009/24 relates only to tangible property and not to intangible copies of computer programs downloaded from the internet. They refer in this respect to the wording of Article 4(2) of Directive 2009/24, recitals 28 and 29 in the preamble to Directive 2001/29, Article 4 of Directive 2001/29 read in conjunction with Article 8 of the Copyright Treaty, and the agreed statement concerning Articles 6 and 7 of the Copyright Treaty, whose transposition is one of the aims of Directive 2001/29.

54 Furthermore, according to the Commission, recital 29 in the preamble to Directive 2001/29 confirms that ‘[t]he question of exhaustion does not arise in the case of services and on-line services in particular’.

55 On this point, it must be stated, first, that it does not appear from Article 4(2) of Directive 2009/24 that the exhaustion of the right of distribution of copies of computer programs mentioned in that provision is limited to copies of programmes on a material medium such as a CD-ROM or DVD. On the contrary, that provision, by referring without further specification to the ‘sale ... of a copy of a program’, makes no distinction according to the tangible or intangible form of the copy in question.

56 Next, it must be recalled that Directive 2009/24, which concerns specifically the legal protection of computer programs, constitutes a *lex specialis* in relation to Directive 2001/29.

57 Article 1(2) of Directive 2009/24 states that ‘[p]rotection in accordance with this Directive shall apply to the expression in any form of a computer program’. Recital 7 in the preamble to that directive specifies that the ‘computer programs’ it aims to protect ‘include programs in any form, including those which are incorporated into hardware’.

58 Those provisions thus make abundantly clear the intention of the European Union legislature to assimilate, for the purposes of the protection laid down by Directive 2009/24, tangible and intangible copies of computer programs.

59 In those circumstances, it must be considered that the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 concerns both tangible and intangible copies of a computer program, and hence also copies of programs which, on the occasion of their first sale, have been downloaded from the internet onto the first acquirer’s computer.

60 It is true that the concepts used in Directives 2001/29 and 2009/24 must in principle have the same meaning. However, even supposing that Article 4(2) of Directive 2001/29, interpreted in the light of recitals 28 and 29 in its preamble and in the light of the Copyright Treaty, which Directive 2001/29 aims to implement, indicated that, for the works covered by that directive, the exhaustion of the distribution right concerned only tangible objects, that would not be capable of affecting the interpretation of Article 4(2) of Directive 2009/24, having regard to the different intention expressed by the European Union legislature in the specific context of that directive.

61 It should be added that, from an economic point of view, the sale of a computer program on CD-ROM or DVD and the sale of a program by downloading from the internet are similar. The on-line transmission method is the functional equivalent of the supply of a material medium. Interpreting Article 4(2) of Directive 2009/24 in the light of the principle of equal treatment confirms that the exhaustion of the distribution right under that provision takes effect after the first sale in the European Union of a copy of a computer program by the copyright holder or with his consent, regardless of whether the sale relates to a tangible or an intangible copy of the program.

62 As to the Commission’s argument that European Union law does not provide for the exhaustion of the distribution right in the case of services, it must be recalled that the objective of the principle of the exhaustion of the right of distribution of works protected by copyright is, in order to avoid partitioning of markets, to limit restrictions of the distribution of those works to what is necessary to safeguard the specific subject-matter of the intellectual property concerned.

63 To limit the application, in circumstances such as those at issue in the main proceedings, of the principle of the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 solely to copies of computer programs that are sold on a material medium would allow the copyright holder to control the resale of copies downloaded from the internet and to demand further remuneration on the occasion of each new sale, even though the first sale of the copy had already enabled the rightholder to obtain an appropriate remuneration. Such a restriction of the resale of copies of computer programs downloaded from the internet would go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned.

64 Fourthly, it must also be examined whether, as Oracle claims, the maintenance agreement concluded by the first acquirer prevents in any event the exhaustion of the right provided for in Article 4(2) of Directive 2009/24, since the copy of the computer program which the first acquirer may transfer to a second acquirer no longer corresponds to the copy he downloaded but to a new copy of the program.

65 According to the order for reference, the used licences offered by UsedSoft are ‘current’, in that the sale of the copy of the program by Oracle to its customer was accompanied by the conclusion of a maintenance agreement for that copy.

66 It must be observed that the exhaustion of the right of distribution of a copy of a computer program under Article 4(2) of Directive 2009/24 only concerns copies which have been the subject of a first sale in the European Union by the copyright holder or with his consent. It does not relate to contracts for services, such as maintenance agreements, which are separable from such a sale and were concluded, possibly for an unlimited period, on the occasion of the sale.

67 None the less, the conclusion of a maintenance agreement, such as those at issue in the main proceedings, on the occasion of the sale of an intangible copy of a computer program has the effect that the copy originally purchased is patched and updated. Even if the maintenance agreement is for a limited period, the functionalities corrected, altered or added on the basis of such an agreement form an integral part of the copy originally downloaded and can be used by the acquirer of the copy for an unlimited period, even in the event that the acquirer subsequently decides not to renew the maintenance agreement.

68 In such circumstances, the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 extends to the copy of the computer program sold as corrected and updated by the copyright holder.

69 It should be pointed out, however, that if the licence acquired by the first acquirer relates to a greater number of users than he needs, as stated in paragraphs 22 and 24 above, the acquirer is not authorised by the effect of the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 to divide the licence and resell only the user right for the computer program concerned corresponding to a number of users determined by him.

70 An original acquirer who resells a tangible or intangible copy of a computer program for which the copyright holder’s right of distribution is exhausted in accordance with Article 4(2) of Directive 2009/24 must, in order to avoid infringing the exclusive right of reproduction of a computer program which belongs to its author, laid down in Article 4(1)(a) of Directive 2009/24, make his own copy unusable at the time of its resale. In a situation such as that mentioned in the preceding paragraph, the customer of the copyright holder will continue to use the copy of the program installed on his server and will not thus make it unusable.

71 Moreover, even if an acquirer of additional user rights for the computer program concerned did not carry out a new installation – and hence a new reproduction – of the program on a server belonging to him, the effect of the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 would in any event not extend to such user rights. In such a case the acquisition of additional user rights does not relate to the copy for which the distribution right was exhausted at the time of that transaction. On the contrary, it is intended solely to make it possible to extend the number of users of the copy which the acquirer of additional rights has himself already installed on his server.

72 On the basis of all the foregoing, the answer to Question 2 is that Article 4(2) of Directive 2009/24 must be interpreted as meaning that the right of distribution of a copy of a computer program is exhausted if the copyright holder who has authorised, even free of charge, the downloading of that copy from the internet onto a data carrier has also conferred, in return for payment of a fee intended to

enable him to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor, a right to use that copy for an unlimited period.

### *Questions 1 and 3*

73 By its first and third questions the referring court seeks essentially to know whether, and under what conditions, an acquirer of used licences for computer programs, such as those sold by UsedSoft, may, as a result of the exhaustion of the distribution right under Article 4(2) of Directive 2009/24, be regarded as a ‘lawful acquirer’ within the meaning of Article 5(1) of Directive 2009/24 who, in accordance with that provision, enjoys the right of reproduction of the program concerned in order to enable him to use the program in accordance with its intended purpose.

74 Article 5(1) of Directive 2009/24 provides that, in the absence of specific contractual provisions, the reproduction of a computer program does not require authorisation by the author of the program where that reproduction is necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction.

75 When the customer of the copyright holder purchases a copy of a computer program that is on the rightholder’s website, he performs, by downloading the copy onto his computer, a reproduction of the copy which is authorised under Article 5(1) of Directive 2009/24. This is a reproduction that is necessary for the use of the program by the lawful acquirer in accordance with its intended purpose.

76 Moreover, recital 13 in the preamble to Directive 2009/24 states that ‘the acts of loading and running necessary for the use of a copy of a program which has been lawfully acquired ... may not be prohibited by contract’.

77 It must be recalled, next, that the copyright holder’s distribution right is exhausted, in accordance with Article 4(2) of Directive 2009/24, on the occasion of the first sale in the European Union by that rightholder, or with his consent, of any copy, tangible or intangible, of his computer program. It follows that, by virtue of that provision and notwithstanding the existence of contractual terms prohibiting a further transfer, the rightholder in question can no longer oppose the resale of that copy.

78 Admittedly, as stated in paragraph 70 above, the original acquirer of a tangible or intangible copy of a computer program for which the copyright holder’s distribution right is exhausted in accordance with Article 4(2) of Directive 2009/24 who resells that copy must, in order to avoid infringing that rightholder’s exclusive right of reproduction of his computer program under Article 4(1)(a) of Directive 2009/24, make the copy downloaded onto his computer unusable at the time of its resale.

79 As Oracle rightly observes, ascertaining whether such a copy has been made unusable may prove difficult. However, a copyright holder who distributes copies of a computer program on a material medium such as a CD-ROM or DVD is faced with the same problem, since it is only with great difficulty that he can make sure that the original acquirer has not made copies of the program which he will continue to use after selling his material medium. To solve that problem, it is permissible for the distributor – whether ‘classic’ or ‘digital’ – to make use of technical protective measures such as product keys.

80 Since the copyright holder cannot object to the resale of a copy of a computer program for which that rightholder’s distribution right is exhausted under Article 4(2) of Directive 2009/24, it must be concluded that a second acquirer of that copy and any subsequent acquirer are ‘lawful acquirers’ of it within the meaning of Article 5(1) of Directive 2009/24.

81 Consequently, in the event of a resale of the copy of the computer program by the first acquirer, the new acquirer will be able, in accordance with Article 5(1) of Directive 2009/24, to download onto

his computer the copy sold to him by the first acquirer. Such a download must be regarded as a reproduction of a computer program that is necessary to enable the new acquirer to use the program in accordance with its intended purpose.

82 The argument put forward by Oracle, Ireland and the French and Italian Governments that the concept of ‘lawful acquirer’ in Article 5(1) of Directive 2009/24 relates only to an acquirer who is authorised, under a licence agreement concluded directly with the copyright holder, to use the computer programme cannot be accepted.

83 That argument would have the effect of allowing the copyright holder to prevent the effective use of any used copy in respect of which his distribution right has been exhausted under Article 4(2) of Directive 2009/24, by relying on his exclusive right of reproduction laid down in Article 4(1)(a) of that directive, and would thus render ineffective the exhaustion of the distribution right under Article 4(2).

84 In the case of a situation such as that at issue in the main proceedings, it must be recalled that in paragraphs 44 and 48 above it was found that the downloading onto the customer’s server of a copy of the computer program on the rightholder’s website and the conclusion of a user licence agreement for that copy form an indivisible whole which, as a whole, must be classified as a sale. Having regard to that indivisible link between the copy on the rightholder’s website, as subsequently corrected and updated, on the one hand, and the user licence relating to the copy, on the other, the resale of the user licence entails the resale of ‘that copy’ within the meaning of Article 4(2) of Directive 2009/24, and thus benefits from the exhaustion of the distribution right under that provision, notwithstanding the term in the licence agreement set out in paragraph 23 above.

85 As may be seen from paragraph 81 above, it follows that a new acquirer of the user licence, such as a customer of UsedSoft, will be able, as a ‘lawful acquirer’ within the meaning of Article 5(1) of Directive 2009/24 of the corrected and updated copy of the computer program concerned, to download that copy from the copyright holder’s website, with that downloading constituting a reproduction of a computer program that is necessary to enable the new acquirer to use the program in accordance with its intended purpose.

86 It should be recalled, however, that, if the licence acquired by the first acquirer relates to a greater number of users than he needs, that acquirer is not authorised by the effect of the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 to divide the licence and resell only the user right for the computer program concerned corresponding to a number of users determined by him, as explained in paragraphs 69 to 71 above.

87 Moreover, a copyright holder such as Oracle is entitled, in the event of the resale of a user licence entailing the resale of a copy of a computer program downloaded from his website, to ensure by all technical means at his disposal that the copy still in the hands of the reseller is made unusable.

88 It follows from the foregoing that the answer to Questions 1 and 3 is that Articles 4(2) and 5(1) of Directive 2009/24 must be interpreted as meaning that, in the event of the resale of a user licence entailing the resale of a copy of a computer program downloaded from the copyright holder’s website, that licence having originally been granted by that rightholder to the first acquirer for an unlimited period in return for payment of a fee intended to enable the rightholder to obtain a remuneration corresponding to the economic value of that copy of his work, the second acquirer of the licence, as well as any subsequent acquirer of it, will be able to rely on the exhaustion of the distribution right under Article 4(2) of that directive, and hence be regarded as lawful acquirers of a copy of a computer program within the meaning of Article 5(1) of that directive and benefit from the right of reproduction provided for in that provision. (...)

## THINK IT OVER

1. In its preliminary ruling the ECJ concluded that a licence might be characterized as a sale if the right to use a computer program (1) lasts for an indefinite period, and (2) “in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor”. Furthermore, (3) merely calling a contract a licence is not enough “to circumvent the rule of exhaustion and divest it of all scope”. ***Are these characteristics enough to treat an agreement sale rather than licence? What about the clear prohibition (used by Oracle) on the transfer of computer programs? Is the right to use an intangible software equal with property ownership over physical goods?***

2. The ECJ differentiated between two types of uses via the internet. In the first scenario, uses that do not lead to the permanent reproduction or sale of any copy of a protected subject matter shall be governed by the making available to the public right. Such an example might be the posting of content on a website, on-demand streaming or dissemination of files via P2P file-sharing applications. Under the second scenario, a permanent copy is received by the end-user in exchange for a purchase price and is retained on a permanent basis. The best example might be the purchase of a track from iTunes. Another example is exactly mirrored by the *UsedSoft* case. The ECJ declared this second category of uses to be sale and, consequently, distribution of copyrighted subject matter, rather than making available to the public. ***Is the ECJ’s syllogism correct?*** Compare to the making available to the public right introduced by WCT Art. 6 and InfoSoc-Directive Art. 3(1).

3. ***Is the functional equivalence theory applicable to copyrightable subject matter other than computer programs as well?*** Referring back to the ECJ’s point according to which the online transmission of computer program is from an economic (and at the same time from a technological) perspective functionally the same as selling a data carrier in a tangible format, the answer shall be a clear “no”. Sound recordings, audiovisual contents or audio books have multiple ways of exploitation, including the distribution of copies on tangible data carriers, making available to the public or selling a digital copy via the internet, communication to the public by wire or wireless means, public performance/display etc. ***Is it correct, if we paraphrase the ECJ’s logic in the following way: “from an economic point of view, the sale of a sound recording/audio-book on a physical data carrier and the sale of the said content by downloading from the internet are not similar. The on-line transmission method is not the functional equivalent of the supply of a material medium”? Is the outcome the same from the technological point of view?*** Unlike computer programs, sound recordings/audio books do not need to be permanently copied (installed) for the purpose of enjoyment.

## FURTHER CASE LAW

### *In German and in Dutch*

OLG Stuttgart 03.11.2011 (2 U 49/11) - Keine Erschöpfung bei Online-Vertrieb von Hörbüchern, *Computer und Recht*, Issue 5/2012, p. 301-302. (Anm. Schmidt)

OLG Hamm 15.05.2014 (22 U 60/13) - Keine Erschöpfung bei Audiodateien - Hörbuch-AGB, *Gewerblicher Rechtsschutz und Urheberrecht*, Issue 9/2014, p. 853-863.

Court of Appeal of Amsterdam, Nederlands Uitgeversverbond and Groep Algemene Uitgevers v Tom Kabinet, 200 154 572/01 SKG NL:GHAMS:2015:66, 20 January 2015

## RECOMMENDED READINGS

### *In English*

Thomas Vinje - Vanessa Marsland - Anette Gärtner: Software Licensing after Oracle v. UsedSoft - Implications of Oracle v. UsedSoft (C-128/11) for European Copyright Law, *Computer Law Review International*, 2012/4. szám, p. 97-102.

Alexander Göbel: The principle of exhaustion and the resale of downloaded software – the UsedSoft v. Oracle case [UsedSoft GmbH v. Oracle International Corporation, ECJ (Grand Chamber), Judgment of 3 July 2012, C-128/11], *European Law Reporter*, 2012/9. szám, p. 226-234.

Lukas Feiler: Birth of the First-Download Doctrine: the Application of the First-Sale Doctrine to Internet Downloads under EU and U.S. Copyright Law, *Journal of Internet Law*, October 2012, p. 16-17.

Erik Verbraeken: The Exhaustion Theory is not yet Exhausted, *les Nouvelles*, March 2013, p. 7-12.

Ellen Franziska Schulze: Resale of digital content such as music, films or eBooks under European law, *European Intellectual Property Review*, 2014/1. szám, p. 9-13.

Giorgio Spedicato: *Online Exhaustion and the Boundaries of Interpretation*. In: Roberto Caso - Federica Giovanella (Eds.): *Balancing Copyright Law in the Digital Age - Comparative Perspectives*, Springer Verlag, Berlin - Heidelberg, 2015: p. 27-64.

#### *In Hungarian*

Farkas Henrietta Regina: A „használt” szoftverek értékesítésének jogi megítélése az Európai Unióban: a UsedSoft kontra Oracle ügy, *Infokommunikáció és Jog*, 2013. december (56. szám), p. 126-130.

Mezei Péter: A jogkimerülés intézményének kialakulása és fejlődése az Egyesült Államokban, *Iparjogvédelmi és Szerzői Jogi Szemle*, Issue 2/2014, p. 5-77.

Jaczó Dániel: A használt szoftverekkel való kereskedés szerzői jogi értékelése és bírsági gyakorlata az Európai Unió irányelveinek és esetjogának tükrében, *Infokommunikáció és Jog*, 2014. szeptember (59. szám), p. 142-150.

Mezei Péter: A jogkimerülés intézményének a kialakulása és fejlődése az Európai Unió szerzői jogában, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2015/4. szám, p. 38-80.

### **Capitol Records, LLC, v. ReDigi Inc**

934 *F.Supp.2d* 640 (U.S. Southern District of New York 2013)

SULLIVAN, District Judge,

## **MEMORANDUM AND ORDER**

### **(...) I. Background**

#### *A. Facts*

ReDigi markets itself as “the world's first and only online marketplace for digital used music.” Launched on October 13, 2011, ReDigi's website invites users to “sell their legally acquired digital music files, and buy used digital music from others at a fraction of the price currently available on iTunes.” Thus, much like used record stores, ReDigi permits its users to recoup value on their unwanted music. Unlike used record stores, however, ReDigi's sales take place entirely in the digital domain.

To sell music on ReDigi's website, a user must first download ReDigi's “Media Manager” to his computer. Once installed, Media Manager analyzes the user's computer to build a list of digital music files eligible for sale. A file is eligible only if it was purchased on iTunes or from another ReDigi user; music downloaded from a CD or other file-sharing website is ineligible for sale. After this validation process, Media Manager continually runs on the user's computer and attached devices to ensure that the user has not retained music that has been sold or uploaded for sale. However, Media Manager cannot detect copies stored in other locations. If a copy is detected, Media Manager prompts the user to delete the file. The file is not deleted automatically or involuntarily, though ReDigi's policy is to suspend the accounts of users who refuse to comply.

After the list is built, a user may upload any of his eligible files to ReDigi's "Cloud Locker," an ethereal moniker for what is, in fact, merely a remote server in Arizona. ReDigi's upload process is a source of contention between the parties. ReDigi asserts that the process involves "migrating" a user's file, packet by packet – "analogous to a train" – from the user's computer to the Cloud Locker so that data does not exist in two places at any one time. Capitol asserts that, semantics aside, ReDigi's upload process "necessarily involves copying" a file from the user's computer to the Cloud Locker. Regardless, at the end of the process, the digital music file is located in the Cloud Locker and not on the user's computer. Moreover, Media Manager deletes any additional copies of the file on the user's computer and connected devices.

Once uploaded, a digital music file undergoes a second analysis to verify eligibility. If ReDigi determines that the file has not been tampered with or offered for sale by another user, the file is stored in the Cloud Locker, and the user is given the option of simply storing and streaming the file for personal use or offering it for sale in ReDigi's marketplace. If a user chooses to sell his digital music file, his access to the file is terminated and transferred to the new owner at the time of purchase. Thereafter, the new owner can store the file in the Cloud Locker, stream it, sell it, or download it to her computer and other devices. No money changes hands in these transactions. Instead, users buy music with credits they either purchased from ReDigi or acquired from other sales. ReDigi credits, once acquired, cannot be exchanged for money. Instead, they can only be used to purchase additional music.

To encourage activity in its marketplace, ReDigi initially permitted users to preview thirty-second clips and view album cover art of songs posted for sale pursuant to a licensing agreement with a third party. However, shortly after its launch, ReDigi lost the licenses. Accordingly, ReDigi now sends users to either YouTube or iTunes to listen to and view this promotional material. ReDigi also offers its users a number of incentives. For instance, ReDigi gives twenty-cent credits to users who post files for sale and enters active sellers into contests for prizes. ReDigi also encourages sales by advising new users via email that they can "[c]ash in" their music on the website, tracking and posting the titles of sought after songs on its website and in its newsletter, notifying users when they are low on credits and advising them to either purchase more credits or sell songs, and connecting users who are seeking unavailable songs with potential sellers.

Finally, ReDigi earns a fee for every transaction. ReDigi's website prices digital music files at fifty-nine to seventy-nine cents each. When users purchase a file, with credits, 20% of the sale price is allocated to the seller, 20% goes to an "escrow" fund for the artist, and 60% is retained by ReDigi. (...)

### **III. Discussion**

Section 106 of the Copyright Act grants "the owner of copyright under this title" certain "exclusive rights," including the right "to reproduce the copyrighted work in copies or phonorecords," "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership," and to publicly perform and display certain copyrighted works. 17 U.S.C. §§106(1), (3)-(5). However, these exclusive rights are limited by several subsequent sections of the statute. Pertinently, §109 sets forth the "first sale" doctrine, which provides that "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." §109(a). The novel question presented in this action is whether a digital music file, lawfully made and purchased, may be resold by its owner through ReDigi under the first sale doctrine. The Court determines that it cannot.

#### *A. Infringement of Capitol's Copyrights*

To state a claim for copyright infringement, a plaintiff must establish that it owns a valid copyright in the work at issue and that the defendant violated one of the exclusive rights the plaintiff holds in the work. It is undisputed that Capitol owns copyrights in a number of the recordings sold on ReDigi's website. It is also undisputed that Capitol did not approve the reproduction or distribution of its copyrighted recordings on ReDigi's website. Thus, if digital music files are “reproduce[d]” and “distribute[d]” on ReDigi's website within the meaning of the Copyright Act, Capitol's copyrights have been infringed.

## 1. Reproduction Rights

Courts have consistently held that the unauthorized duplication of digital music files over the Internet infringes a copyright owner's exclusive right to reproduce. However, courts have not previously addressed whether the unauthorized transfer of a digital music file over the Internet – where only one file exists before and after the transfer – constitutes reproduction within the meaning of the Copyright Act. The Court holds that it does.

The Copyright Act provides that a copyright owner has the exclusive right “to reproduce the copyrighted work in ... phonorecords.” 17 U.S.C. §106(1). Copyrighted works are defined to include, inter alia, “sound recordings,” which are “works that result from the fixation of a series of musical, spoken, or other sounds.” §101. Such works are distinguished from their material embodiments. These include phonorecords, which are the “material objects in which sounds ... are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” *Id.* §101. Thus, the plain text of the Copyright Act makes clear that reproduction occurs when a copyrighted work is fixed in a new material object.

The legislative history of the Copyright Act bolsters this reading. The House Report on the Copyright Act distinguished between sound recordings and phonorecords, stating that “[t]he copyrightable work comprises the aggregation of sounds and not the tangible medium of fixation. Thus, ‘sound recordings’ as copyrightable subject matter are distinguished from ‘phonorecords[,]’ the latter being physical objects in which sounds are fixed.” H.R.Rep. No. 94–1476, at 56 (1976). Similarly, the House and Senate Reports on the Act both explained:

*Read together with the relevant definitions in [S]ection 101, the right “to reproduce the copyrighted work in copies or phonorecords” means the right to produce a material object in which the work is duplicated, transcribed, imitated, or simulated in a fixed form from which it can be “perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” *Id.* at 61, 1976 U.S.C.C.A.N. at 5675; S.Rep. No. 94–473, at 58 (1975).*

Put differently, the reproduction right is the exclusive right to embody, and to prevent others from embodying, the copyrighted work (or sound recording) in a new material object (or phonorecord). (...).

Courts that have dealt with infringement on peer-to-peer (“P2P”) file-sharing systems provide valuable guidance on the application of this right in the digital domain. For instance, in *London-Sire Records, Inc. v. John Doe 1*, the court addressed whether users of P2P software violated copyright owners' distribution rights. 542 F.Supp.2d 153, 166 & n. 16 (D.Mass. 2008). Citing the “material object” requirement, the court expressly differentiated between the copyrighted work – or digital music file – and the phonorecord – or “appropriate segment of the hard disk” that the file would be embodied in following its transfer. *Id.* at 171. Specifically,

*“[w]hen a user on a [P2P] network downloads a song from another user, he receives into his computer a digital sequence representing the sound recording. That sequence is magnetically encoded on a segment of his hard disk (or likewise written on other media). With the right hardware and software, the downloader can use the magnetic sequence to reproduce the sound*

*recording. The electronic file (or, perhaps more accurately, the appropriate segment of the hard disk) is therefore a “phonorecord” within the meaning of the statute.” Id.*

Accordingly, when a user downloads a digital music file or “digital sequence” to his “hard disk,” the file is “reproduce[d]” on a new phonorecord within the meaning of the Copyright Act.

This understanding is, of course, confirmed by the laws of physics. It is simply impossible that the same “material object” can be transferred over the Internet. Thus, logically, the court in *London-Sire* noted that the Internet transfer of a file results in a material object being “created elsewhere at its finish.” *Id.* at 173. Because the reproduction right is necessarily implicated when a copyrighted work is embodied in a new material object, and because digital music files must be embodied in a new material object following their transfer over the Internet, the Court determines that the embodiment of a digital music file on a new hard disk is a reproduction within the meaning of the Copyright Act.

This finding holds regardless of whether one or multiple copies of the file exist. *London-Sire*, like all of the P2P cases, obviously concerned multiple copies of one digital music file. But that distinction is immaterial under the plain language of the Copyright Act. Simply put, it is the creation of a new material object and not an additional material object that defines the reproduction right. The dictionary defines “reproduction” to mean, inter alia, “to produce again” or “to cause to exist again or anew.” Significantly, it is not defined as “to produce again while the original exists.” Thus, the right “to reproduce the copyrighted work in ... phonorecords” is implicated whenever a sound recording is fixed in a new material object, regardless of whether the sound recording remains fixed in the original material object.

Given this finding, the Court concludes that ReDigi's service infringes Capitol's reproduction rights under any description of the technology. ReDigi stresses that it “migrates” a file from a user's computer to its Cloud Locker, so that the same file is transferred to the ReDigi server and no copying occurs. However, even if that were the case, the fact that a file has moved from one material object – the user's computer – to another – the ReDigi server – means that a reproduction has occurred. Similarly, when a ReDigi user downloads a new purchase from the ReDigi website to her computer, yet another reproduction is created. It is beside the point that the original phonorecord no longer exists. It matters only that a new phonorecord has been created.

ReDigi struggles to avoid this conclusion by pointing to *C.M. Paula Co. v. Logan*, a 1973 case from the Northern District of Texas where the defendant used chemicals to lift images off of greeting cards and place them on plaques for resale. The court determined that infringement did not occur because “should defendant desire to make one hundred ceramic plaques ..., defendant would be required to purchase one hundred separate ... prints.” F.Supp. 189, 191 (N.D.Tex. 1973). ReDigi argues that, like the defendant in *C.M. Paula*, its users must purchase a song on iTunes in order to sell a song on ReDigi. Therefore, no “duplication” occurs. ReDigi's argument is unavailing. Ignoring the questionable merits of the court's holding in *C.M. Paula*, ReDigi's service is distinguishable from the process in that case. There, the copyrighted print, or material object, was lifted from the greeting card and transferred in toto to the ceramic tile; no new material object was created. By contrast, ReDigi's service by necessity creates a new material object when a digital music file is either uploaded to or downloaded from the Cloud Locker.

ReDigi also argues that the Court's conclusion would lead to “irrational” outcomes, as it would render illegal any movement of copyrighted files on a hard drive, including relocating files between directories and defragmenting. However, this argument is nothing more than a red herring. As Capitol has conceded, such reproduction is almost certainly protected under other doctrines or defenses, and is not relevant to the instant motion.

Accordingly, the Court finds that, absent the existence of an affirmative defense, the sale of digital music files on ReDigi's website infringes Capitol's exclusive right of reproduction.

## 2. Distribution Rights

In addition to the reproduction right, a copyright owner also has the exclusive right “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership.” 17 U.S.C. §106(3). Like the court in *London-Sire*, the Court agrees that “[a]n electronic file transfer is plainly within the sort of transaction that § 106(3) was intended to reach [and] ... fit[s] within the definition of ‘distribution’ of a phonorecord.” 542 F.Supp.2d at 173-74. For that reason, “courts have not hesitated to find copyright infringement by distribution in cases of file-sharing or electronic transmission of copyrighted works.” *Arista Records LLC v. Greubel*, 453 F.Supp.2d 961, 968 (N.D.Tex.2006) (collecting cases). Indeed, in *New York Times Co., Inc. v. Tasini*, the Supreme Court stated it was “clear” that an online news database violated authors' distribution rights by selling electronic copies of their articles for download. 533 U.S. 483, 498 (2001).

There is no dispute that sales occurred on ReDigi's website. Capitol has established that it was able to buy more than one-hundred of its own recordings on ReDigi's website, and ReDigi itself compiled a list of its completed sales of Capitol's recordings. ReDigi, in fact, does not contest that distribution occurs on its website – it only asserts that the distribution is protected by the fair use and first sale defenses.

Accordingly, the Court concludes that, absent the existence of an affirmative defense, the sale of digital music files on ReDigi's website infringes Capitol's exclusive right of distribution. (...)

### *B. Affirmative Defenses*

Having concluded that sales on ReDigi's website infringe Capitol's exclusive rights of reproduction and distribution, the Court turns to whether the fair use or first sale defenses excuse that infringement. For the reasons set forth below, the Court determines that they do not.

#### 1. Fair Use

“The ultimate test of fair use ... is whether the copyright law's goal of ‘promot[ing] the Progress of Science and useful Arts’ would be better served by allowing the use than by preventing it.” *Castle Rock Entm't, Inc. v. Carol Publ'g Grp., Inc.*, 150 F.3d 132, 141 (2d Cir. 1998). Accordingly, fair use permits reproduction of copyrighted work without the copyright owner's consent “for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research.” 17 U.S.C. §107. The list is not exhaustive but merely illustrates the types of copying typically embraced by fair use. In addition, four statutory factors guide courts' application of the doctrine. Specifically, courts look to:

*“(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.”*

Because fair use is an “equitable rule of reason,” courts are “free to adapt the doctrine to particular situations on a case-by-case basis.” *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 448 n. 31.

On the record before it, the Court has little difficulty concluding that ReDigi's reproduction and distribution of Capitol's copyrighted works falls well outside the fair use defense. ReDigi obliquely argues that uploading to and downloading from the Cloud Locker for storage and personal use are protected fair use. Significantly, Capitol does not contest that claim. Instead, Capitol asserts only that uploading to and downloading from the Cloud Locker incident to sale fall outside the ambit of fair use. The Court agrees.

Each of the statutory factors counsels against a finding of fair use. The first factor requires the Court to determine whether ReDigi's use "transforms" the copyrighted work and whether it is commercial. Both inquiries disfavor ReDigi's claim. Plainly, the upload, sale, and download of digital music files on ReDigi's website does nothing to "add [ ] something new, with a further purpose or different character" to the copyrighted works. ReDigi's use is also undoubtedly commercial. ReDigi and the uploading user directly profit from the sale of a digital music file, and the downloading user saves significantly on the price of the song in the primary market. ReDigi asserts that downloads for personal, and not public or commercial, use "must be characterized as ... noncommercial, nonprofit activity." However, ReDigi twists the law to fit its facts. When a user downloads purchased files from the Cloud Locker, the resultant reproduction is an essential component of ReDigi's commercial enterprise. Thus, ReDigi's argument is unavailing.

The second factor – the nature of the copyrighted work – also weighs against application of the fair use defense, as creative works like sound recordings are "close to the core of the intended copyright protection" and "far removed from the ... factual or descriptive work more amenable to fair use." *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F.Supp.2d 349, 351 (S.D.N.Y. 2000). The third factor – the portion of the work copied – suggests a similar outcome because ReDigi transmits the works in their entirety, "negating any claim of fair use." *Id.* at 352. Finally, ReDigi's sales are likely to undercut the "market for or value of the copyrighted work" and, accordingly, the fourth factor cuts against a finding of fair use. The product sold in ReDigi's secondary market is indistinguishable from that sold in the legitimate primary market save for its lower price. The clear inference is that ReDigi will divert buyers away from that primary market. ReDigi incredibly argues that Capitol is preempted from making a market-based argument because Capitol itself condones downloading of its works on iTunes. Of course, Capitol, as copyright owner, does not forfeit its right to claim copyright infringement merely because it permits certain uses of its works. This argument, too, is therefore unavailing.

In sum, ReDigi facilitates and profits from the sale of copyrighted commercial recordings, transferred in their entirety, with a likely detrimental impact on the primary market for these goods. Accordingly, the Court concludes that the fair use defense does not permit ReDigi's users to upload and download files to and from the Cloud Locker incident to sale.

## 2. First Sale

The first sale defense, a common law principle recognized in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) and now codified at Section 109(a) of the Copyright Act, provides that:

*"Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."*

Under the first sale defense, "once the copyright owner places a copyrighted item [here, a phonorecord] in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 152 (1998).

ReDigi asserts that its service, which involves the resale of digital music files lawfully purchased on iTunes, is protected by the first sale defense. The Court disagrees.

As an initial matter, it should be noted that the fair use defense is, by its own terms, limited to assertions of the distribution right. Because the Court has concluded that ReDigi's service violates Capitol's reproduction right, the first sale defense does not apply to ReDigi's infringement of those rights.

In addition, the first sale doctrine does not protect ReDigi's distribution of Capitol's copyrighted works. This is because, as an unlawful reproduction, a digital music file sold on ReDigi is not "lawfully made under this title." 17 U.S.C. §109(a). Moreover, the statute protects only distribution by "the owner of a particular copy or phonorecord ... of that copy or phonorecord." Here, a ReDigi user owns the phonorecord that was created when she purchased and downloaded a song from iTunes to her hard disk. But to sell that song on ReDigi, she must produce a new phonorecord on the ReDigi server. Because it is therefore impossible for the user to sell her "particular" phonorecord on ReDigi, the first sale statute cannot provide a defense. Put another way, the first sale defense is limited to material items, like records, that the copyright owner put into the stream of commerce. Here, ReDigi is not distributing such material items; rather, it is distributing reproductions of the copyrighted code embedded in new material objects, namely, the ReDigi server in Arizona and its users' hard drives. The first sale defense does not cover this any more than it covered the sale of cassette recordings of vinyl records in a bygone era.

Rejecting such a conclusion, ReDigi argues that, because " 'technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of [its] basic purpose,' " namely, to incentivize creative work for the "ultimate[ ] ... cause of promoting broad public availability of literature, music, and the other arts." 464 U.S. at 432. Thus, ReDigi asserts that refusal to apply the first sale doctrine to its service would grant Capitol "a Court sanctioned extension of rights under the [C]opyright [A]ct ... which is against policy, and should not be endorsed by this Court."

The Court disagrees. ReDigi effectively requests that the Court amend the statute to achieve ReDigi's broader policy goals – goals that happen to advance ReDigi's economic interests. However, ReDigi's argument fails for two reasons. First, while technological change may have rendered §109(a) unsatisfactory to many contemporary observers and consumers, it has not rendered it ambiguous. The statute plainly applies to the lawful owner's "particular" phonorecord, a phonorecord that by definition cannot be uploaded and sold on ReDigi's website. Second, amendment of the Copyright Act in line with ReDigi's proposal is a legislative prerogative that courts are unauthorized and ill suited to attempt.

Nor are the policy arguments as straightforward or uncontested as ReDigi suggests. Indeed, when confronting this precise subject in its report on the Digital Millennium Copyright Act §512, the United States Copyright Office rejected extension of the first sale doctrine to the distribution of digital works, noting that the justifications for the first sale doctrine in the physical world could not be imported into the digital domain. (...) Thus, while ReDigi mounts attractive policy arguments, they are not as one-sided as it contends.

Finally, ReDigi feebly argues that the Court's reading of §109(a) would in effect exclude digital works from the meaning of the statute. That is not the case. §109(a) still protects a lawful owner's sale of her "particular" phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was originally downloaded. While this limitation clearly presents obstacles to resale that are different from, and perhaps even more onerous than, those involved in the resale of CDs and cassettes, the limitation is hardly absurd – the first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined. There are many reasons, some discussed herein, for why such physical limitations may be desirable. It is left to Congress, and not this Court, to deem them outmoded.

Accordingly, the Court concludes that the first sale defense does not permit sales of digital music files on ReDigi's website.

### *C. Liability*

Having determined that sales on ReDigi's website infringe Capitol's copyrights, the Court turns to whether ReDigi is directly and/or secondarily liable for that infringement. Direct liability requires

“volitional conduct” that “causes” the reproduction or distribution to be made. Secondary infringement occurs when a defendant contributed to or benefitted from a third party's infringement such that it is “just” to hold the defendant accountable for the infringing activity. For the reasons stated below, the Court finds that ReDigi directly and secondarily infringed Capitol's copyrights.

## 1. Direct Infringement

To be liable for direct infringement, a defendant must have “engaged in some volitional conduct sufficient to show that [it] actively” violated one of the plaintiff's exclusive rights. *Arista Records LLC v. Usenet.com, Inc.*, 633 F.Supp.2d 124, 148 (S.D.N.Y.2009). (...)

In *Cartoon Network*, the Second Circuit addressed whether the cable television provider Cablevision had directly infringed the plaintiff's copyrights by providing digital video recording devices to its customers. 536 F.3d 121. The court determined that it had not. Though Cablevision had “design[ed], hous[ed], and maintain[ed]” the recording devices, it was Cablevision's customers who “made” the copies and therefore directly infringed the plaintiff's reproduction rights. *Id.* at 131-132. The court reasoned that, “[i]n determining who actually ‘makes’ a copy, a significant difference exists between making a request to a human employee, who then volitionally operates the copying system to make the copy, and issuing a command directly to a system, which automatically obeys commands and engages in no volitional conduct.” *Id.* at 131. However, the court allowed that a case may exist where “one's contribution to the creation of an infringing copy [is] so great that it warrants holding that party directly liable for the infringement, even though another party has actually made the copy.” *Id.* at 133.

On the record before it, the Court concludes that, if such a case could ever occur, it has occurred with ReDigi. ReDigi's founders built a service where only copyrighted work could be sold. Unlike Cablevision's programming, which offered a mix of protected and public television, ReDigi's Media Manager scans a user's computer to build a list of eligible files that consists solely of protected music purchased on iTunes. While that process is itself automated, absolving ReDigi of direct liability on that ground alone would be a distinction without a difference. The fact that ReDigi's founders programmed their software to choose copyrighted content satisfies the volitional conduct requirement and renders ReDigi's case indistinguishable from those where human review of content gave rise to direct liability. Moreover, unlike Cablevision, ReDigi infringed both Capitol's reproduction and distribution rights. ReDigi provided the infrastructure for its users' infringing sales and affirmatively brokered sales by connecting users who are seeking unavailable songs with potential sellers. Given this fundamental and deliberate role, the Court concludes that ReDigi's conduct “transform[ed] [it] from [a] passive provider of a space in which infringing activities happened to occur to [an] active participant in the process of copyright infringement.” 633 F.Supp.2d at 148. Accordingly, the Court grants Capitol's motion for summary judgment on its claims for ReDigi's direct infringement of its distribution and reproduction rights.

## 2. Secondary Infringement

“The Copyright Act does not expressly render anyone liable for infringement committed by another.” 464 U.S. at 434. However, common law doctrines permit a court to impose secondary liability where “just” and appropriate. *Id.* at 435. Capitol asserts that ReDigi is secondarily liable for its users' direct infringement under three such doctrines: contributory infringement, inducement of infringement, and vicarious infringement. The Court agrees with respect to contributory and vicarious infringement, and therefore does not reach the inducement claim.

### a. Contributory Infringement

Contributory infringement occurs where “one ... with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another.” *Arista Records, LLC v. Doe 3*, 604 F.3d at 118. The knowledge requirement is “objective” and satisfied where the defendant knew or

had reason to know of the infringing activity. *Id.* at 118. Further, the support must be “more than a mere quantitative contribution to the primary infringement ... [, it] must be substantial.” 633 F.Supp.2d 124, 155. However, even where a defendant's contribution is material, it may evade liability if its product is “capable of substantial noninfringing uses.” 464 U.S. at 442 (the “Sony-Betamax rule”).

In weighing the knowledge requirement, courts consider evidence of actual and constructive knowledge, including cease-and-desist letters, officer and employee statements, promotional materials, and industry experience. In addition, courts have consistently found that material support existed where file-sharing systems provided “the site and facilities” for their users' infringement.

The Court has little difficulty concluding that ReDigi knew or should have known that its service would encourage infringement. Despite the fact that ReDigi boasted on its website that it was “The Legal Alternative” and insisted “YES, ReDigi is LEGAL,” ReDigi warned investors in its subscription agreements that “the law cannot be said to be well-settled” in this area and that it could not guarantee ReDigi would prevail on its copyright defenses. The Recording Industry Association of America (“RIAA”) sent ReDigi a cease-and-desist letter in November 2011, advising ReDigi that its website violated Capitol's and other RIAA members' copyrights. Further, ReDigi was ensnared in a licensing dispute over song clips and cover art shortly after its launch, plainly indicating that infringement could be afoot. ReDigi was also, of course, aware that copyright protected content was being sold on its website – a fact central to its business model and promotional campaigns. Finally, ReDigi's officers claim to have “researched copyright law [and] consulted with attorneys” concerning their service, and also to have met with record companies “to get input, get marketing support[,] and enter into deals with the labels.” By educating themselves, the officers presumably understood the likelihood that use of ReDigi's service would result in infringement. Indeed, though ReDigi attempts to use its consultations with counsel as a shield, it is telling that ReDigi declined to reveal any of the advice it received on the subject. ReDigi's lone rebuttal to this surfeit of evidence could only be that it “sincerely” believed in the legality of its service. However, the Court has not found and will not create a subjective, good faith defense to contributory liability's objective knowledge requirement, and therefore concludes that, based on the objective facts, ReDigi was aware of its users' infringement.

The Court also finds that ReDigi materially contributed to its users' infringement. As ReDigi has admitted, “more than any other website that permits the sale of music, ReDigi is intimately involved in examining the content that will be sold and supervising the steps involved in making the music available for sale and selling it.” ReDigi thus provided the “site and facilities” for the direct infringement. Without ReDigi's Cloud Locker, no infringement could have occurred. Indeed, Media Manager ensured that only infringement occurred by limiting eligible files to iTunes tracks. Contrary to any conception of remote conduct, ReDigi's service was the hub and heart of its users' infringing activity.

The Court finally concludes that ReDigi's service is not capable of substantial noninfringing uses. The Sony-Betamax rule requires a court to determine whether a product or service is capable of substantial noninfringing uses, not whether it is currently used in a non-infringing manner. But, put simply, ReDigi, by virtue of its design, is incapable of compliance with the law. ReDigi's business is built on the erroneous notion that the first sale defense permits the electronic resale of digital music. As such, ReDigi is built to trade only in copyright protected iTunes files. However, as determined above, ReDigi's legal argument – and therefore business model – is fundamentally flawed. Accordingly, to comply with the law, either the law or ReDigi must change. While ReDigi 2.0, 3.0, or 4.0 may ultimately be deemed to comply with copyright law – a finding the Court need not and does not now make – it is clear that ReDigi 1.0 does not. Given the fundamental disconnect between ReDigi and the Copyright Act, and ReDigi's failure to provide any evidence of present or potential noninfringing uses, the Court concludes that the Sony–Betamax rule cannot save ReDigi from contributory liability.

Accordingly, the Court grants Capitol's motion for summary judgment on its claim for ReDigi's contributory infringement of its distribution and reproduction rights.

## b. Vicarious Infringement

Vicarious liability for copyright infringement exists where the defendant “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.” 239 F.3d at 1022. Unlike contributory infringement, knowledge is not an element of vicarious liability.

Clearly, ReDigi Vicariously infringed Capitol's copyrights. As discussed, ReDigi exercised complete control over its website's content, user access, and sales. Indeed, ReDigi admits that it “is intimately involved in ... supervising the steps involved in making the music available for sale and selling it” on the website. In addition, ReDigi financially benefitted from every infringing sale when it collected 60% of each transaction fee. Notably, ReDigi failed to address any of these arguments in its opposition brief, instead insisting that it was not vicariously liable for infringement that occurred outside the ReDigi service, for instance, when a user impermissibly retained files on his computer. However, this argument is inapposite to the instant motions. Accordingly, the Court grants Capitol's motion for summary judgment on its claim for ReDigi's vicarious infringement of its distribution and reproduction rights.

## IV. Conclusion

At base, ReDigi seeks judicial amendment of the Copyright Act to reach its desired policy outcome. However, “[s]ound policy, as well as history, supports [the Court's] consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.” 464 U.S. at 431. Such defence often counsels for a limited interpretation of copyright protection. However, here, the Court cannot of its own accord condone the wholesale application of the first sale defense to the digital sphere, particularly when Congress itself has declined to take that step. Accordingly, and for the reasons stated above, the Court GRANTS Capitol's motion for summary judgment on its claims for ReDigi's direct, contributory, and vicarious infringement of its distribution and reproduction rights. The Court also DENIES ReDigi's motion in its entirety. (...)

## SO ORDERED.

### THINK IT OVER

1. *Is the court's fair use analysis correct?* The judge seemed to start from a wrong point of view when it accepted the direct liability of ReDigi for the reproduction and distribution of Capitol's sound recordings. Conversely, those were the users who uploaded, migrated, sold, purchased and, finally, downloaded the music files and not ReDigi. If ReDigi is liable for these acts in any way, its liability shall be based on secondary liability doctrines rather than direct liability. Fair use doctrine, however, only applies to direct infringements, that is, to the acts of the users, rather than ReDigi's. The Second Circuit confirmed in the RIAA v. Diamond case that “space-shifting” – that is, reproduction of sound recordings from computers to portable devices and *vice versa* – of digital contents is fair use. Indeed, the Cartoon Network decision highlighted that those are the users, who create copies in the “cloud”, rather than service providers.

2. The Ninth Circuit introduced a balanced analysis of several factors in its *Wise* decision when it interpreted several contracts for the use of film reels. These factors included the designation of an agreement as a license; the reservation of title in the copyright holder; a single, upfront payment by the transferee for a particular copy; the requirement to destroy the transferred copies; significant restrictions on the terms of use; and the inability of the right holder to regain possession. The Ninth

Circuit held that especially those contracts led to a sale rather than a licence, where the transferee paid a single, upfront payment for the film reels; and where it was impossible to return the said reels to the right holders, or it was not required to do so, the transferee's possession over the copy was, consequently, for an indefinite period. Later, the Ninth Circuit held in the *Vernor v. Autodesk* case that "we considered [in the Wise decision] whether the agreement (a) was labeled a license, (b) provided that the copyright owner retained title to the prints, (c) required the return or destruction of the prints, (d) forbade duplication of prints, or (e) required the transferee to maintain possession of the prints for the agreement's duration. (...) We read Wise (...) to prescribe three considerations that we may use to determine whether a software user is a licensee, rather than an owner of a copy. First, we consider whether the copyright owner specifies that a user is granted a license. Second, we consider whether the copyright owner significantly restricts the user's ability to transfer the software. Finally, we consider whether the copyright owner imposes notable use restrictions." ***Which of the court decisions has merit?***

3. Under the first sale doctrine the lawful acquirer of a protected subject matter might only resell "that particular" copy that he owns/possesses, and consequently the creation of a "new copy" might lead to the exclusion of the doctrine's applicability. The ReDigi court concluded that "[s]ection 109(a) still protects a lawful owner's sale of her 'particular' phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was *originally* downloaded". ***Is this interpretation of the copyright law in accordance with social and technological reality?*** Think on the following fact: media contents might be directly downloaded to a memory stick, an exterior hard-drive, a Smartphone, or mp3 players. End-users, however quite often download the content first to their computer's hard drive and reproduce the file on any device thereafter. Sometimes they first "move" the file to another folder of the computer. Conversely, some devices, especially those produced by Apple (iPod, iPad, iPhone), need to be connected to a computer first, in order to allow the iTunes to synchronize the user's account (files kept in the user's iTunes library) and the device. To put it differently, in several cases, portable devices might only be indirectly carrying digital contents that shall be ultimately categorized as "not that particular copies".

#### FURTHER CASE LAW

United States v. Wise, 550 *F.2d* 1180 (1977)

Recording Industry Association of America v. Diamond Multimedia Systems, Inc., 180 *F.3d* 1072 (1999)

The Cartoon Network, LLLP v. CSC Holdings, Inc., 536 *F.3d* 121 (2<sup>nd</sup> Cir. 2008)

Timothy S. Vernor v. Autodesk, Inc., 621 *F.3d* 1102 (2010)

#### RECOMMENDED READINGS

##### *In English*

Abelson, Sarah: An Emerging Secondary Market for Digital Music - The Legality of ReDigi and the Extent of the First Sale Doctrine, *Entertainment and Sports Lawyer*, Winter 2012, p. 8-11.

Lejeune, Mathias: Remarks to USA: No Second Hand Digital Music (Yet), *Computer Law Review International*, Issue 3/2013, p. 88-90.

Morris, P. Sean: Beyond Trade: Global Digital Exhaustion in International Economic Regulation, *Campbell Law Review*, Fall 2013, p. 124-129.

Soma, John T. - Kugler, Michael K.: Why Rent When You Can Own? How ReDigi, Apple, and Amazon Will Use the Cloud and the Digital First Sale Doctrine to Resell Music, E-books, Games, and Movies, *North Carolina Journal of Law & Technology*, March 2014, p. 436-449.

Kawabata, B. Makoa: Unresolved Textual Tension: Capitol Records v. ReDigi and a Digital First Sale Doctrine, *UCLA Entertainment Law Review*, Winter 2014, p. 55-71.

## Digital First Sale Doctrine Ante Portas - Exhaustion in the Online Environment

Péter Mezei

[Originally published in JIPITEC, Issue 1/2015, p. 23-71.]

### (...) A need for a digital exhaustion doctrine

The present paper argued above that the *UsedSoft* decision shall be ultimately treated as a *contra legem* ruling, although it included several notable and acceptable statements (especially those related to the online distribution of computer programs). The article similarly noted that the *ReDigi* decision included a false ruling on the service provider's liability, which deserves correction on the circuit level. The German audio book cases represent a correct evaluation of the *status quo* of the principle of exhaustion under the framework of international and European copyright law; however, their outcome might be treated as conservative by those who are interested in practical, workable solutions for the resale of protected subject matter in the digital age.

The present (final) chapter raises a hypothetical question: is the upholding of the *status quo* really the proper answer to the challenges of digital resales? Is it really a diabolic thought to introduce a digital first sale doctrine? Is it correct to say that “even in Community law, the literal wording of the provision is only one, though not unimportant, means of interpretation”?<sup>1</sup> The paper will collect the main pro and contra arguments with respect to this question, and will ultimately take the position that under specific conditions the digital exhaustion principle does not represent such a danger as it might be described by the copyright industry, and therefore *it recommends the review of the current conservative positivist approach in respect of the scope of the doctrine of exhaustion.*

#### *I. Isn't it only a hype?*

The first question that needs to be discussed here is whether the idea of digital exhaustion is relevant at all in the digital environment or just a fancy hype that supports the interests of several corporations and not the whole society. Indeed, this notion might be deemed as hype only as long as its meaning and relevance in the digital age is settled and undisputed on the one hand, and these doctrinal frames are unreasonably challenged, on the other hand.

With regard to the first aspect above, it needs to be stressed again that the first sale doctrine has originally rooted in the protection of personal property and of the owners over the economic interests of copyright holders. Since the emergence of digital technologies the concept of ownership has gone through significant changes, where the proprietary interests over intangible goods has been questioned in several countries. There is one condition that is generally admitted in the legal systems covered above: intangible goods might be *subject to sale*. Consequently, the digital file that contains a protectable subject matter shall be under the control of the lawful purchaser. It seems to be fair to claim broader abilities on the side of the customers (including the ability for further resale of the digital content), even in the lack of proprietary interests.

Such a claim might be justified from the perspective of general users; however, it might be similarly supported from the perspective of cultural organizations, like public libraries. The general aim of the latter is to distribute knowledge and information amongst members of the

---

<sup>1</sup> Ruffler (2011) 378.

society. In the lack of a digital first sale doctrine these institutions are deprived of the possibility to participate in the downstream digital commerce. They are unable to rely on the benefits of digital society, and they are ultimately forced to spend enormous amounts of money on non-transferable digital copies of cultural goods (especially books). As a consequence, libraries are going to lose the chance to fulfil the demands of digital natives that could ultimately lead to the questioning of their existence at all.

Not everyone shows enthusiasm, however, towards the introduction of the doctrine of digital exhaustion, if it is about the possible effects upon public libraries. Necessarily, such a concept would not be the end result, but only the means to fulfil the said cultural aims of these institutions, including lending of digital contents to the patrons. As Chiarizio noted “[w]hile this form of digital lending is technically possible, it raises plenty of administrative problems. For example, patrons will inevitably ‘lose’ the digital copy on loan (through deletion, hardware failure, etc.), and libraries may then be required to buy a replacement copy. Libraries will also have a very difficult time policing patrons to be sure that all patron copies are deleted upon return. Besides administrative quandaries, publishers will notice that lack of wear and tear on digital books is resulting in decreased sales to libraries. Prices of e-books will have to increase in order to compensate for the decrease in replacement purchasing”.<sup>2</sup> Indeed, Chiarizio stressed that there is a viable model for e-lending by public libraries in the United States, under which several major book publishers allow for the lending of e-books by the institutions, if they comply with the requirements set by management companies, like OverDrive, 3M or Baker & Taylor.<sup>3</sup>

A further counter-argument might be stressed here, however. Commentators have constantly highlighted that the use of licence contracts is going to eclipse the use of sale contracts. This is especially true in respect of the use of works and other protected subject matters in the online environment.<sup>4</sup> Unlike Oracle most of the licensors allow for the temporary use of contents the licensees, which ultimately allows for the ignorance of the *UsedSoft* ruling of the CJEU.

Such a great example is the subscription model of service providers like Netflix for audiovisual contents, Pandora or Spotify for sound recordings or Amazon’s Kindle Unlimited for e-books. Similarly, the fact that service providers “move to the cloud” might put an end to the ado related to this territory. Since access to contents via the cloud is granted on a temporary basis in exchange of a periodic payment of the licence fee, and users are not provided any permanent copy of the content, this model shall be qualified without any problem as a service. Under copyright law the above model is based upon communication to the public of the said contents rather than their distribution. Verbraecken interprets the above shift in the available models as a method of “exhaustion evasion”.<sup>5</sup>

The fact that the available options of access to protected subject matter tend towards subscription based models offered via the cloud does not necessarily mean that users lost their – culturally and historically strong – interest in the possession of permanent copies of copyrighted works. Since the subscription based services mentioned above did not generate any profit until the end of 2014, it is clearly questionable, whether their systems will survive

---

<sup>2</sup> Chiarizio (2013) 633.

<sup>3</sup> *Ibid.* at 640-644.

<sup>4</sup> Riehl - Kassim (2014) 807-812.; Stothers (2012) 790-791.; Maclean (2013) 2.; Verbraecken (2013) 8-11.

<sup>5</sup> *Ibid.* at 8-9.

on a medium or long distance.

With regard to the second aspect mentioned above it is similarly clear that the concept of exhaustion in the digital age is far from settled or unquestionable. This is best evidenced by two distinct preliminary rulings of the CJEU and an opinion of the Advocate General in a third case.

First, the judgment of the CJEU in the *Svensson* case – and further its order in the following *BestWater* case<sup>6</sup> – practically *created new substantive law in the EU*. The ratio of the two rulings is that the right of making available to the public under Article 3(3) of the InfoSoc Directive is practically exhausted, as long as the source material that is hyperlinked or embedded by a user on its own website has been available online before the use takes place. The CJEU expressly noted that “[t]he public targeted by the initial communication consisted of all potential visitors to the site concerned, since, given that access to the works on that site was not subject to any restrictive measures, all Internet users could therefore have free access to them. In those circumstances, it must be held that, *where all the users of another site to whom the works at issue have been communicated by means of a clickable link could access those works directly on the site on which they were initially communicated, without the involvement of the manager of that other site, the users of the site managed by the latter must be deemed to be potential recipients of the initial communication and, therefore, as being part of the public taken into account by the copyright holders when they authorised the initial communication*. Therefore, since there is no new public, the authorisation of the copyright holders is not required for a communication to the public such as that in the main proceedings. Such a finding cannot be called in question were the referring court to find, although this is not clear from the documents before the Court, that when Internet users click on the link at issue, the work appears in such a way as to give the impression that it is appearing on the site on which that link is found, whereas in fact that work comes from another site. That additional circumstance in no way alters the conclusion that the provision on a site of a clickable link to a protected work published and freely accessible on another site has the effect of making that work available to users of the first site and that it therefore constitutes a communication to the public. However, since there is no new public, the authorisation of the copyright holders is in any event not required for such a communication to the public.”<sup>7</sup>

The above ruling was confirmed by the *BestWater* order in respect of embedding technology, even though the facts of the two cases showed a major difference in one significant aspect. Unlike in the *Svensson* case, where the online newspaper articles were originally posted by the right holders, the source material in the *BestWater* case was uploaded to and made available via YouTube without the prior approval of the right holder. Such a factual difference might be treated as a material one that allows for distinguishing in common law countries. The fact that the CJEU overlooked that aspect of the case led to a highly questionable practice.

The *Art & Allposters* case further mirrors that the application of the doctrine of exhaustion in the 21<sup>st</sup> century is not without problems. There, the Dutch referring court (Hoge Raad) sought guidance from the CJEU whether the reprints of paintings on canvas run against Dutch and EU law. The facts of the case indicated that defendant Art & Allposters International BV

---

<sup>6</sup> Case C-348/13 - BestWater International GmbH v. Michael Mebes and Stefan Potsch, 21 October 2014, ECLI:EU:C:2014:2315.

<sup>7</sup> *Svensson v. Retriever Sverige* (2014) paras. 26-30.

purchased paper posters on the market that were printed and sold with the permission of the right holder. The defendant allowed for its own costumers to order reprints of the paintings on canvas. The plaintiff – the competent Dutch collective rights management association (Stichting Pictoright) – claimed payment for each copy sold on the ground that the original paper version of the painting was adapted to canvas format. The defendant argued that the right of distribution was exhausted when the original paper copies of the paintings were put on the market, and consequently Art & Allposters is allowed to reproduce the work irrespectively of the form of the new copies.<sup>8</sup> Advocate General Pedro Cruz Villalón refused both arguments. The reference to the adaptation right is clearly flawless: the reproduction of the painting on canvas does clearly lack the creation of any derivative work.<sup>9</sup> On the other hand, irrespectively of the fact that Art & Allposters purchased lawfully sold hard copies on the market, it did not acquire the rights from the original distributors.<sup>10</sup> Consequently, all the reproductions made by the company are out of the scope of the original permission, and these copies cannot be covered by the doctrine of exhaustion either, since these new copies were not put on the market by or under the authorization of the original right holder.<sup>11</sup> The fact that none of the parties viewed the case through these lenses evidence that the doctrinal frames of the principle of exhaustion are far from settled or clear under the European Union law.

Taking all the above arguments into account the present article takes the view that *talking about the doctrine of digital exhaustion is clearly not hype*. It reflects socially and economically significant questions. The future of access to protected subject matter under service-like models is not necessarily the only viable option for users to enjoy contents, and the aim to possess copies on a permanent basis, and ultimately the interest in the alienation of them remains a lively issue. Further there is a great chance that the frames of the doctrine of exhaustion might be stretched.

## *II. Traditional positivism: a dead-end*

As the paper argued above the ultimate barrier to the acceptance of the notion of digital exhaustion is incorporated into the Agreed Statement of the WCT. One important question was not, however, answered in details by the case law introduced above. The Agreed Statement was implemented by the InfoSoc Directive in a partially different form, where a new doctrinal element was added to the definition of exhaustion. That issue is related to the *services versus goods dichotomy*.

Gaubiac noted it in the early 2000's that „the dematerialization of works now taking place involves only the mode of public communication. But this dematerialization has the effect of transferring a mode of communication by material media to a mode of communication by means of computer storage. This leads to some doubt as to whether such a communication can be properly described as a good or service. The applicable system governing the exhaustion of rights will depend on how the medium of communication of the work is classed. If the dematerialized transmission is classed as reproduction in the various computer memories, the question arises of the survival of exhaustion, whereas if this phenomenon is classed as a communication taking the form of an online service provision, it shall not involve exhaustion

---

<sup>8</sup> Opinion of the Advocate General in *Case C-419/13 - Art & Allposters International BV*, 11 September 2014, ECLI:EU:C:2014:2214, paras. 16-19.

<sup>9</sup> *Ibid*, at paras. 56-61.

<sup>10</sup> *Ibid*. at para. 49.

<sup>11</sup> *Ibid*. at paras. 73-76.

in accordance with the generally recognized solutions.”<sup>12</sup>

Several leading international and regional copyright norms evade giving a straight answer to the question raised by Gaubiac. The Agreed Statement attached to Article 6 of the WCT stresses that copies of protected works might only be subject to distribution (and consequently exhaustion) if they are fixed and can be put into circulation as tangible objects. Recitals 28-29 of the InfoSoc Directive equally exclude intangible copies, services (especially on-line services) and tangible copies produced with the help of services and on-line services from the scope of the doctrine of exhaustion. The model for InfoSoc Directive’s wording is to be found in the Database Directive that stressed in its Recital 33 that “the question of exhaustion of the right of distribution does not arise in the case of on-line databases, which come within the field of provision of services; whereas this also applies with regard to a material copy of such a database made by the user of such a service with the consent of the right holder; whereas, unlike CD-ROM or CD-I, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which will have to be subject to authorization where the copyright so provides”. Similarly, recital 18 of the E-Commerce Directive categorized on-line sale of goods as services.

The EU rules on value-added tax (VAT) similarly support the above treatment. The VAT Directive declares supply of services as “any transaction which does not constitute a supply of goods”,<sup>13</sup> whereas supply of goods means “the transfer of the right to dispose of tangible property as owner”.<sup>14</sup> Based upon the above terms the CJEU recently concluded that “the supply of electronic books cannot be regarded as a ‘supply of goods’ within the meaning of that provision, since an electronic book cannot qualify as tangible property”.<sup>15</sup> Further, Implementing Regulation No. 282/2011 notes that electronically supplied services “shall include services which are delivered over the Internet or an electronic network and the nature of which renders their supply essentially automated and involving minimal human intervention, and impossible to ensure in the absence of information technology”.<sup>16</sup> The CJEU concluded in the above decision that “the supply of electronic books clearly meets that definition”.<sup>17</sup>

Such a separation of tangibles, intangibles and services (on-line services) with regard to the doctrine of exhaustion was treated justifiable by Espantaleon due to the distinct physical attributes and scope (both in terms of space and time) of goods and services, further the diverse language, pricing and technical barriers applied in connection with them.<sup>18</sup> Others criticized the uncertainty mirrored by the InfoSoc Directive’s wording. Advocate General Bot noted in its Opinion to the *UsedSoft* case that “Recital 29 in the preamble to Directive 2001/29 is not without ambiguity either. While it appears to draw a distinction between the sale of goods, to which the exhaustion rule would apply, and the provision of services, to which that rule would be inapplicable, the fact remains that online services, as defined by EU law, include the sale of goods online. Thus, for example, by the standard of the wording of

---

<sup>12</sup> Gaubiac (2002) 10.

<sup>13</sup> Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, Art. 24(1).

<sup>14</sup> *Ibid.* at Art. 14(1).

<sup>15</sup> *Case C-479/13 - European Commission v. French Republic*, 5 March 2015, ECLI:EU:C:2015:141, para. 35.

<sup>16</sup> Council Implementing Regulation (EU) No 282/2011 of 15 March 2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax, Art. 7(1).

<sup>17</sup> *Case C-479/13* at para. 36.

<sup>18</sup> Espantaleon (2010) 34-35.

that recital, the exhaustion rule should not apply to an online purchase of a CD-ROM in which the copy of the computer program is incorporated. To my mind, however, the distinction as to whether the sale takes place remotely or otherwise is irrelevant for the purposes of applying that rule.”<sup>19</sup>

Wiebe points out that the doctrine of exhaustion and the goods versus services dichotomy have different purposes in law.<sup>20</sup> He claims that the emphasis in respect of goods and services was misplaced in the EU copyright law. Under the WCT the exclusion of copies sold online from the scope of the doctrine of exhaustion is reasoned by the fact that no physical copy is provided by the seller to the purchaser. The EU legislature unnecessarily complicated the discussion of exhaustion with the introduction of the provisions on goods versus services. The European Commission stressed it in 1995 that “[w]hether a distribution right is capable of being exhausted by an exploiting act of the right holder, or a third party with the right holder’s consent, depends upon the form in which the protected work or related matter is exploited. If it is incorporated in a material form it is subject to the rules on free movement of goods and, in consequence, to the principle of Community exhaustion. (...) On the other hand, if the work or related matter is not incorporated in a material form but is used in the provision of services, the situation is entirely different. (...) In fact, given that the provision of services can in principle be repeated an unlimited number of times, the exhaustion rule cannot apply.” Wiebe argued, however, that “the assumption that online transmissions always involve a service is flawed”.<sup>21</sup> Consequently, Wiebe’s view is that it is not the goods versus service dichotomy that leads to the exclusion of the doctrine of exhaustion in cases of online delivery of goods, where the purchasers are granted a permanent control over the copy of a work in digital format, but rather the fact that *the seller is not obtaining control over a physical/tangible copy of the said work*.<sup>22</sup>

The final conclusion mirrored by Wiebe’s paper – that is ultimately in accordance with the literal reading of the WCT – has been criticized by other commentators. Spedicato noted that “the dichotomy that we should match to the one between goods and services in applying the principle of exhaustion is not that between tangible and intangible objects, as Recital 29 of the InfoSoc Directive would suggest, but rather that between selling a work and making it available (through an act other than a sale) or, on a more general level, that between forms of exploitation that entail a transfer of ownership of a copy of the work and forms that do not”.<sup>23</sup> Spedicato argues that the *UsedSoft* ruling on the doctrine of sale shall be applicable to other subject matter than software as well, and consequently the sale of protected subject matter via the Internet shall not be *per se* excluded from the scope of the doctrine of exhaustion.<sup>24</sup>

Tai noted that two U.S. reports from 2001 commissioned by the U.S. Department of Commerce, National Telecommunications and Information Administration and the U.S. Copyright Office both accepted a “limited digital first sale doctrine” and treated this concept as fully in accordance with the WCT’s Agreed Statement cited above. According to the NTIA Report “both the proponents and the copyright community seem to agree that if the files are

---

<sup>19</sup> Opinion of the Advocate General to *Case C-128/11 - Axel W. Bierbach, administrator of UsedSoft GmbH v. Oracle International Corp.*, 24 April 2012, ECLI:EU:C:2012:234.

<sup>20</sup> Wiebe (2009) 115.

<sup>21</sup> *Ibid.*

<sup>22</sup> *Ibid.* at 115-116.

<sup>23</sup> Spedicato (2015) 49.

<sup>24</sup> *Ibid.* at 49-52.

downloaded with the consent of the copyright owner, a ‘lawfully made copy or phonorecord’ will have been created on the PC hard drive or tangible portable medium (such as a writeable CD). Thus, Section 109 would apply to the owner of that new digital copy or phonorecord. With respect to other applications of Section 109 to digitally downloaded files, however, there was considerable divergence between the stakeholders with respect to whether a copyright owner's interest could be adequately protected. There was significant information in the record to suggest, however, that DRM systems and other like developments hold some promise of offering a technological solution.”<sup>25</sup>

The problematic of goods versus services viewed from the perspective of the doctrine of exhaustion seems to be a stalemate. Dreier correctly pointed out that “in times of offering copyrighted works in digital form, it is of secondary importance whether the offering is conducted offline or online. Hence, the distinction between ‘goods’ on the one hand and ‘services’ on the other loses much if not all of its meaning. At best it is no longer technology-neutral. Moreover, due to increasing bandwidth, in the future most copyrighted works will be transmitted online anyway. If this is the case, then either all offerings of copyrighted material online will have to be considered as services. Or, if the distinction between freedom of movement or goods and services is to be maintained, the criteria for distinguishing between the two – and with it between ‘goods’ and ‘services’ – are to be found elsewhere. However, in this respect, the decisions handed down by the CJEU so far have not yet provided much guidance. What is needed is an appropriate definition of these meta-criteria, i.e. a coherent theory of when to treat online offerings of copyrighted works as ‘services’ and when to still treat them as ‘goods’, in spite of their intangible and immaterial nature.”<sup>26</sup>

The present paper takes the view that *the status quo related to the doctrine of exhaustion* – especially in accordance with the Agreed statement of the WCT and Recitals 28-29 of the InfoSoc Directive – *is outdated and do not properly reflect the economic, social and technological realities of our age*. Therefore, in answering the question whether there is any need to reconsider the scope of the doctrine of exhaustion in order to cover digital transactions as well, economic, social and technological realities deserve priority.

### *III. Constructive realism: economic, social and technological effects of a digital exhaustion doctrine*

Some commentators opined that the negative economic effects of digital exhaustion are tremendous. The most general claim – that might varies in form, but remains the same in its content – is that any market for digital resales necessarily decreases the need for “originals”, and consequently harms the interests of the right holders and the traditional intermediaries.<sup>27</sup> A traditional counterargument is based on the vital premise of the doctrine of exhaustion that allows right holders to be remunerated once after the first sale of their creations. It has been stressed by the proponents of the German “*Belohnungstheorie*” as well. To put it differently: right holders are not allowed to control the future sales of their contents, if she asked for a fair price at the time of the first sale. WCT similarly makes it clear that the three-step test – especially the prong that relates to the economic effects of any limitation upon the economic rights – shall not cover resales covered by the doctrine of exhaustion. As such the form of the sale (digital or analogue) is not decisive; indeed, should the form be decisive, the right holders

---

<sup>25</sup> Tai (2003) 209.

<sup>26</sup> Dreier (2013) 138-139.

<sup>27</sup> Davis (2009) 370-371.

would be able to exclude others from the downstream market, and would receive an unfair advantage in this sphere.<sup>28</sup> Other commentators further argued that the resale of a digital good is generally useful for the whole economy, since it leads to reinvestment into the system.<sup>29</sup>

The other clear danger of the introduction of digital exhaustion is related to the rise of the prices of original copies. It is naturally unclear what “fair price” is going to mean so long as there is no second hand market in respect of any specific protected subject matter. The downstream commerce has to be, however, always “cheaper” than the original market. This can be extremely useful for the purchasers. Spedicato correctly noted that “the secondary markets will generally make lower prices available, thus making the work accessible to consumers with less purchasing power”.<sup>30</sup> On the contrary, the emergence of second hand markets might require the increase of the prices of the original copies due to the loss of sales by the right holders. The amount of such increase might be marginal, where the number of items sold is extremely high. This shall be especially true for the music industry, and might be relevant for the audiovisual sector and e-book industry as well. For computer programs, databases and other subject matters (like photographs) there might be a clear danger that the increase of prices will be substantive that can have chilling effects upon the business of right holders.

The negative effects of the downstream commerce might be eased by the model that ReDigi or Tom Kabinet offered (and those models that Apple and Amazon patented, but did not launch yet<sup>31</sup>), where right holders are remunerated for each and every digital item sold by the clients of the service.<sup>32</sup> Such a model might look, however, paradoxical. If we accept the view that exhaustion applies for the resale of digital goods as well, than any payment to the right holder is *per se* unnecessary. If, on the contrary, the service provider obliges itself to pay remuneration to the right holders it practically confirms the valid claims of the other party to the said money.

Thirdly, the fact that the downstream commerce is offered by new service providers (ReDigi, Tom Kabinet, UsedSoft and others) can clearly lead to the rearrangement of powers of the market. It is not surprising that world-wide leading corporation like Amazon and Apple replied to the new challenge. (They most probably wait for the final outcome of the ReDigi and Tom Kabinet cases, before entering the digital resales market with their systems.) A similar reaction might be mirrored by the introduction of Kindle Unlimited by Amazon. On the one hand, it is offered as a service, and therefore the first sale doctrine does not apply to the copies obtained (licensed) by the users. On the other hand, the pricing of the model is so low that it practically kills the second hand market for “used” e-books.

Does history repeat itself? It might be worth to recall what George Orwell envisioned in respect of the introduction of the “cheap” Penguin books in the first half the 20<sup>th</sup> century. He opined that “it is, of course, a great mistake to imagine that cheap books are good for the book trade. Actually it is just the other way about. (...) Hence the cheaper books become, the less money is spent on books. This is an advantage from the reader’s point of view and doesn’t hurt trade as a whole, but for the publisher, the compositor, the author, and the bookseller it is

---

<sup>28</sup> Sosnitza (2009) 523.; Berger (2002) 200.; Ruffler (2011) 378-379.

<sup>29</sup> Kawabata (2014) 76-77.

<sup>30</sup> Spedicato (2015) 33.

<sup>31</sup> Riehl - Kassim (2014) 805-807.

<sup>32</sup> Soma - Kugler (2014) 456.

a disaster.”<sup>33</sup> Orwell’s vision might be theoretically correct, however, the history of the book industry has evidenced that publishers, editors, authors and bookseller (intermediaries) can and do survive, even if the price of items partially decreased. It seems to be more – rather than less – probable that the introduction of any digital exhaustion doctrine will not kill the traditional forms of copyright industry. Rather businesses will respond to it with new business models. All in all, such an outcome will be beneficial for members of the society. Indeed, access to culture is also vital for institutions, such as universities, libraries, archives or museums, but for individuals as well.

A classic argument against the introduction of any flexible limitation or exception in favour of the users regarding the use of digital copies of protected subject matter roots in the zero cost of reproduction of these contents.<sup>34</sup> Any such claim is implicitly based on the assumption that members of the society are willing to copy protected contents for free. This opinion is correct on the one hand; and flawed on the other hand. Practically, copying a digital content takes extremely short time, marginal human and mechanic power is required, and costs virtually nothing. Indeed, humans have a deep-rooted willingness to possess as much as possible. To put it differently, there is nothing surprising, if users save the works onto their computers, if they can. Such a desire is present irrespectively of the form of the protected content. If the source material is analogue (like a paper book) or is bounded to any physical data carrier (like a sound recording on a CD), users are eager to transform (rip) the content into a digital file, if they cannot directly locate it over the internet. Dutch researchers stressed that “skilful consumers mastering information and communication technology have combined with the development of network capacity to increasingly squeeze the entertainment industry’s traditional business model. Digital consumers, wise to technological possibilities and new applications in the digital arena, are now making demands of products and services – demands that the entertainment industry, stuck in its traditional practices, has failed to meet sufficiently over the past few years.”<sup>35</sup> As a consequence, the difference between the reproduction of an analogue and a digital content is clearly vanished with the help of digitization technologies (that has equally marginal costs, however, might last for a couple of minutes). Ultimately, there is no greater danger with respect to the reproduction of digital goods than the analogue ones.<sup>36</sup>

It is reasonable to support the development of “copyright literacy” through the acceptance of digital exhaustion. In the latter case users would not simply sell their unused digital items (some might argue: their property), but would contribute to the development of a secondary market and reinvest in culture at the same time. Copyright law would be treated as a useful tool to support this system, rather than an obstacle that hinders downstream commerce, culture and personal property. The lack of workable alternative solutions to consume protected contents via the internet has already led to a tremendous gap between society and right holders. Peer-to-peer (P2P) file-sharing has appeared in 1999 partially due to the lack of lawful alternatives to consume digital goods online.<sup>37</sup> The introduction of the doctrine of digital exhaustion might direct users’ attention to lawful digital retail stores.

---

<sup>33</sup> Orwell’s thoughts are cited by Friedman (2008) 349.

<sup>34</sup> Schulze (2014) 13.; Tobin (2011) 178-179.

<sup>35</sup> Helberger et al. (2009) 19.

<sup>36</sup> Ruffler (2011) 381.; Hoeren (2013) 448.; Appl - Schmidt (2014) 197.; Sosnitza (2009) 524-525.; Tai (2003) 209-210.

<sup>37</sup> Helberger et al. (2009) 16-24.

A further argument might run against the doctrine of digital exhaustion. Although this paper claimed that the dangers of unauthorized reproduction is practically equal with respect to analogue and digital goods, it still accepts the fact that copies connected to a physical data carrier are subject to significantly faster deterioration than those that are saved on a hard drive or nowadays more often in the cloud. The indestructible nature of digital versions allow for an unlimited resale of the said copy. (For the sake of clarity, the paper focuses at this point on the sale of the copy in a single chain by multiple successive purchasers, rather than the clearly illegal method of multiple resales by one single user to more purchasers.) This shall not be, however, treated as an obstacle to the application of a concept of digital exhaustion. As highlighted several times above, the first sale doctrine controls *each and every* future transfers of a given content after the first lawful sale. No limitation on the number of these transactions is built into the doctrine. If right holders fear of unlimited future disposals of the given copy, they shall adopt proper pricing for the sale of their contents that meets the realities. If this opinion is correct, no such technological solutions are needed to control the “automatic aging” of digital files.

The present paper takes the view that the effective functioning of a digital first sale doctrine might be guaranteed with the help of two technological solutions. The first shall be the inclusion of effective forward-and-delete software into the model of the digital retail store. The other is the application of unique ID number (watermarking) for each and every contents sold.

Under this model users might only resell contents that were lawfully purchased from authorized corporations that apply specific ID-numbers or watermarking for these files. First, such a prerequisite excludes the possibility to swamp the system with copies acquired through P2P file-sharing sites (or any other illegal channels) or that were created by the users themselves from CDs or any other data carrier. Second, the ID-number or watermark shall work as rights management information that deserves protection under WCT Article 12. To put it differently, any attempt to erase or modify the ID-number or watermark ultimately leads to a copyright infringement.

Should the lawful acquirers sell their copies via the retail store’s system, the latter shall effectively control the removal of the original file from the user’s hard drive. If the user previously saved a copy of the said content to any portable device, the forward-and-delete software shall detect it at any time when the device is synchronized with the computer, and shall oblige the user to remove the said content from the device. All of these guarantee that there may always be only one copy of a lawfully purchased content having a unique ID-number or watermark. Berger stressed, and the present paper agrees with him, that a possible statutory description of the digital exhaustion doctrine shall explicitly refer to the obligation to erase the sold content from the users’ computer and that the doctrine only protects the lawful acquirers of digital files.<sup>38</sup> Ultimately, such a model does not heavily or unnecessarily intrude into the private lives of the users. The control of the synchronized devices is absolutely reasonable in order to protect the interests of the right holders.

Taking all of the economic, social and technological arguments expressed above into account, there might be a valid claim to argue for the introduction of a digital first sale doctrine. Some commentators claim that the Agreed Statement of the WCT is cloudy in this respect. Ruffler

---

<sup>38</sup> Berger (2002) 201-202.

stressed that “what [the Agreed Statement] actually says is that the copies can be put into circulation as tangible objects. That is to say that it must be possible to fix them in a tangible medium, and not that they must already be fixed as tangible objects”.<sup>39</sup> If Ruffler is correct, it is only InfoSoc Directive Article 4(2) that needs to be clarified to cover the digital domain as well. If we, however, accept the more positivistic point of view, it becomes evident that it is the Agreed Statement that requires amendment first. The present paper votes for this second option.

## F. Conclusion

The idea of digital first sale doctrine imploded into the mainstream copyright discussion only a few years ago, although it has already been discussed for almost two decades. The problem was reflected by academia, case law and legislature as well. Although notable sources take the view that the concept of digital exhaustion deserves support, the majority of commentators refused to accept this idea. Likewise, legislative proposals that were submitted to the German Bundestag and the Congress of the United States were ultimately refused by the relevant national parliaments (or were not even discussed by them). Under the traditional, positivist vision of copyright law, any similar ideas are condemned to death at the moment, especially in the light of the WCT Agreed Statement. Similarly, the CJEU’s constructive interpretation of the international and regional copyright norms led to flawed argumentation. As highlighted in Chapter E, however, significant economic, social and technological arguments support the view that it is time to reconsider at international legislative level.

Such a notable – but diplomatic – proposal was formulated by Maria A. Pallante, the Register of Copyrights. She stressed that “more than a decade [after the publication of the DMCA Section 104 Report], the doctrine of first sale may be difficult to rationalize in the digital context, but Congress nonetheless could choose to review it, much as it considered the issues of renewal registration and termination in 1976. On the one hand, Congress may believe that in a digital marketplace, the copyright owners should control all copies of their works, particularly because digital copies are perfect copies (not dog-eared copies of lesser value) or because in online commerce the migration from the sale of copies to the proffering of licenses has negated the issue. On the other hand, Congress may find that the general principle of first sale has ongoing merit in the digital age and can be adequately policed through technology – for example, through measures that would prevent or destroy duplicative copies. Or, more simply, Congress may not want a copyright law where everything is licensed and nothing is owned.”<sup>40</sup>

Similarly, an increasing number of enterprises – like UsedSoft, ReDigi, Tom Kabinet and many other companies – offer services that allow for the resale of digital goods. We might therefore say: digital exhaustion is *ante portas*, that is, at the doors. It is quite questionable that “e-exhaustion” is an enemy at all, and whether it will be defeated just like Hannibal, the Carthaginian commander, who reached the gates of Rome more than two thousand years ago.

It is extremely interesting to draw a parallel between Hannibal’s war against the Roman Empire and the “war” of the proponents of e-exhaustion against the copyright industry. Hannibal lost his campaign among other reasons due to the lack of satisfactory resources.<sup>41</sup>

---

<sup>39</sup> Ruffler (2011) 380-381.

<sup>40</sup> Pallante (2013) 332.

<sup>41</sup> Parker (2001) 16.

Similarly, there is a great chance that the whole debate on digital exhaustion will be silenced, if defendants of digital exhaustion cases will run out of the necessary means – with a bad joke: they “exhaust their resources” – to protect their business models.

Karjala’s thoughts serve as a great point to finish with. He stressed that “[e]ither we believe in the first-sale doctrine in the digital age or we do not. If we no longer believe in it, we should discard it openly and not through verbal gymnastics interpreting the definition of ‘copy’ for the purposes of the statute's reproduction right. Nor should our definition of ‘copy’ force systems engineers into unduly intricate or artificial designs simply to protect the right of the owner of a copy of a music file to transfer that file, provided that no copies derived from the transferred file are retained.”<sup>42</sup>

---

<sup>42</sup> Karjala (2013) 255.

## CHAPTER V

### **Don't call me pirate!**

*Péter Mezei*

The metaphorical legal thinking mentioned by Larsson may give rise to major problems if the specific expressions are not in line with the society's respective set of values. Conversely, there exists no stronger legal rule than the one in accordance with the society's value system.<sup>1</sup> Unexpected negative consequences may arise from using specific metaphors (purposefully) removed from their original environment in a context where they lead to a distortion of the results.<sup>2</sup>

In copyright law and especially in the digital world of our age the above statement seems exponentially sound. It is difficult to imagine that the society should observe the copyright rules ubiquitously present in its everyday actions merely because it is a requirement. Observing norms can only be a realistic expectation for right holders if these rules are accepted as correct or, at least, known and understood by the society.<sup>3</sup>

The copyright holders' intention to monopolize on the context of file-sharing, that is, the discussion relating to it, is not without example in the course of history. At the emergence of practically each new technology the press was superfluous with thoughts envisaging the breakdown of copyright law. John Philip Sousa once labelled the piano organ as a diabolic machine during a congressional hearing. The collapse of copyright law was envisioned by Jack Valenti, leader of the lobbyist association of the Motion Picture Association of America (MPAA) during a congressional hearing in 1982 when he stated that the VCR is "to the American film producer and the American public as the Boston strangler is to the woman home alone."<sup>4</sup> The discourse monopoly held by copyright holders on the symbiosis of technological development and copyright law is a century old phenomenon, not leaving file-sharing untouched.

In the age of file-sharing the terminology purposefully distorting and virtually tarring all Internet use with the same brush simultaneously emerged on both copyright holder and consumer side greatly undermines the society's acceptance of copyright as well as the possibility of solving the dilemma of file-sharing.

Expressions like piracy seem to be imprinted on the consumer (file swapping) society, albeit with a different content than on the copyright holder side. As a result, the more legal than social terminology of file-sharing combines a rather dual nature which hinders the substantive approach of viewpoints. In fact, the debate on the expressions seems rather to be a *false debate* aiming at diverting attention from the actual activities and objectives of interest groups. Nevertheless, it is worth looking into because many a hypocritical argument could be debunked.

The term "piracy" has for a while insinuated itself into the theory and practice concerning file-sharing and intellectual property infringement. Apart from communication, the word does not only appear within the file-sharing community (*The Pirate Bay*), but also in the name of political organizations, in the argument of content industries, in academic writings on copyright, in national and regional legislative documents, in international copyright documents, in other fields of intellectual property as well as in research into social sciences beyond the scope of copyright.

---

<sup>1</sup> Larsson (2011) 123.

<sup>2</sup> Larsson - Hydén (2011) 193.

<sup>3</sup> Litman (2006) 72, 112-113.

<sup>4</sup> *Home Recording of Copyrighted Works: Hearings on H.R. 4783, H.R. 4794, H.R. 4808, H.R. 5250, H.R. 5488, and H.R. 5705 Before the Subcomm. on Courts, Civil Liberties and the Admin. of Justice of the H. Comm. on the Judiciary, 97th Cong. (1982)*

However, the unfettered use of the expression restrains the consistent application of “copyright piracy”, therefore its authentic interpretation. The term “piracy” has been long used for the mass production of counterfeit copies for gainful purposes in the United States. Others call squarely any unlicensed activity piracy. The unfettered use is unquestionable in the notion of “pirated copyright goods” defined in the footnote attached to Art. 51. of the *TRIPS Agreement*. According to this the term “shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.”

An excellent, albeit extreme, example for the unfettered use of the expression is an extract from an Australian court ruling not devoid of accumulating adjectives:

*“The world of pop music is in these times richly endowed and prosperous. It is not therefore surprising that it is much afflicted by parasites. Pop stars and the recording companies who are their sponsors and exploiters naturally wish to rid themselves of poachers who prey upon what they properly regard as their preserve ... The question that arises on this appeal is whether the law has adequately provided for the protection of that preserve from the activities of predators, who in the pop music scene, are described as pirates when they make and sell copies of discs or tapes in breach of copyright and as bootleggers when they make an unauthorized direct recording of a live performance for the purpose of reproducing it for sale to the public.”<sup>5</sup>*

It seems most opportune to kindle the thought of those having a penchant for the everyday use of the term piracy in connection with the phenomenon of file-sharing (and regarding it in light of the *TRIPS* or more recently *ACTA*), have never handled the 1958 Geneva Convention on the High Seas defining the international notion of piracy. Pursuant to Article 15 of the said Convention:

*“Piracy consists of any of the following acts:*  
*(1) Any illegal acts of violence, detention or any act of depredation, committed for private ends by the crew or the passengers of a private ship or a private aircraft, and directed:*  
*(a) On the high seas, against another ship or aircraft, or against persons or property on board such ship or aircraft;*  
*(b) Against a ship, aircraft, persons or property in a place outside the jurisdiction of any State;*  
*(2) Any act of voluntary participation in the operation of a ship or of an aircraft with knowledge of facts making it a pirate ship or aircraft;*  
*(3) Any act of inciting or of intentionally facilitating an act described in subparagraph (1) or subparagraph (2) of this Article.”*

Virtually the same definition is provided for by Article 101 of the other relevant international source of law, the 1982 United Nations Convention on the Law of the Sea. The gist of the above definition is that *piracy can only be committed on the high seas*. If a similar action takes place on the territory under the jurisdiction of any state, it shall be adjudicated according to the national criminal law provisions of that state.

In Hungary the Criminal Code does not contain any section incriminating the depredation of ships and aircrafts as “piracy.” Whether that would be different in the majority of other countries is highly doubtful. These actions may only be subject to punishment if they fit under any other criminal law disposition. It follows that the infringement of copyright or a related right is not piracy but it is what the law labels it – according to the above voluminous expression.

---

<sup>5</sup> Ex parte Island Records Ltd [1978] 3 All ER 824 (Shaw LJ), p. 831.

It seems to be worth reverting to the international definition of piracy. In it there is not one single element eligible to accommodate to the action of a person or persons “accused” of downloading and making works and related rights performances available without authorization or paying any royalties. Were the fact to be disregarded that pirates commit acts of depredation against ships or aircraft, the definition reveals major words such as “private”, “violence”, “detention”, “depredation”, “passengers”, “the crew” or “the high seas” (the latter being beyond the limits of national jurisdiction).

The above train of thought was not spurred into life by naivety. According to Loughlan “the term ‘pirate’ is clearly metaphorical and not even the most naïve of participants in the discourse of intellectual property could or would take it literally.”<sup>6</sup> Balázs Bodó indicated that the term pirate “is a means of rhetoric changing from context to context and not a clearly defined and outlined legal category.”<sup>7</sup> It is clear that the term piracy is not applied in light of the Geneva Convention by its users, but in order for the everyday file swapper to be identified as an outlawed, pillaging and unscrupulous figure by the society. Using the metaphor of piracy necessarily implicates an “armed” or at least aggressive possibility and/or duty of action against it.<sup>8</sup> This, however, seems completely *unjustified in the case of a social phenomenon which is far removed from the true content of piracy regarding its (1) infringers, (2) modus operandi, (3) object, (4) outcome and (5) dangerousness.*

Should anybody sow piracy, so shall pirates be reaped. Classifying file-sharers according to a single negative and violent word is not at all appropriate to shed light on the front lines behind the phenomenon. Lawrence Lessig regards it as particularly harmful if an entire generation is raised to be labelled as criminals by the adult society – especially a narrow segment thereof. As Lessig noted: “Now I worry about the effect this war is having upon our kids. What is this war doing to them? What is it making them? How is it changing how they think about normal, right- thinking behavior? What does it mean to a society when a whole generation is raised as criminals?”<sup>9</sup>

When examining file-sharers, it is indispensable to consider *the (objective) characteristics of their personalities* such as their age, sex, schooling, financial situation and marital status simultaneously with *what motivates them to act.* The latter can be further categorized into two more groups: on the one hand, factors *arising from the file sharers’ personalities.* Therefore, these “pirates” can independently or simultaneously be consumers aggravated by the current business policy of the content industry; uninformed – under law and online – infringers who either do not understand the law or disagree with it; young and trendy users for whom music and films are part of their everyday communication; or wilful criminals acting for financial gain. On the other hand, the other (significant) part of motivations simply *arises from opportunities provided by technology.* Such characteristics include (in most cases guaranteed) availability free of charge, speed, simplicity, user-friendly layout and anonymity (or at least the perception thereof).

Empirical evidence suggests that personal characteristics and motivations arising from the file-sharers’ personalities take a back seat to the technological (and economic) advantages provided by file-sharing. Thus, although a clear tendency can be seen in the United States or in Germany for peer-to-peer file-sharing being scaled down to a degree for the benefit of legal services, a significant number of users are in fact seeking alternatives to replace peer-to-peer file sharing. And those who ask, receive. For instance, the takeover of cyberlockers<sup>10</sup> or services securing anonymity accounts for that.<sup>11</sup>

---

<sup>6</sup> Loughlan (2007) 402.

<sup>7</sup> Bodó (2011) 21.

<sup>8</sup> Loughlan (2007) 219.

<sup>9</sup> Lessig (2004) xvii.

<sup>10</sup> Mezei - Németh (2009) 180.

<sup>11</sup> Larsson - Svensson (2010).

In view of the above, the politically inclined pirating community's image (not necessarily political but setting specific aims as a group) needs to be nuanced. *File-sharers can be described as people or groups of people acting or being able to act in a variety of ways along individual, personal characteristics, goals, motivations and opportunities, guided not primarily by some abstract political aim but the palette of economic realities available in an online sphere.* As a consequence of the above, it is hardly deniable that the majority of file-sharers do not wish to pay for downloaded contents. That is not usually done in order to bankrupt record companies but merely to devote part of their income to other ends.

This is further nuanced by the fact that although file-sharing as an act of piracy is usually mentioned in a global context, the mass actions of consumers' millions can only be examined at an individual or, at most, national level to avoid distortions.

Just to take a pertinent example, there is more than one reason to explain that peer-to-peer file-sharing is scaling down while it is still a "market leader" in Hungary. In 2010 gross domestic product (GDP) per capita was 46,860 USD in the United States, whereas only 13,024 USD in Hungary. While in the United States in 2008 – taking continuous growth into consideration – films could be watched on 38,834 movie screens,<sup>12</sup> in Hungary this number topped at 409 with constant decrease.<sup>13</sup> Similar differences can be seen in an online sphere. The digital music report of the International Federation of the Phonographic Industry (IFPI) estimated the number of legally accessible services at 22 in the United States.<sup>14</sup> Thus, consumers were able to cherry-pick from iTunes, Spotify, Rhapsody, Amazon MP3 or Napster, the latter being resurrected in a legal form. In Hungary only iTunes and Deezer are available. Comparing this to the population, the disparities are striking – to the detriment of Hungary. In the United States, it is not about the disappearance of file-sharing or the imminent disappearance thereof. The numbers mentioned above lend themselves to the conclusion that the population of the United States is (more and) more interested in using legal services as they are basically available, while in the case of Hungary, similarly to the majority of other countries, this is not entirely true.

Larsson may be justified in thinking piracy can be correctly used for file-sharing as long as it is diverted from the social perception as "deviance" at any given moment. As it becomes generally accepted, however, it is not certain that it shall or may be regarded as deviance.<sup>15</sup> Regarding so many people as a deviant community is uncalled for. At the same time as the growing accessibility of the Internet, however, the number of file-sharers, thanks mainly to the appearance of BitTorrent technology, has kept increasing, and only failing estimates could now be made of the potential number of "pirates" sailing on the waves of the Internet.

Fortunately, the content industry and the extrinsically organised initiatives supported by it (such as iTunes) are struggling to meet sensitive consumer needs. As long as such business models exist giving directions to consumers on how to get hold of works legally, it cannot be safely stated whether file sharing would be the direction generally accepted by the society.

However, this then begs the question of whether there is any *raison d'être* of criticism over the terms piracy and pirates if file-sharers themselves are fondly using these expressions for themselves, thus reinforcing their unfettered nature. Perhaps there is none. Particularly nowadays when among youngsters the idea of the "pirate" is dissociated with depredation and associated with the adventurous lives of the modern-day pirates of the Caribbean. In fact, the metaphor of piracy suggests a positive rather than a negative content with many people.

---

<sup>12</sup> See: <http://www.natoonline.org/statisticsscreens.htm>.

<sup>13</sup> Bodó (2011) 284.

<sup>14</sup> IFPI (2012) 30.

<sup>15</sup> Larsson (2011) 97.

According to Loughlan, using the piracy and pirate metaphors is perhaps beneficial to right holders; however, it is dangerous for unauthorized users of intellectual property and even for public interest. Loughlan explains it by suggesting that virtually no rhetorical space is left for articulating the society's interests as the right holder terminology unequivocally refers to a negative content.<sup>16</sup>

Balázs Bodó had a different approach to qualifying the file sharing community as pirates. Bodó states the following:

*“These longer and more peaceful periods of time are interrupted by shorter ones when it turns out that the status quo can no longer be maintained. During these periods, taking advantage of the structural weaknesses of the current order, the swelling pirate activity eventually leads to the collapse of hitherto valid relations, thus forming a new order in which the interest groups are forced to concede to outsider practice and adapt in a way to the pirates, their business practices and their views on producing, distributing, consuming and sharing intellectual property. Pirates assume a catalytic role at these times, pushing the former system of producing, distributing, sharing and consuming cultural property onto a new orbit.”<sup>17</sup>*

The catalyst role of “pirates” rebelling against the current order played in reforming copyright seems to be a justifiable and historically experienced view; however, it is also a double-edged sword. Anyone professing to be a pirate actually waives the possibility of their actions being funnelled to the legitimate, ethical and “positive” direction not only in rhetoric but also in law. Quoting Richard Stallman, Bodó emphasized that “publishers often refer to copying they don't approve of as ‘piracy.’ In this way, they imply that it is ethically equivalent to attacking ships on the high seas, kidnapping and murdering the people on them.”<sup>18</sup> Accepting the metaphoric use of the term pirate has a simple consequence, namely, *pirates taking the risk of “being shot on sight” until the victory of their rebellion and the paradigm shift in copyright.*

It is nonetheless unsure whether the revolutionary pirate role described by Bodó correctly covers the conduct of all file-sharers. The narcissistic attitude of *The Pirate Bay* towards removal request notifications is an excellent example. Notifications, posted from different part of the world, available on torrent search engines and their (cynical and dismissive) replies bear witness to totally ignoring and degrading legal provisions and right holders' interests. Citing offensive obscenities shall be disregarded. The warning at the end of the mentioned website gives away everything: *“0 torrents have been removed, and 0 torrents will ever be removed.”* This thinking may seem played “pirates”; however, it is not revolutionary whatsoever.

This example truly mirrors the fact that classifying uniformly the file-sharing community under the notion of the pirate does not seem fortunate. While the cynical attitude of *The Pirate Bay* and its intentional contribution to copyright infringement seem more and more the “depredation of a private ship”, the single-instant file-sharer who does not want any financial gain for downloading and availability may not be regarded as a looter, rather, a political person aiming at reforming copyright and/or culture at most. He or she is more like the sort of simple, less knowingly acting, less knowledgeable or merely negligent consumer who is guided by other motives in lieu of, or beyond, the goals during file-sharing.<sup>19</sup>

Associating and terminologically identifying file sharing with piracy is ultimately deemed to be a misstep on both sides of interest. It is mostly due to the fact that it acts against stabilizing the situation

---

<sup>16</sup> Loughlan (2007) 223.

<sup>17</sup> Bodó (2011) 45.

<sup>18</sup> *Ibid.* at 22.

<sup>19</sup> Huygen et al. (2009) 16.

in the long run. In this atmosphere of communication balancing copyright holders' interests and the freedom of society seems impossible.<sup>20</sup>

**Columbia Pictures Industries, Inc., et al. v. Gary Fung, et al.**

710 F.3d 1020 (9<sup>th</sup> Cir. 2013)

BERZON, Circuit Judge (...)

## TECHNOLOGICAL BACKGROUND

This case concerns a peer-to-peer file sharing protocol known as BitTorrent. We begin by providing basic background information useful to understanding the role the Fung sites play in copyright infringement.

### I. Client-server vs. peer-to-peer networks

The traditional method of sharing content over a network is the relatively straightforward client-server model. In a client-server network, one or more central computers (called "servers") store the information; upon request from a user (or "client"), the server sends the requested information to the client. In other words, the server supplies information resources to clients, but the clients do not share any of their resources with the server. Client-server networks tend to be relatively secure, but they have a few drawbacks: if the server goes down, the entire network fails; and if many clients make requests at the same time, the server can become overwhelmed, increasing the time it takes the server to fulfill requests from clients. Client-server systems, moreover, tend to be more expensive to set up and operate than other systems. Websites work on a client-server model, with the server storing the website's content and delivering it to users upon demand.

"Peer-to-peer" (P2P) networking is a generic term used to refer to several different types of technology that have one thing in common: a decentralized infrastructure whereby each participant in the network (typically called a "peer," but sometimes called a "node") acts as both a supplier and consumer of information resources. Although less secure, P2P networks are generally more reliable than client-server networks and do not suffer from the same bottleneck problems. These strengths make P2P networks ideally suited for sharing large files, a feature that has led to their adoption by, among others, those wanting access to pirated media, including music, movies, and television shows. But there also are a great number of non-infringing uses for peer-to-peer networks; copyright infringement is in no sense intrinsic to the technology, any more than making unauthorized copies of television shows was to the video tape recorder.

### II. Architecture of P2P networks

In a client-server network, clients can easily learn what files the server has available for download, because the files are all in one central place. In a P2P network, in contrast, there is no centralized file repository, so figuring out what information other peers have available is more challenging. The various P2P protocols permit indexing in different ways.

#### A. "Pure" P2P networks

In "pure" P2P networks, a user wanting to find out which peers have particular content available for download will send out a search query to several of his neighbor peers. As those neighbor peers receive the query, they send a response back to the requesting user reporting whether they have any content matching the search terms, and then pass the query on to some of their neighbors, who repeat

---

<sup>20</sup> Loughlan (2007) 401.

the same two steps; this process is known as “flooding.” In large P2P networks, the query does not get to every peer on the network, because permitting that amount of signaling traffic would either overwhelm the resources of the peers or use up all of the network's bandwidth (or both). Therefore, the P2P protocol will usually specify that queries should no longer be passed on after a certain amount of time (the so-called “time to live”) or after they have already been passed on a certain number of times (the “hop count”). Once the querying user has the search results, he can go directly to a peer that has the content desired to download it.

This search method is an inefficient one for finding content (especially rare content that only a few peers have), and it causes a lot of signaling traffic on the network. The most popular pure P2P protocol was Gnutella. StreamCast, a Grokster defendant, used Gnutella to power its software application, Morpheus.

### *B. “Centralized” P2P networks*

“Centralized” P2P networks, by contrast, use a centralized server to index the content available on all the peers: the user sends the query to the indexing server, which tells the user which peers have the content available for download. At the same time the user tells the indexing server what files he has available for others to download. Once the user makes contact with the indexing server, he knows which specific peers to contact for the content sought, which reduces search time and signaling traffic as compared to a “pure” P2P protocol.

Although a centralized P2P network has similarities with a client-server network, the key difference is that the indexing server does not store or transfer the content. It just tells users which other peers have the content they seek. In other words, searching is centralized, but file transfers are peer-to-peer. One consequent disadvantage of a centralized P2P network is that it has a single point of potential failure: the indexing server. If it fails, the entire system fails. Napster was a centralized P2P network, as, in part, is eDonkey, the technology upon which one of the Fung sites, ed2k-it.com, is based.

### *C. Hybrid P2P networks*

Finally, there are a number of hybrid protocols. The most common type of hybrid systems use what are called “supernodes.” In these systems, each peer is called a “node,” and each node is assigned to one “supernode.” A supernode is a regular node that has been “promoted,” usually because it has more bandwidth available, to perform certain tasks. Each supernode indexes the content available on each of the nodes attached to it, called its “descendants.” When a node sends out a search query, it goes just to the supernode to which it is attached. The supernode responds to the query by telling the node which of its descendant nodes has the desired content. The supernode may also forward the query on to other supernodes, which may or may not forward the query on further, depending on the protocol.

The use of supernodes is meant to broaden the search pool as much as possible while limiting redundancy in the search. As with centralized P2P systems, supernodes only handle search queries, telling the nodes the addresses of the other nodes that have the content sought; they are not ordinarily involved in the actual file transfers themselves. Grokster's software application was based on a P2P protocol, FastTrack, that uses supernodes.

## **III. BitTorrent protocol**

The BitTorrent protocol, first released in 2001, is a further variant on the P2P theme. BitTorrent is a hybrid protocol with some key differences from “supernode” systems. We discuss those differences after first describing BitTorrent's distinguishing feature: how it facilitates file transfers.

### *A. BitTorrent file transfers*

Traditionally, if a user wanted to download a file on a P2P network, he would locate another peer with the desired file and download the entire file from that peer. Alternatively, if the download was interrupted - if, for example, the peer sending the file signed off - the user would find another peer that had the file and resume the download from that peer. The reliability and duration of the download depended on the strength of the connection between those two peers. Additionally, the number of peers sharing a particular file was limited by the fact that a user could only begin sharing his copy of the file with other peers once he had completed the download.

With the BitTorrent protocol, however, the file is broken up into lots of smaller “pieces,” each of which is usually around 256 kilobytes (one-fourth of one megabyte) in size. Whereas under the older protocols the user would download the entire file in one large chunk from a single peer at a time, BitTorrent permits users to download lots of different pieces at the same time from different peers. Once a user has downloaded all the pieces, the file is automatically reassembled into its original form.

BitTorrent has several advantages over the traditional downloading method. Because a user can download different pieces of the file from many different peers at the same time, downloading is much faster. Additionally, even before the entire download is complete, a user can begin sharing the pieces he has already downloaded with other peers, making the process faster for others. Generally, at any given time, each user is both downloading and uploading several different pieces of a file from and to multiple other users; the collection of peers swapping pieces with each other is known as a “swarm.”

### *B. BitTorrent architecture*

To describe the structure of BitTorrent further, an example is helpful. Let us suppose that an individual (the “publisher”) decides to share via BitTorrent her copy of a particular movie. The movie file, we shall assume, is quite large, and is already on the publisher's computer; the publisher has also already downloaded and installed a BitTorrent “client” program on her computer.

To share her copy of the movie file, the publisher first creates a very small file called a “torrent” or “dot-torrent” file, which has the file extension “.torrent.” The torrent file is quite small, as it contains none of the actual content that may be copyrighted but, instead, a minimal amount of vital information: the size of the (separate) movie file being shared; the number of “pieces” the movie file is broken into; a cryptographic “hash” that peers will use to authenticate the downloaded file as a true and complete copy of the original; and the address of one or more “trackers.” Trackers, discussed more below, serve many of the functions of an indexing server; there are many different trackers, and they typically are not connected or related to each other.

Second, the publisher makes the torrent file available by uploading it to one or more websites (“torrent sites”) that collect, organize, index, and host torrent files. Whereas Napster and Grokster had search functionality built into their client programs, the standard BitTorrent client program has no such capability. BitTorrent users thus rely on torrent sites to find and share torrent files. There is no central repository of torrent files, but torrent sites strive to have the most comprehensive torrent collection possible.

The Fung sites have two primary methods of acquiring torrent files: soliciting them from users, who then upload the files; and using several automated processes (called “bots,” “crawlers,” or “spiders”) that collect torrent files from *other* torrent sites. Because of this latter route, which other torrent sites also routinely use, torrent sites tend to have largely overlapping collections of torrents. According to a declaration Fung signed in April 2008, there were then over 400 torrent sites. Because the torrent sites typically contain only torrent files, no copyrighted material resides on these sites.

Lastly, the publisher leaves her computer on and connected to the Internet, with her BitTorrent program running. The publisher's job is essentially done; her computer will continue to communicate with the tracker assigned to the torrent file she uploaded, standing ready to distribute the movie file

(or, more accurately, parts thereof) to others upon request.

A user seeking the uploaded movie now goes to the torrent site to which the torrent file was uploaded and runs a search for the movie. The search results then provide the torrent file for the user to download. Once the user downloads the torrent file and opens it with his BitTorrent program, the program reads the torrent file, learns the address of the tracker, and contacts it. The program then informs the tracker that it is looking for the movie associated with the downloaded torrent file and asks if there are any peers online that have the movie available for download. Assuming that publishers of that movie are online, the tracker will communicate their address to the user's BitTorrent program. The user's BitTorrent program will then contact the publishers' computers directly and begin downloading the pieces of the movie. At this point, the various publishers are known as "seeders," and the downloading user a "leecher." Once the leecher has downloaded one or more pieces of the movie, he, too, can be a seeder by sending other leechers the pieces that he has downloaded.

A final few words on trackers. Although no content is stored on or passes through trackers, they serve as a central hub of sorts, managing traffic for their associated torrents. The tracker's primary purpose is to provide a list of peers that have files available for download. Fung avers that this function is the only one provided by his two trackers, discussed below.

Because trackers are periodically unavailable - they can go offline for routine maintenance, reach capacity, be shuttered by law enforcement, and so on - torrent files will often list addresses for more than one tracker. That way, if the first (or "primary") tracker is down, the user's client program can proceed to contact the backup tracker(s).

#### **IV. Fung's role**

Three of Fung's websites - isohunt.com ("isoHunt"); torrentbox.com ("Torrentbox"), and podtropolis.com ("Podtropolis") - are torrent sites. As described above, they collect and organize torrent files and permit users to browse in and search their collections. Searching is done via keyword; users can also browse by category (movies, television shows, music, etc.).

IsoHunt, however, which appears to be Fung's "flagship" site, goes a step beyond merely collecting and organizing torrent files. Each time a torrent file is added to isoHunt, the website automatically modifies the torrent file by adding additional backup trackers to it. That way, if the primary tracker is down, the users' BitTorrent client program will contact the backup trackers, making it more likely that the user will be successful in downloading the content sought. In other words, isoHunt alters the torrent files it hosts, making them more reliable than when they are uploaded to the site.

Torrentbox and Podtropolis, in addition to being torrent sites, run associated trackers. Their collections of torrent files appear to be fairly small. Every torrent file available on Torrentbox and Podtropolis is tracked by the Torrentbox and Podtropolis trackers, respectively, but the Torrentbox and Podtropolis trackers are *much* busier than the Torrentbox and Podtropolis websites. For example, a torrent file for the movie "Casino Royale" was downloaded from Torrentbox.com 50,000 times, but the Torrentbox tracker registered approximately 1.5 million downloads of the movie. This disparity indicates that users obtain the torrent files tracked by Torrentbox and Podtropolis from torrent sites other than Torrentbox.com and Podtropolis.com. The Torrentbox and Podtropolis websites both have continually-updated lists of, *inter alia*, the "Top 20 TV Shows," the "Top 20 Movies," and the "Top 20 Most Active Torrents." These rankings are based on the number of seeders and leechers for each particular torrent file, as measured by the Torrentbox and Podtropolis trackers. IsoHunt does not run a tracker, so it cannot measure how frequently the content associated with each torrent file is downloaded; instead, it keeps a continually updated list of the "Top Searches."

IsoHunt also hosts an electronic message board, or "forum," where users can post comments, queries, and the like. In addition to posting to the forum himself, Fung also had some role in moderating posts

to the forum. (...)

## DISCUSSION

As always, we review the district court's grant of summary judgment de novo, and “may affirm the district court's holding on any ground raised below and fairly supported by the record,” *Proctor v. Vishay Intertechnology Inc.*, 584 F.3d 1208, 1226 (9th Cir. 2009). As to the permanent injunction, we review the legal conclusions de novo, the factual findings for clear error, and the decision to grant a permanent injunction, as well as its scope, for an abuse of discretion. To review for abuse of discretion, “we first look to whether the trial court identified and applied the correct legal rule ... [then] to whether the trial court's resolution of the motion resulted from a factual finding that was illogical, implausible, or without support in inferences that may be drawn from the facts in the record.” *United States v. Hinkson*, 585 F.3d 1247, 1263 (9th Cir. 2009) (en banc).

### I. Liability

#### A. *Inducement liability under Grokster III*

The “inducement” theory, on which the district court's liability holding was grounded, was spelled out in the Internet technology context by the Supreme Court in *Grokster III*. Considering how to apply copyright law to file sharing over P2P networks, *Grokster III* addressed the circumstances in which individuals and companies are secondarily liable for the copyright infringement of others using the Internet to download protected material.

*Grokster III*'s inducement holding is best understood by first backtracking to *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), the seminal Supreme Court case concerning the use of new technologies to reproduce copyrighted material. *Sony* considered whether secondary liability for infringement could arise solely from the distribution of a commercial product capable of copying copyrighted material - there, the Betamax video tape recorder, made by Sony. Owners of copyrights to television programs maintained that Sony could be liable for copyright infringement when its customers used the Betamax to unlawfully tape television shows. There was no evidence that Sony sought to encourage copyright infringement through use of the Betamax or had taken steps to profit from unlawful taping. 464 U.S. at 437-438. Instead, the only conceivable basis for secondary liability was distribution of the product “with constructive knowledge of the fact that [Sony's] customers may use that equipment to make unauthorized copies of copyrighted material.” *Id.* at 439.

Finding “no precedent in the law of copyright for the imposition of vicarious liability on such a theory,” the Court borrowed from the “closest analogy” it could find, patent law's “staple article of commerce doctrine.” *Id.* at 439-442. Under that doctrine, distribution of a component part of a patented device will not violate the patent if the component is suitable for substantial non-infringing uses. *Id.* at 440. As *Sony* explained, the staple article of commerce doctrine balances competing interests, a copyright holder's legitimate demand for effective - not merely symbolic - protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce. Accordingly, 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. Indeed, it need merely be capable of substantial noninfringing uses. *Id.* at 442. As the Betamax was “capable of commercially significant noninfringing uses,” the Court held Sony not liable for contributory copyright infringement. *Id.*

The other major Supreme Court case addressing the mass copying of copyrighted material - there, music and films - through technological means, *Grokster III*, concerned the use of software applications based on “pure” and “hybrid” P2P network protocols. The defendants, the providers of the copying software to the public, argued for a contributory liability approach similar to that adopted in *Sony*: as their products were indisputably *capable* of substantial noninfringing uses, they

maintained, they could not be secondarily liable based on their knowledge that their products could be used to infringe copyrights. Instead, the *Grokster* defendants suggested, they could be liable for contributory infringement only if they had actual knowledge of a *specific* infringement at a time when they were capable of preventing it. Accepting this theory and recognizing that there was no evidence regarding timely knowledge of specific acts of infringement, the district court granted summary judgment to the defendants.

The Supreme Court did not see Sony as providing such broad insulation from copyright liability. Rather, said the Court, Sony limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in Sony requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of *fault-based* liability derived from the common law.

The “staple article of commerce doctrine” adopted in Sony, *Grokster III* explained, “absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one's products will be misused.” *Id.* at 932-933. “Thus, where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, Sony 's staple-article rule will not preclude liability.” *Id.* at 935.

*Grokster III* went on to enunciate the “inducement rule,” also borrowed from patent law, providing that “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.” *Id.* at 936-937. This inducement principle, as enunciated in *Grokster III*, has four elements: (1) the distribution of a device or product, (2) acts of infringement, (3) an object of promoting its use to infringe copyright, and (4) causation.

i. Distribution of a “device” or “product”

In describing the inducement liability standard, *Grokster III* phrased it as applying to one who distributes a “device,” although it also used the word “product,” seemingly interchangeably. *Id.* at 934-937. The “device” or “product” was the software developed and distributed by the defendants - for *Grokster*, its eponymous software, based on FastTrack technology; and for StreamCast, also a defendant in *Grokster*, its software application, Morpheus, based on Gnutella. *Id.* at 940.

The analogy between *Grokster III* and this case is not perfect. Here, Fung did not develop and does not provide the client programs used to download media products, nor did he develop the BitTorrent protocol (which is maintained by nonparty BitTorrent, Inc., a privately-held company founded by the creators of the protocol). Fung argues that because he did not develop or distribute any “device” - that is, the software or technology used for downloading - he is not liable under the inducement rule enunciated in *Grokster III*.

We cannot agree. Unlike patents, copyrights protect expression, not products or devices. Inducement liability is not limited, either logically or as articulated in *Grokster III*, to those who distribute a “device.” As a result, one can infringe a copyright through culpable actions resulting in the impermissible reproduction of copyrighted expression, whether those actions involve making available a device or product or providing some service used in accomplishing the infringement. For example, a retail copying service that accepts and copies copyrighted material for customers after broadly promoting its willingness to do so may be liable for the resulting infringement although it does not produce any copying machines or sell them; all it provides is the “service” of copying. Whether the service makes copies using machines of its own manufacture, machines it owns, or machines in someone else's shop would not matter, as copyright liability depends on one's purposeful involvement in the process of reproducing copyrighted material, not the precise nature of that involvement.

Grokster III did phrase the rule it applied principally in terms of a “device.” But that was because it was responding to the main argument made by the defendants in that case - that they were entitled to protection for commercial products capable of significant non-infringing uses, just as Sony was insulated from liability for infringing use of the Betamax. When explaining the *rationale* for permitting secondary infringement liability, Grokster III used more general language.

When a widely shared *service or product* is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of *the copying device* for secondary liability on a theory of contributory or vicarious infringement. *Id.* at 929-930.

Since Grokster III, we have not considered a claim of inducement liability on facts closely comparable to those here. But we have, in two cases, considered claims of inducement liability against parties providing services as opposed to products, without suggesting that the difference matters. *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 800-802 (9th Cir. 2007); *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1170 n. 11 (9th Cir. 2007). The two Perfect 10 cases confirm that, as one would expect, the inducement copyright doctrine explicated in Grokster III applies to services available on the Internet as well as to devices or products.

We hold that Columbia has carried its burden on summary judgment as to the first element of the Grokster III test for inducement liability.

#### ii. Acts of infringement

To prove copyright infringement on an inducement theory, Columbia also had to adduce “evidence of actual infringement by” users of Fung's services. This they have done.

Both uploading and downloading copyrighted material are infringing acts. The former violates the copyright holder's right to distribution, the latter the right to reproduction. Based on statistical sampling, Columbia's expert averred that between 90 and 96% of the content associated with the torrent files available on Fung's websites are for “confirmed or highly likely copyright infringing” material. Although Fung takes issue with certain aspects of the expert's methodology, he does not attempt to rebut the factual assertion that his services were widely used to infringe copyrights. Indeed, even giving Fung the benefit of all doubts by tripling the margins of error in the expert's reports, Columbia would still have such overwhelming evidence that any reasonable jury would have to conclude that the vastly predominant use of Fung's services has been to infringe copyrights.

In sum, as in Grokster III, “[a]lthough an exact calculation of infringing use, as a basis for a claim of damages, is subject to dispute, there is no question” that Plaintiffs have met their burden on summary judgment to warrant equitable relief.

#### iii. With the object of promoting its use to infringe copyright

The third, usually dispositive, requirement for inducement liability is that the “device” or service be distributed “with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement.” *Id.* at 936-937.

As an initial matter, Fung argues that this factor includes two separate elements - the improper object *and* “clear expression or other affirmative steps taken to foster infringement.” Not so. “[C]lear expression or other affirmative steps” is not a separate requirement, but, rather, an explanation of how the improper object must be proven. In other words, Grokster III requires a high degree of proof of the improper object. Confirming that understanding of the “clear expression” phrase, Grokster III emphasized, right after articulating the inducement factor, that the improper object must be plain and must be affirmatively communicated through words or actions:

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 [Betamax] 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 promise. *Id.* at 937.

In *Grokster III* itself, the Court found ample evidence, of several types, to support inducement liability. See *id.* at 937-940. First, *Grokster III* relied in part on advertisements as proof of an impermissible, infringing purpose, noting that “[t]he classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations.” *Id.* at 937. Both *Grokster III* defendants had engaged in such affirmative solicitation, advertising their software as an alternative to Napster - which notoriously facilitated wide-scale copyright infringement - at a time when Napster's unlawful activities were about to be shuttered.

Second, *Grokster III* relied for proof of *Grokster*'s infringing purpose on communications that, while not in haec verba promoting infringing uses, provided information affirmatively supporting such uses. “[B]oth companies,” moreover, “communicated a clear message by responding affirmatively to requests for help in locating and playing copyrighted materials.” *Id.* at 938. Thus, *Grokster* included as evidence of an infringing purpose an electronic newsletter distributed by *Grokster* that linked to articles promoting *Grokster*'s ability to access copyrighted music.

A third category of “clear expression” recognized in *Grokster III* as pertinent to proof of improper purpose was explicit internal communication to that effect. As to one of the defendants, StreamCast, “internal communications,” including proposed advertising designs, provided “unequivocal indications of unlawful purpose.” *Id.* at 938. The Court explained that “[w]hether the messages were communicated [to potential customers] is not ... the point. The function of the message in the theory of inducement is to prove by a defendant's own statements that his unlawful purpose disqualifies him from claiming protection.” *Id.* Thus, the Court went on, “[p]roving that a message was sent out ... is the preeminent but not exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts.” *Id.*

*Grokster III* also mentioned two sorts of “other affirmative steps” as permissible evidence that support an inference of an intent to induce infringement, while cautioning that such sorts of circumstantial evidence would not be independently sufficient. The first was that “neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software,” which the Court said “underscore[d]” the defendants' “intentional facilitation of their users' infringement.” *Id.* at 939. The Court was careful to caution that “in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement.” *Id.* at 939 n. 12.

Similarly, *Grokster III* pointed to the fact that the defendants “make money by selling advertising space, by directing ads to the screens of computers employing their software.” *Id.* at 940. Because “the extent of the software's use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing.” *Id.* Here again, however, “[t]his evidence alone would not justify an inference of unlawful intent.” *Id.*

Using these *Grokster III* evidentiary categories and cautions as templates, we conclude that there is more than enough unrebutted evidence in the summary judgment record to prove that Fung offered his services with the object of promoting their use to infringe copyrighted material. No reasonable jury

could find otherwise.

As for the necessary “clear expression or other affirmative steps” evidence indicative of unlawful intent, the most important is Fung's active encouragement of the uploading of torrent files concerning copyrighted content. For a time, for example, isoHunt prominently featured a list of “Box Office Movies,” containing the 20 highest-grossing movies then playing in U.S. theaters. When a user clicked on a listed title, she would be invited to “upload [a] torrent” file for that movie. In other words, she would be asked to upload a file that, once downloaded by other users, would lead directly to their obtaining infringing content. Fung also posted numerous messages to the isoHunt forum requesting that users upload torrents for specific copyrighted films; in other posts, he provided links to torrent files for copyrighted movies, urging users to download them. Though not the exclusive means of proving inducement, we have characterized a distributor's communication of an inducing message to its users as “crucial” to establishing inducement liability. That crucial requirement was met here. Like Grokster's advertisements - indeed, even more so - Fung's posts were explicitly “designed to stimulate others to commit [copyright] violations,” and so are highly probative of an unlawful intent.

As in Grokster, moreover, Fung “communicated a clear message by responding affirmatively to requests for help in locating and playing copyrighted materials.” *Id.* at 938. The record is replete with instances of Fung responding personally to queries for assistance in: uploading torrent files corresponding to obviously copyrighted material, finding particular copyrighted movies and television shows, getting pirated material to play properly, and burning the infringing content onto DVDs for playback on televisions.

Two types of supporting evidence, insufficient in themselves - like the similar evidence in Grokster III - corroborate the conclusion that Fung “acted with a purpose to cause copyright violations by use of” their services. *Id.* at 938. First, Fung took no steps “to develop filtering tools or other mechanisms to diminish the infringing activity” by those using his services. *Id.* at 939. Second, Fung generates revenue almost exclusively by selling advertising space on his websites. The more users who visit Fung's websites and view the advertisements supplied by Fung's business partners, the greater the revenues to Fung. Because “the extent of the [services'] use determines the gain to [Fung], the commercial sense of [his] enterprise turns on high-volume use, which the record shows is infringing.” *Id.* at 940. Given both the clear expression and other affirmative steps and the supporting evidence, Fung's “unlawful objective is unmistakable.” *Id.*

#### iv. Causation

Grokster III mentions causation only indirectly, by speaking of “resulting acts of infringement by third parties.” *Id.* at 937. The parties here advance competing interpretations of the causation requirement adopted through that locution: Fung and amicus curiae Google argue that the acts of infringement must be caused by the manifestations of the distributor's improper object - that is, by the inducing messages themselves. Columbia, on the other hand, maintains that it need only prove that the “acts of infringement by third parties” were caused by the product distributed or services provided.

We think Columbia's interpretation of Grokster III is the better one. On that view, if one provides a service that could be used to infringe copyrights, with the manifested intent that the service actually be used in that manner, that person is liable for the infringement that occurs through the use of the service. *Id.* at 937. As Grokster III explained:

*“It is not only that encouraging a particular consumer to infringe a copyright can give rise to secondary liability for the infringement that results. Inducement liability goes beyond that, and the distribution of a product can itself give rise to liability where evidence shows that the distributor intended and encouraged the product to be used to infringe. In such a case, the culpable act is not merely the encouragement of infringement but also the distribution of the tool intended for infringing use.”* *Id.* at 940 n. 13.

We are mindful, however, of the potential severity of a loose causation theory for inducement liability.

Under this theory of liability, the only causation requirement is that the product or service at issue was used to infringe the plaintiff's copyrights. The possible reach of liability is enormous, particularly in the digital age.

Copyright law attempts to strike a balance amongst three competing interests: those of the copyright holders in benefitting from their labor; those of entrepreneurs in having the latitude to invent new technologies without fear of being held liable if their innovations are used by others in unintended infringing ways; and those of the public in having access both to entertainment options protected by copyright and to new technologies that enhance productivity and quality of life. Because copyright law's "ultimate aim is (...) to stimulate artistic creativity for the general public good," 464 U.S. at 432, it is important that we not permit inducement liability's relatively lax causation requirement to "enlarge the scope of [copyright's] statutory monopolies to encompass control over an article of commerce" - such as technology capable of substantial non-infringing uses - "that is not the subject of copyright protection." 464 U.S. at 421.

We emphasize a few points in this regard. First, as previously discussed, proper proof of the defendant's intent that its product or service be used to infringe copyrights is paramount. "[M]ere knowledge of infringing potential or of actual infringing uses" does not subject a product distributor or service provider to liability. 545 U.S. at 937. When dealing with corporate or entity defendants, moreover, the relevant intent must be that of the entity itself, as defined by traditional agency law principles; liability cannot be premised on stray or unauthorized statements that cannot fairly be imputed to the entity. *Id.* at 937.

Moreover, proving that an entity had an unlawful purpose at a particular time in providing a product or service does not infinitely expand its liability in either temporal direction. If an entity begins providing a service with infringing potential at time *A*, but does not appreciate that potential until later and so does not develop and exhibit the requisite intent to support inducement liability until time *B*, it would not be held liable for the infringement that occurred between time *A* and *B*. Relatedly, an individual or entity's unlawful objective at time *B* is not a virus that infects all future actions. People, companies, and technologies must be allowed to rehabilitate, so to speak, through actions actively discouraging the infringing use of their product, lest the public be deprived of the useful good or service they are still capable of producing.

We also note, as Fung points out, that *Grokster III* seemingly presupposes a condition that is absent in this case: that there is but a single producer of the "device" in question. Only Sony sold the Betamax, and only *Grokster* and *StreamCast* distributed their respective software applications. Assessing causation was thus a straightforward task. In *Sony*, for example, there was no question that some customers would purchase and use the Betamax in ways that infringed copyright. Thus, in a "but-for" sense, there was no question that Sony caused whatever infringement resulted from the use of Betamax sets; the Court nonetheless held Sony not liable on the ground that even if Sony caused the infringement, it was not at fault, with fault measured by Sony's intent. But as *Grokster III* explained, "nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability." 545 U.S. at 934. *Grokster III* thus held that where there is sufficient evidence of fault - that is, an unlawful objective - distributors are liable for causing the infringement that resulted from use of their products. See *id.* at 940. In other words, *Grokster III* and *Sony* were able to assume causation and assess liability (or not) based on fault. In the present case, however, where other individuals and entities provide services identical to those offered by Fung, causation, even in the relatively loose sense we have delineated, cannot be assumed, even though fault is unquestionably present.

Fung argues, on this basis, that some of the acts of infringement by third parties relied upon by the district court may not have involved his websites at all. He points out, for example, that by far the largest number of torrents tracked by the *Torrentbox* tracker are obtained from somewhere *other* than *Torrentbox.com*. If a user obtained a torrent from a source other than his websites, Fung maintains, he

cannot be held liable for the infringement that resulted.

On the other hand, Fung's services encompass more than the provision of torrent files. Fung's trackers manage traffic for torrent files, obtained from Torrentbox and Podtropolis as well as other torrent sites, which enables users to download copyrighted content. If Plaintiffs can show a sufficient causal connection between users' infringing activity and the use of Fung's trackers, the fact that torrent files were obtained from elsewhere may not relieve Fung of liability. 545 U.S. at 940.

We do not decide the degree to which Fung can be held liable for having caused infringements by users of his sites or trackers. The only issue presently before us is the permanent injunction, which, as in *Grokster III*, does not in this case depend on the “exact calculation of infringing use as a basis for a claim of damages.” 545 U.S. at 941. We therefore need not further entertain Fung's causation arguments at this time, but leave it to the district court to consider them, in light of the observations we have made, when it calculates damages.

In sum, we affirm the district court's holding that Columbia has carried its burden of proving, on the basis of undisputed facts, Fung's liability for inducing others to infringe Columbia's copyrights.

## **B. DMCA Safe Harbors**

Fung asserts affirmative defenses under three of the DMCA's safe harbor provisions, 17 U.S.C. §512(a), (c), and (d). Because the DMCA safe harbors are affirmative defenses, Fung has the burden of establishing that he meets the statutory requirements.

Columbia argues, and the district court agreed, that inducement liability is inherently incompatible with protection under the DMCA safe harbors. This court has already rejected the notion that there can *never* be a DMCA safe harbor defense to contributory copyright liability, holding “that ... potential liability for contributory and vicarious infringement [does not] render the [DMCA] inapplicable *per se*.” *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1025 (9th Cir. 2001). We note, in this connection, that the DMCA does not in terms exempt from protection any mode of copyright liability, including liability under the doctrine of inducement. Moreover, the DMCA's legislative history confirms that Congress intended to provide protection for at least some vicarious and contributory infringement.

Nor is there any inherent incompatibility between inducement liability and the requirements that apply to all of the DMCA safe harbors. For example, a prerequisite for the safe harbors is that the service provider implement a policy of removing repeat infringers. *See* 17 U.S.C. §512(f)(1)(A). Although at first glance that requirement that might seem impossible to establish where the requisites for inducing infringement are met, on closer examination the appearance of *inherent* incompatibility dissipates. In some instances, for example, the *Grokster* standard for inducement might be met even where a service provider has a policy of removing proven repeat infringers. It is therefore *conceivable* that a service provider liable for inducement could be entitled to protection under the safe harbors.

In light of these considerations, we are not clairvoyant enough to be sure that there are no instances in which a defendant otherwise liable for contributory copyright infringement could meet the prerequisites for one or more of the DMCA safe harbors. We therefore think it best to conduct the two inquiries independently - although, as will appear, aspects of the inducing behavior that give rise to liability are relevant to the operation of some of the DMCA safe harbors and can, in some circumstances, preclude their application.

### i. “Transitory digital network communications” (17 U.S.C. §512(a))

The first safe harbor at issue, which Fung asserts only as to his trackers, provides as follows:

*A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for*

*injunctive or other equitable relief, for infringement of copyright by reason of the provider's transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections, if -*

*(1) the transmission of the material was initiated by or at the direction of a person other than the service provider;*

*(2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider;*

*(3) the service provider does not select the recipients of the material except as an automatic response to the request of another person;*

*(4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and*

*(5) the material is transmitted through the system or network without modification of its content.*

For purposes of this safe harbor only, “the term ‘service provider’ means an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received.” 17 U.S.C. §512(k)(1)(A). The district court dismissed the application of this safe harbor in a footnote, stating that it did not apply to Fung “[b]ecause infringing materials do not pass through or reside on [Fung's] system.”

The district court should not have rejected this safe harbor on the ground it did. *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102 (9th Cir. 2007), held that the §512(a) safe harbor does not require that the service provider transmit or route infringing material, explaining that “[t]here is no requirement in the statute that the communications must themselves be infringing, and we see no reason to import such a requirement.” *Id.* at 1116.

We could, perhaps, end our analysis of the §512(a) safe harbor there. The district court seemingly held Fung liable for inducement based not on Fung's trackers' routing services, but, instead, on the dot-torrent files Fung collects and indexes. And it is not clear that Columbia is seeking to establish liability based directly on the tracking functions of Fung's trackers.

It appears, however, that Fung's trackers generate information concerning the torrent files transmitted that Fung then compiles and uses to induce further infringing use of his websites and trackers. In that sense, the tracking function is connected to the basis on which liability was sought and found. Without determining whether that information-generating use would itself affect the availability of the §512(a) safe harbor, we hold that safe harbor not available for Fung's trackers on other grounds.

Unlike a P2P network like Napster, in which users select particular files to download from particular users, Fung's trackers manage a “swarm” of connections that source tiny pieces of each file from numerous users; the user seeking to download a file chooses only the file, not the particular users who will provide it, and the tracker identifies the source computers to the user seeking to download a work.

Given these characteristics, Fung's trackers do not fit the definition of “service provider” that applies to this safe harbor. The definition provides that a “service provider” provides “connections ... between or among points specified by a user.” 17 U.S.C. §512(k)(1)(A). Here, it is Fung's tracker that selects the “points” to which a user's client will connect in order to download a file. The tracker, not the requesting user, selects the publishers from which chunks of data will be transmitted.

We have held that §512(a) applies to service providers who act only as “conduits” for the transmission of information. Because they select which users will communicate with each other, Fung's trackers serve as more than “conduits” between computer users. Fung's trackers therefore are not “service

providers” for purposes of §512(a), and are not eligible for the §512(a) safe harbor.

Fung asserts that these functions are “automatic technical processes” that proceed “without selection of any material by us.” Even so, for the tracker to be a “service provider” for purposes of the § 512(a) safe harbor, the tracker, whether its functions are automatic or not, must meet the special definition of “service provider” applicable to this “conduit” safe harbor. If those functions go beyond those covered by that definition, then it does not matter whether they are automatic or humanly controlled.

ii. “Information residing on systems or networks at direction of users” (17 U.S.C. §512(c))

This safe harbor provides:

*(1) In general. A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider-*

*(A)(i) 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 material;*

*(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and*

*(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.*

The district court held that Fung is ineligible for this safe harbor for the same reason it rejected the §512(a) safe harbor - that is, because the infringing material does not actually reside on Fung's servers. As with §512(a), this holding was in error. As CCBill emphasized, we will not read requirements into the safe harbors that are not contained in the text of the statute. Moreover, §512(c) explicitly covers not just the storage of infringing material, but also infringing “activit[ies]” that “us[e] the material [stored] on the system or network.” 17 U.S.C. §512(c)(1)(A)(i). Here, as we have explained, the infringing activity associated with Fung - the peer-to-peer transfer of pirated content - relies upon torrents stored on Fung's websites. According to the record, sometimes those torrents are uploaded by users of the sites, while other torrents are collected for storage by Fung's websites themselves. The former situation would be at least facially eligible for the safe harbor, assuming the other criteria are met.

a. Actual and “Red Flag” Knowledge (§512(c)(1)(A)(i)–(ii))

We nonetheless hold that Fung is not eligible for the §512(c) safe harbor, on different grounds. The §512(c) safe harbor is available only if the service provider “does not have actual knowledge that the material or an activity using the material on the system or network is infringing,” 17 U.S.C. §512(c)(1)(A)(i), or “is not aware of facts or circumstances from which infringing activity is apparent,” *id.* §512(c)(1)(A)(ii). In *UMG Recordings*, this court endorsed the Second Circuit's interpretation of § 512(c)(1)(A), that “the actual knowledge provision turns on whether the provider actually or ‘subjectively’ knew of specific infringement, while the red flag provision turns on whether the provider was subjectively aware of facts that would have made the specific infringement ‘objectively’ obvious to a reasonable person.”

Fung maintains that he lacked either type of knowledge, because Columbia failed to provide statutorily compliant notification of infringement. Under §512(c)(3)(B), notification of infringement that fails to comply with the requirements set forth in §512(c)(3)(A) “shall not be considered (...) in determining whether a service provider has actual knowledge or is aware of facts or circumstances

from which infringing activity is apparent.” 17 U.S.C. §512(c)(3)(B)(i). And, as Fung points out, the district court noted that there was at least a “triable issue of fact as to the adequacy of the statutory notice that Plaintiffs provided to [Fung].”

We need not determine the adequacy of Columbia's notification of claimed infringement - indeed, as the district court held, it would not be appropriate to do so at this stage. Fung had “red flag” knowledge of a broad range of infringing activity for reasons independent of any notifications from Columbia, and therefore is ineligible for the §512(c) safe harbor.

As noted, the record is replete with instances of Fung actively encouraging infringement, by urging his users to both upload and download particular copyrighted works, providing assistance to those seeking to watch copyrighted films, and helping his users burn copyrighted material onto DVDs. The material in question was sufficiently current and well-known that it would have been objectively obvious to a reasonable person that the material solicited and assisted was both copyrighted and not licensed to random members of the public, and that the induced use was therefore infringing. Moreover, Fung does not dispute that he personally used the isoHunt website to download infringing material. Thus, while Fung's inducing actions do not necessarily render him per se ineligible for protection under §512(c), they are relevant to our determination that Fung had “red flag” knowledge of infringement.

Fung introduced no contrary facts with regard to identified torrents involved in these documented activities, responding only with the generalized assertion that he “ha[s] a robust copyright compliance system.” But “conclusory allegations, standing alone, are insufficient to prevent summary judgment.” *Newman v. County of Orange*, 457 F.3d 991, 995 (9th Cir. 2006).

As Fung has not carried his burden as the non-moving party of demonstrating a genuine dispute as to the material facts regarding his eligibility for the §512(c) safe harbor, Columbia is entitled to summary judgment as to this issue.

b. “Financial benefit” & “the right and ability to control” (§512(c)(1)(B))

Under §512(c)(1)(B), a service provider loses protection under the safe harbor if two conditions are met: (1) the provider “receive[s] a financial benefit directly attributable to the infringing activity”; and (2) the “service provider has the right and ability to control such activity.” 17 U.S.C. §512(c)(1)(B). Fung meets both requirements and is therefore ineligible for protection under the §512(c) safe harbor.

As to the first prong of §512(c)(1)(B), we have held, in the context of service providers who charge for their services, that a service provider receives a direct financial benefit from infringing activity where “there is a causal relationship between the infringing activity and any financial benefit a defendant reaps, regardless of *how substantial* the benefit is in proportion to a defendant's overall profits.” 357 F.3d at 1079. Thus, where a service provider obtains revenue from “subscribers,” the relevant inquiry is “whether the infringing activity constitutes a draw for subscribers, not just an added benefit.” CCBill, at 1117.

At the same time, our opinions have not suggested that the “financial benefit” prong of §512(c)(1)(B) is peripheral or lacks teeth. Ellison ultimately concluded that the financial benefit standard was not met, because there was inadequate proof that “customers either subscribed because of the available infringing material or cancelled subscriptions because it was no longer available.” 357 F.3d at 1079. And CCBill similarly found that evidence that the service provider hosted, for a fee, websites that contain infringing material inadequate to establish the requisite financial benefit. In so holding, CCBill cited to DMCA legislative history stating that a direct financial benefit cannot be established showing that a service provider “receive[d] a one-time set-up fee and flat, periodic payments for service from a person engaging in infringing activities.” CCBill, at 1118.

Moreover, the structure of §512(c)(1)(B) indicates that the lack of direct financial benefit prong of the

safe harbor requirement is central, rather than peripheral. The statute sets out as the requirement that the service provider “not receive a financial benefit directly attributable to the infringing activity.” It then states the “right and ability to control” in a dependent clause, describing a limitation on the financial benefit requirement to certain circumstances. The grammatical emphasis, then, is on the lack of direct financial benefit requirement, with the right to control prong secondary.

Against this background, we note that we have never specified what constitutes a “financial benefit *directly* attributable to the infringing activity,” 17 U.S.C. §512(c)(1)(B) (emphasis added), where, as here, the service provider's revenue is derived from advertising, and not from users. We do so now.

Here, the record shows that Fung generated revenue by selling advertising space on his websites. The advertising revenue depended on the number of users who viewed and then clicked on the advertisements. Fung marketed advertising to one advertiser by pointing to the “TV and movies (...) at the top of the most frequently searched by our viewers,” and provided another with a list of typical user search queries, including popular movies and television shows. In addition, there was a vast amount of infringing material on his websites – whether 90-96% or somewhat less – supporting an inference that Fung's revenue stream is predicated on the broad availability of infringing materials for his users, thereby attracting advertisers. And, as we have seen, Fung actively induced infringing activity on his sites.

Under these circumstances, we hold the connection between the infringing activity and Fung's income stream derived from advertising is sufficiently direct to meet the direct “financial benefit” prong of §512(c)(1)(B). Fung promoted advertising by pointing to infringing activity; obtained advertising revenue that depended on the number of visitors to his sites; attracted primarily visitors who were seeking to engage in infringing activity, as that is mostly what occurred on his sites; and encouraged that infringing activity. Given this confluence of circumstances, Fung's revenue stream was tied directly to the infringing activity involving his websites, both as to his ability to attract advertisers and as to the amount of revenue he received.

With respect to the second prong of §512(c)(1)(B), we recently explained in *UMG* that the “right and ability to control” infringing activity involves “something more” than “merely having the general ability to locate infringing material and terminate users' access.” Adopting the Second Circuit's interpretation of §512(c)(1)(B), we held that “in order to have the ‘right and ability to control,’ the service provider must [also] ‘exert[ ] substantial influence on the activities of users.’” *Id.* In doing so, we noted that “[s]ubstantial influence’ may include ... purposeful conduct, as in *Grokster*.” *Id.* In the absence of any evidence of inducement or any other reason to suggest the defendant exerted substantial influence over its users' activities, we concluded the defendant was not ineligible for protection under this provision. *Id.*

Here, we are confronted with the opposite situation. Fung unquestionably had the ability to locate infringing material and terminate users' access. In addition to being able to locate material identified in valid DMCA notices, Fung organized torrent files on his sites using a program that matches file names and content with specific search terms describing material likely to be infringing, such as “screener” or “PPV.” And when users could not find certain material likely to be infringing on his sites, Fung personally assisted them in locating the files. Fung also personally removed “fake, infected, or otherwise bad or abusive torrents” in order to “protect the integrity of [his websites'] search index[es].”

Crucially, Fung's ability to control infringing activity on his websites went well beyond merely locating and terminating users' access to infringing material. As noted, there is overwhelming evidence that Fung engaged in culpable, inducing activity like that in *Grokster III*. Although Fung's inducement actions do not categorically remove him from protection under §512(c), they demonstrate the substantial influence Fung exerted over his users' infringing activities, and thereby supply one essential component of the financial benefit/right to control exception to the §512(c) safe harbor.

Because he meets both prongs of §512(c)(1)(B), Fung is not eligible for protection under the §512(c) safe harbor.

We have no difficulty concluding that where the §512(c)(1)(B) safe harbor requirements are not met, the service provider loses protection with regard to any infringing activity using the service. As we held in *UMG*, the §512(c)(1)(B) “right and ability to control” requirement does not depend only upon the ability to remove known or apparent infringing material. Instead, there must also be substantial influence on the infringing activities of users, indicating that it is the overall relationship between the service provider and infringing users that matters. Also, to the degree this DMCA provision had its origin in vicarious liability concepts, see CCBill, at 1117, those concepts rest on the overall relationship between the defendant and the infringers, rather than on specific instances of infringement. The term “right and ability to control such activity” so reflects, as it emphasizes a general, structural relationship and speaks of “such activity,” not any particular activity.

We therefore hold that because Fung does not meet the requirements of §512(c)(1)(B), he is outside of the §512(c) safe harbor with respect to all infringement activity on the sites that are the subject of this suit.

iii. “Information location tools” (17 U.S.C. §512(d))

The last safe harbor Fung invokes provides:

*A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link, if the service provider -*

*(1)(A) does not have actual knowledge that the material or activity is infringing;*

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

*(C) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;*

*(2) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and*

*(3) upon notification of claimed infringement as described in subsection (c)(3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity, except that, for purposes of this paragraph, the information described in subsection (c)(3)(A)(iii) shall be identification of the reference or link, to material or activity claimed to be infringing, that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate that reference or link.*

We affirm the grant of summary judgment to Columbia on Fung's claim to the §512(d) safe harbor for the reasons just discussed with regard to §512(c): Fung was broadly “aware of facts or circumstances from which infringing activity [wa]s apparent.” 17 U.S.C. §512(d)(1)(B). Moreover, he received a direct financial benefit from that infringing activity, and had the “right and ability to control such activity.” *Id.* §512(d)(2). (...)

**AFFIRMED IN PART, VACATED IN PART, INJUNCTION MODIFIED IN PART.**

THINK IT OVER

1. *What, if any, would make it possible for isoHunt and Fung to be protected under the “staple article of commerce” doctrine? Is this doctrine applicable to the producer of the BitTorrent protocol, namely BitTorrent, Inc.?*

**2. What, if any, would make it possible for isoHunt and Fung to be protected under the “safe harbor” provisions [especially §512(c)] of the DMCA?**

#### FURTHER CASE LAW

A&M Technology, Inc., et al., v. Napster, Inc., et al., 239 *F.3d* 1004 (2001)

In re: Aimster Copyright Litigation, 334 *F.3d* 643 (2003)

Metro-Goldwyn-Mayer Studios, Inc., et al., v. Grokster, Ltd., et al., 545 *U.S.* 913 (2005)

Arista Records LLC, et al., v. Lime Group LLC, et al., 784 *F.Supp.2d* 313 (2011)

#### RECOMMENDED READINGS

##### *In English*

Robyn Axberg: File-Sharing Tools and Copyright Law: A Study of In Re Aimster Copyright Litigation and MGM Studios, Inc. v. Grokster, Ltd., *Loyola University Chicago Law Review*, 2003: p. 389-456.

Coats, William S. - Rafter, Heather D. - Feeman, Vickie L. - Given, John G.: Blows against the Empire: Napster, Aimster, Grokster and the War against P2P File Sharing, *Practising Law Institute*, 2003: p. 445-488.

Ku, Raymond Shih Ray: Grokking Grokster, *Wisconsin Law Review*, 2005: p. 1217-1282.

Strowel, Alain (Ed.): *Peer-to-peer File Sharing and Secondary Liability in Copyright Law*, Edward Elgar, Cheltenham, 2009

##### *In Hungarian*

Mezei, Péter: *A fájlcsere dilemma - A perek lassúak, az internet gyors*, HVG-Orac, Budapest, 2012: p. 112-131.

#### **The Pirate Bay Verdict**

STOCKHOLM DISTRICT COURT

B13301-06

17 April 2009<sup>1</sup>

#### **THE CASE (...)**

Between 1 July 2005 and 31 May 2006 – the period this case refers to – The Pirate Bay website provided a filesharing service which used the BitTorrent protocol.

In January 2008, the District Prosecutor indicted Fredrik Neij, Gottfrid Swartholm Warg, Peter Sunde Kolmisoppi and Carl Lundström for complicity in breach of the Copyright Act (1960:729), since, jointly and in collusion with each other and another person, they had been responsible for the operation of the filesharing service The Pirate Bay and, through this, aided and abetted other individuals who, through transfer via the Internet of files containing certain named copyright-protected recordings of sound and moving pictures, as well as computer software (computer games), had made the recordings and software available to the general public on certain specified dates and, on a certain date, also aided and abetted others in the production of copies of the recordings and computer software. According to the District Prosecutor, the aiding and abetting referred to the fact that the defendants, through the filesharing service, provided others with the opportunity to upload torrent files to the service, provided others with a database linked to a catalogue of torrent files, provided the opportunity for others to search for and download torrent files and also provided the functionality with

<sup>1</sup> This translation was commissioned by IFPI and it has not been endorsed by the Stockholm District Court.

the assistance of which individuals wishing to share files with each other could contact each other through the filesharing service's tracker function. (...)

Of the plaintiff companies listed in Appendix 1, 14 – six Swedish record companies, two Nordic film companies and six American film companies – brought individual claims against the defendants, on grounds of breach of the Copyright Act, for the joint and several payment of damages for utilisation of rights and works, as well as damages for losses other than utilisation. The claims totalled significant amounts. The District Court decided that the claims would be heard in connection with the indictment. On a number of occasions during the pre-trial conference, the Court dismissed requests from the defendants that the claims should be heard as a separate case, under civil law. (...)

## **FINDINGS OF THE COURT**

### **Indictments for breach of the Copyright Act**

#### *Comments on liability for breach of the Copyright Act*

The Copyright Act distinguishes between copyright and certain rights associated with copyright. Copyright belongs to the person who has created a literary or artistic work, such as a film or a computer program. A right associated with copyright belongs to a producer of a sound recording or a recording of moving pictures, e.g. a record company (phonogram producer) which records an artist's music on a certain medium, and a film producer who records a film. The indictments for breach of the Copyright Act are based on an allegation of infringement of both associated rights and actual copyright, which belong to certain US film and computer game companies.

Under the provisions of §§2 and 46 of the Copyright Act, copyright protection is the exclusive (sole) right of the rightsholder to dispose of the work or produce copies and so make the work or right available to the general public. The indictment for complicity in breaches of the Copyright Act, as it is finally worded, is based only on allegations of infringement of the right to make a work or a right available to the general public.

Under the Copyright Act, a work or a right is made available to the general public when, inter alia, it is broadcasted to the general public. All the charges brought by the District Prosecutor are to the effect that files containing copyright-protected performances have been made available to the general public through Internet transfers. Such a making available occurs when a work or a right, either by way of a wired or wireless connection, is made available to the general public from a place other than where the public can enjoy the work. In addition, broadcasting to the general public includes a transfer which takes place in such a way that individuals can gain access to the work or right from a place and at a time of their own choosing.

If such performances are made available through widely available filesharing services which use peer-to-peer technology, it is, typically, a matter of a broadcast to the general public.

The Copyright Act includes a number of restrictions to the sole right which belongs to the owner of the copyright to a specific work or a right. With reference to certain works and rights, and under the provisions of §12 of the Copyright Act, it is, inter alia, permitted to produce copies for private use. Such a copy may not be used for any purpose other than private use, i.e. it may not be made available to the general public. An important exception to the right to produce copies for private use is when the original itself has been produced or made available in contravention of §2 of the Copyright Act.

§53 of the Copyright Act regulates the sanctions applicable to infringement of copyright. This statute shall, according to §57 of the Act, also apply in cases of infringement of the rights associated with copyright. Infringement of copyright also covers, inter alia, infringement of associated rights, unless otherwise stated.

Under §53 of the Copyright Act, anyone who takes actions which involves infringement of the copyright associated with the work can be sentenced to a fine or imprisonment for a maximum of two years, provided that the infringement was intentional or the result of gross negligence.

The indictments cover both allegations of complicity in breaches of the Copyright Act, and allegations of preparation of breaches of the Copyright Act. §53 paragraph 5 of the Copyright Act states that an attempted breach or preparation of breach of the Copyright Act is punishable pursuant to Chapter 23 of the Criminal Code. Provisions for sentencing a person for complicity in breach of copyright are included in Chapter 23 §4 of the Criminal Code, which states not only the person who committed the act can be found liable, but so too can a person who aided and abetted the act in word or deed. The Code also prescribes that this shall apply to any action for which a prison sentence can be imposed under other laws or statutes.

### ***Comments on the questions at issue in the case***

Count 1 of the indictment refers to complicity in breaches of the Copyright Act. For the defendants to be convicted in accordance with the indictment, the District Prosecutor must prove that others, via Internet transfer of a file containing, for example, a sound recording, have unlawfully made a copyright-protected phonogram available to the general public (i.e. that a “principal offence” has been committed), and prove that the defendants have encouraged the principal offence in such a way that they can be held criminally responsible for their complicity.

In the opinion of the District Court, the natural course of action would be to examine the principal offence first, and then move on to examining any complicity on the part of the defendants.

The issue of whether the District Prosecutor has proved that the alleged principal offence has been committed raises a number of different questions, including whether copyright protection exists in the sense alleged, whether the District Prosecutor has demonstrated that the making available has occurred during all or part of the time periods the District Prosecutor alleges, whether it is a matter of unlawful making available and whether the principal offence can be regarded as having been committed.

The issue of whether the District Prosecutor has succeeded in proving that the defendants have aided the principal offence in such a way that they can be held legally responsible for their complicity also raises a number of questions. The first question is whether the District Prosecutor has demonstrated that all the defendants can be regarded as having acted together and in collusion, as has been alleged. In addition, there is the issue of how the offence of complicity relates to the principal offence, with reference to the extent to which or in what way the offence of complicity may have encouraged the principal offence. In this context, the time of the complicity in relation to the time of the principal offence should be analysed more closely. The latter issues are significant when it comes to determine whether the actions of which the defendants are accused objectively can be regarded as of sufficient to reach a verdict on criminal complicity. To this can be added the question of intent and negligence. (...)

### ***The principal offences according to the indictment for complicity***

For someone to be convicted of complicity in a specific offence requires the execution of a punishable offence (the principal offence). The fact that the perpetrator cannot be punished due to lack of intent, for example, does not preclude complicity.

The fact that the offence described, the actual principal offence, has objectively taken place is sufficient ground for conviction.

According to §2 of the Copyright Act, copyright to a work includes the exclusive right to dispose of the work in such a way that it is made available to the general public. The same applies to rights

associated with copyright. According to what has been argued above, the indictment refers to the type of making available which is involved in transferring the work to the general public. To prove a breach of the Copyright Act first requires the sound and picture recording and the works to be protected in accordance with the Copyright Act, and that the alleged infringement has been unlawful in the sense that the rightsholders have not given their consent. The District Prosecutor must then prove that it is a matter of making available in the sense of the Copyright Act, that the making available has taken place during the periods claimed, and that the making available is punishable under Swedish law.

*Are the rights and works protected under the terms of the Copyright Act?*

For a product to enjoy copyright protection, it must be a work. The work concept means that the product must be the result of labour and that it must contain a certain amount of independence and originality. The term usually used is a requirement for distinctiveness. §46 of the Copyright Act does, however, make it clear that the requirement for distinctiveness does not apply to sound and picture recordings. For these works, it is sufficient that they are, in fact, recordings of sound and moving pictures respectively. (...)

*Who owns the rights and the works?*

For the making available of a copyright-protected work or a right to be regarded as unlawful, the making available must have occurred without the consent of the rightsholder. In the event of an alleged copyright infringement, it may, therefore, be necessary to investigate who the rightsholder is and obtain the rightsholder's views on the making available.

The defendants have not questioned the plaintiff companies' ownership of the rights and works which have allegedly been made available unlawfully. This applies to the copyright of the American film companies with respect to the American films. Irrespective of the defendants' views, the evidence in the form of DVD covers submitted by the American film companies is, in the District Court's view, sufficient proof of the companies' rights as rightsholders. (...)

*Is this a matter of making available in accordance with the Copyright Act? (...)*

In accordance with § 2 of the Copyright Act, a broadcast to the general public takes place when the work, by wired or wireless methods, is made available to the public in a location other than that in which the general public can enjoy the work. Broadcasting to the general public was introduced as a new category in the concept of making available on 1 July 2005.

Examples of cases of making available to the general public quoted in the preamble include a work transmitted on radio or television, either by traditional methods or via the Internet, or a work being posted on an Internet website (Bill 2004/05:110, p. 378). § 2 also states that broadcasting to the general public includes transfer which takes place in such a way that individuals gain access to the work in a location and at a time of their own choosing.

Examples of this type of use, i.e. on-demand availability, is when a musical work or a film is featured on a network such as the Internet, where individuals can enjoy the work at a time of their own choosing (Bill 2004/05:110, p. 379).

Those of the District Prosecutor's claims about the act which are of relevance here include both the original seeder's and the subsequent filesharer's making available of the files covered by the indictment.

A common factor for the named users is that they have all or parts of the relevant file stored on their computer (hard drive). By connecting to the Internet and activating their BitTorrent software – which is a necessary condition – they are making it possible for other Internet users to acquaint themselves of

the content of and, therefore, produce copies of the relevant file themselves. As far as accessibility for other Internet users is concerned, the procedure is, in principle, the same as when a work is made available by downloading it to an open Internet website. Provided that a seeder is connected to the Internet, another Internet user, a leecher, can gain access to the work from a place and at a time of his or her own choosing. The way in which the specified files are processed by an original seeder and the users who, through filesharing, have obtained all or segments of the current files does, in District Court's view, constitute the type of making available which, according to the Copyright Act, would be regarded as making available to the general public. (...)

*Is the making available an offence under Swedish law?*

The investigation into the case has revealed that some of The Pirate Bay's users, whose making available is the subject of the action, have been located outside Sweden when they made the works available to the general public.

Under Chapter 2, § 1 of the Criminal Code, Swedish law applies when an offence has been committed in Sweden. The same applies if it is uncertain where the offence was committed but there is reason to assume that it was committed in Sweden. Under § 4, an offence is regarded as having been committed where the criminal act was committed, as well as where the infringement took place. One issue in the case is where the principal offence should be regarded as having taken place.

According to the District Court, there is strong reason to regard an offence which involves the making available of something on the Internet as having been committed in a country where the Internet user can obtain the information which has been made available, provided that the making available has legal implications in the country (c.f. Schønning, *Ophavsretsloven with commentary*, 3rd edition, p. 686). This applies not least when the information – as in this case – is published in a language spoken in that country. This suggests that all principal offences, even those committed by persons located outside Sweden, should be regarded as having been committed in Sweden. This conclusion is further reinforced by the fact that the servers (computers) hosting The Pirate Bay's website and the tracker were located in Sweden.

*In conclusion*, in consequence of what has been said above, all the principal offences alleged by the District Prosecutor must be regarded as having been committed in Sweden and being offences in Sweden.

### ***Acts of complicity***

#### *Complicity - objectively*

In accordance with what has been stated earlier, and under the terms of Chapter 23, § 4 of the Criminal Code, not only the person who has committed the act (principal offence), but also other persons who have aided and abetted this person in word and deed (act of complicity), will be held liable for a specific act. (...)

The District Court has already concluded that punishable offences have been committed in accordance with the District Prosecutor's indictment. The issue which the District Court now must decide on is whether Fredrik Neij, Gottfrid Svartholm Warg, Peter Sunde Kolmisoppi and Carl Lundström have aided and abetted the principal offence by enabling users to upload and store torrent files for the filesharing service The Pirate Bay, by providing a database linked to a catalogue of torrent files, by enabling users to search for and download torrent files and by providing the functionality with which users who wished to share files could contact each other through the filesharing service's tracker function.

The defendants have, inter alia, argued that liability for complicity is out of the question since the principal offences, and how the defendants have influenced these offences, are not sufficiently precise, bearing in mind that the perpetrators are not known. The District Court has concluded that the District Prosecutor has succeeded in proving that the alleged principal offence has taken place in the way claimed. There is no requirement for the perpetrators to be known for liability for complicity to be considered. The District Court has already stated that it is sufficient for the District Prosecutor to prove that the objective requisites for the principal offences have been fulfilled. If a certain action is regarded as having aided and abetted the principal offence, liability for complicity comes into play. (...)

[A]ll the defendants were aware that a large number of the website's users were engaged in the unlawful disposal of copyright-protected material. By providing a website with advanced search functions and easy uploading and downloading facilities, and by putting individual files sharers in touch with one other through the tracker linked to the site, the operation run via The Pirate Bay has, in the opinion of the District Court, facilitated and, consequently, aided and abetted these offences.

Liability for complicity does not require The Pirate Bay's operation to be essential to the making available to the public of rights or works. The fact that the copyright-protected works may possibly have been made available to the general public on other websites before they were made available on The Pirate Bay, or that they may possibly have been made available on other websites at the same time as they were made available on The Pirate Bay, is, in the opinion of the District Court, irrelevant to any liability for complicity which may fall on the defendants as a result of their actions. (...)

*In summary*, the operation carried on by The Pirate Bay does, objectively, constitute complicity in breach of the Copyright Act. The question is then whether the defendants can be held responsible for this complicity. This would, firstly, require them to be in a position where they can be held responsible for what took place within the framework of The Pirate Bay's operations. Secondly, their intent must cover all the objective circumstances on which the offences are based.

#### *Collective liability*

The District Prosecutor has claimed that the defendants, jointly and in collusion, have been responsible for the organisation, administration, programming, financing and operation of The Pirate Bay, and that they should, consequently, be held responsible for aiding and abetting the infringements of the Copyright Act which have taken place. When several individuals are involved in the execution of a criminal offence, it can be difficult to ascertain whose action has caused the criminal effect. Sometime, a single person has not, by himself, met all the *res gestae*, but the offence has been completed by several individuals acting together. In this event, each and every one of the participants can, under certain circumstances, be punished as a perpetrator. The individuals involved are then said to have acted jointly and in, silent or expressed, collusion. Complicity is not excluded by the fact that some participants have played a more central role and have been more active than others. One condition is, however, that it can be proven that each individual has been involved in the execution of the offence and that he has been aware of the others' actions.

A starting point for several individuals to be sentenced for complicity must, however, be that it requires such individual evidence that it can be clearly established that each and every one of those involved is to be regarded as a co-defendant. (...)

It is, in the opinion of the District Court, clear that Fredrik Neij and Gottfrid Svartholm Warg have played leading roles in the technical operation of The Pirate Bay. It has, however, also been shown that Peter Sunde Kolmisoppi and Carl Lundström have had a sufficiently direct or indirect influence over the technical development and functionality of the website that they can be regarded as also having been responsible for it. As stated above, the written evidence in the case has also demonstrated that the defendants have been in direct and relatively regular contact with Oded Daniel and,

consequently, have been jointly responsible for advertising on and, therefore, also the financing of, The Pirate Bay's operations. Carl Lundström has, in addition, made a financial contribution through the provision of server space and free broadband. The fact that this constituted an investment in The Pirate Bay is already clear from the fact that he expected to earn money from the website in the future. The actions of the defendants are characterised by a collaboration in which every person was aware of the involvement and roles of the others. They have acted and, in other respects, worked as a team, with the common purpose of expanding further both the technical and business aspects of The Pirate Bay. Taking account of all the facts, the District Courts finds that Peter Sunde Kolmisoppi and Carl Lundström have also participated in The Pirate Bay's operations to such an extent that they, alongside Fredrik Neij and Gottfrid Svartholm Warg, must be regarded as responsible for the organisation, administration, programming, financing and operation of the filesharing service in the manner alleged by the District Prosecutor.

#### *Participation - subjective*

A requirement for the conviction of the defendants is that they have deliberately infringed the copyright protection enjoyed by the rights and works. The subjective prerequisite must be fulfilled, not only with respect to the aiding and abetting itself, i.e. co-perpetration, but also with respect to the act which constitutes the principal offence. Complete agreement between an accomplice's view of the course of events and the actual course of events is not, however, a requirement. In assessing the level of intent which must be present, each individual principal offence should be considered.

The fact that the defendants intentionally brought about the actual circumstances which constituted aiding and abetting must be regarded as established. The defendants have, however, argued that they should not be held liable since they have had no knowledge of the existence of the rights or works specified in the indictment and, therefore, have not intentionally committed the principal offences. It has not been demonstrated that the defendants knew that the specific works listed in the indictment had been made available via The Pirate Bay. The defendants intent does not, however, have to cover the specific works which it is alleged have been made available. It is, rather, sufficient for them to have had the intent to bring about the existence of copyright-protected material on the website (c.f. NJA 2007 p. 929). The examination of the defendants, the letters from rightsholders published on the website, The Pirate Bay, and the e-mail correspondence indicating that the operation involved pirate copying make it clear that the defendants have been aware that copyright-protected works were available via the website, and were shared via the tracker embedded within the framework of The Pirate Bay's operation. Despite this knowledge, they have elected to take no action to prevent the infringement of copyright. Based on their positions in relation to the filesharing service, The Pirate Bay, they have, in the opinion of the District Court, together and in collusion knowingly aided and abetted infringements of the Copyright Act by the individual users.

#### ***Other allegations in the indictment of complicity in breach of the Copyright Act***

According to the indictment, the majority of the files made available for filesharing via The Pirate Bay contained copyright-protected performances or works. The District Prosecutor has also alleged that the operation of The Pirate Bay was financed by advertising revenue, and that this constitutes a commercial use of copyright-protected performances and works.

#### *The majority of the files made available were protected by copyright*

The indictment concerns The Pirate Bay's operations and the use of certain copyrights, in the form of the making available to the general public, during the latter part of 2005 up to and including 31 May 2006. It is, consequently, for this time period that the District Court must judge whether the majority of the files made available for filesharing via The Pirate Bay contained copyright-protected performances and works.

In support of his allegations, the District Prosecutor called as a witness Anders Nilsson, who had the following to say. In his capacity as investigator for the Anti-piracy Agency, he became interested in The Pirate Bay as early as 2004. In 2005, The Pirate Bay's operation grew and there was a rise in the number of users. The Anti-piracy Agency started to check the torrent files uploaded to The Pirate Bay, and concluded that most of these related to pirated material. On one occasion in 2006, he checked the list of the 100 most popular/downloaded films published on The Pirate Bay. This showed that 96 of the films on the list were protected by copyright. There was no way to check any copyright-protection for the remaining four films, since the originators of these films were unknown. The Anti-piracy Agency carried out similar checks on other occasions, and always obtained the same result. He has never, however, checked all the torrent files uploaded to the website. Since the Anti-piracy Agency became aware of The Pirate Bay, he visited the website every week and, during these visits, noticed that a very large number of copyright-protected works were made available via the website. (...)

### ***Freedom from liability under the Electronic Commerce Act?***

The District Court's assessment of the indictment for complicity in breach of the Copyright Act means that the defendants are liable for the offence. The question is then whether the freedom from liability provisions relating to punishment – but also to the liability to pay damages – of a “service provider” contained in the Electronic Commerce Act are applicable. (...)

The initial issue on this point is whether The Pirate Bay is a service provider which provides any of the services of an information society? A service provider, under the terms of the Electronic Commerce Act, is a physical or legal entity which provides any of the services found in an information society. The defendants' involvement in the operation of the filesharing service must be regarded as such that they can be considered service providers. In § 2 of the Services Act, information society services are specified as services which are normally provided against payment, and which are supplied at a distance, electronically and at the individual request of a service receiver (the user of the services). The service offered by the filesharing service The Pirate Bay includes enabling users to upload or download torrent files on The Pirate Bay's website and, via The Pirate Bay's tracker, establish contacts with other users who have/would like the file the torrent file relates to. In the opinion of the District Court, it is, therefore, clear that the services from The Pirate Bay website have been supplied at a distance, electronically and at the individual requests of the users. Even if the users have not paid for the services, the requirement for compensation has still been met since the operation of The Pirate Bay has, at least to some extent, been financed by advertising revenue. The Electronic Commerce Act is, consequently, applicable to the filesharing services supplied from The Pirate Bay website.

The grounds for freedom from liability for service providers are found in §§16-19 of the Electronic Commerce Act. The provisions correspond to articles 12-14 of the e-commerce directive. (...)

The purpose of the Pirate Bay's services was, inter alia, to provide server space so that users could upload and store torrent files on the website. This storage means that §16 – which covers only services where some form of automatic and temporary intermediate storage takes place as a result of a particular transfer – and §17 – which covers only storage carried out for the explicit purpose of improving the efficiency of the transfer of certain information (cacheing) – do not apply. The fact that The Pirate Bay offered a service where the user could upload and store torrent files on the website means, instead, that it is a matter of the type of storage service covered by the provisions of §18 of the Electronic Commerce Act.

According to §18, a service provider who stores information provided by a service receiver is not, as a result of the content of the information, liable to pay compensation for injury, provided that the supplier was not aware of the existence of the illegal information or operation, and was not aware of facts or circumstances which made it obvious that the illegal information or operation existed or who,

as soon as he received knowledge about or became aware of this, prevented the spread of the information without delay.

The case has demonstrated that the filesharing service The Pirate Bay was, inter alia, used to provide the opportunity to make available copyright-protected works. It must have been obvious to the defendants that the website contained torrent files which related to protected works. None of them did, however, take any action to remove the torrent files in question, despite being urged to do so. The prerequisites for freedom from liability under §18 have, consequently, not been fulfilled.

§19 of the Electronic Commerce Act is also applicable to service providers who store information. Under §19, a service provider who stores information on behalf of others can only be held liable for an offence relating to the content of the information if the offence was a deliberate act. The District Court has previously concluded that all the defendants were aware that copyright-protected works were being made available through torrent files uploaded to The Pirate Bay, and that they deliberately chose to ignore this fact. Even if the defendants were not aware of precisely those works covered by the indictment, they have, according to the previous findings of the District Court, at least been indifferent to the fact that it was copyright-protected works which were the subject of filesharing activities via The Pirate Bay. Considering that it is a matter of deliberate offences, the actions of the defendants do not enjoy immunity from prosecution under §19 of the Electronic Commerce Act. (...)

### *Sanctions*

The District Court will, initially, determine the appropriate penalty for the offences committed by the defendants. The District Court has already concluded that the defendants acted as a team in the operation of The Pirate Bay. They have, in a variety of ways, contributed to the operation of the service and have, at the same time, been aware of the roles played by the others. There has been a common purpose to run and develop the service.

Considering these circumstances, the appropriate penalty for the offence of complicity for which the defendants have been convicted should be the same for all the defendants.

Under § 53 of the Copyright Act, the range of penalties is a fine or imprisonment for a maximum of two years. Under chapter 29, § 1, second paragraph of the Criminal Code, the damage, infringement or hazard involved in an action, what the defendant has realised or should have realised regarding this, as well as his intention or motive, must be given special consideration when establishing the appropriate penalty. (...)

The making available of copyright-protected works and rights which the defendants have aided and abetted is extensive. It involves a total of 33 protected works which, in the majority of cases, have been made available for a number of months. The damage caused by the making available is, of course, linked to the fact that the making available took place on a popular website with many users. Although a certain degree of caution should be exercised with respect to the statistics produced by the counter linked to each right or work, it is clear that the making available which has taken place has also resulted in extensive production of copies of the rights and works. The substantial extent scope of the making available, and the corresponding losses caused, indicate, in the opinion of the District Court, that the penalty should be more severe.

It has been confirmed that the operation of The Pirate Bay has generated advertising revenue which, during the period indicated in the indictment, has amounted to at least SEK 1,200,000. On this basis alone, the District Court can conclude that the operation was carried on as a commercial project. (...)

Considering the circumstances reported above, the District Court is of the opinion that the appropriate penalty for complicity in breach of the Copyright Act for which each of the defendants has now been convicted is one year's imprisonment. (...)

## **The individual claims**

### *Initial starting point (...)*

§54, first paragraph of the Copyright Act (c.f. §57) states that anyone who, in contravention of the Act, utilises an associated right or a work, i.e. uses the right or work contrary to §2 of the Act, shall pay damages, constituting reasonable compensation for the use, to the rightsholder. The second paragraph of §54 states that if this has been done intentionally, damages shall also be paid, inter alia, for losses other than loss of royalties. The Act states, therefore, that the provisions relating to damages for infringement in the Copyright Act mean that anyone who intentionally infringes a copyright shall pay not only damages for the use of the sole right, but also compensation for other financial loss caused thereby. The preamble to the provisions for damages also states this means that anyone who intentionally infringes a copyright must pay compensation for all financial losses caused thereby, and that one element of the provision for damages means that, when a copyright performance has been used in contravention of the Act, the guilty party must always pay reasonable compensation even if the rightsholder has not suffered any injury as a result of the unlawful use. (...)

### *The verdict of the District Court (...)*

#### *Reasonable compensation for utilisation*

As the District Court touched on by way of introduction, the payment of reasonable compensation for unlawful utilisation of a copyright-protected performance is based on the provision that, under no circumstance, must a right be utilised without consent without the rightsholder being paid reasonable compensation. The right to such damages is not, therefore, dependent on whether it can be proved that the plaintiff companies have suffered any actual injury, and that the injury caused was the result of the unlawful utilisation.

In order to determine the size of the damages, it is generally accepted that tariffs, collective agreements or similar, or alternatively the basic rules and conditions applicable to the industry or market where the utilisation has taken place, can be used as a guide. It is, consequently, a matter of trying to establish a hypothetical license fee for the utilisation. In the opinion of the District Court, the meaning of the rule on damages currently under discussion cannot, however, be that reasonable damages should be withheld if tariffs or similar fail to provide guidance. In this case it is – as a last resort – incumbent upon the Court to determine what constitutes reasonable damages.

All the plaintiff companies have, in this case, used the unlawful making available which has occurred, in the form of transfer to the general public, as the basis for their claims for reasonable damages.

The plaintiff companies have used various methods to estimate the damages. Yellow Bird Films and Nordisk Film Valby (the Nordic film companies) have used just such a hypothetical license fee for the right to permit the making available by others of the films for free downloading.

The six Swedish record companies and the American film companies have, on the other hand, used a calculation method based on individual downloads of a right or a work multiplied by the price a legal downloading of the right or work would generate. (...)

The District Court finds that the analysis of reasonable damages for the unlawful utilisation of the companies' films carried out by the Nordic film companies provides a basis for setting the damages at sums motioned by the companies. In addition, the damages in themselves, for each individual right, appear to be reasonable.

The estimation methods employed by the six Swedish record companies and the American film companies are, as stated before, based on a different concept which in the opinion of the District Court, reflects more an unlawful use of copyright to produce copies than an unlawful making available to the general public. In support of the method used, the record companies have argued that there is no license market or other method used by the industry which would demonstrate what the cost would be to make sound recordings available for legal downloading. The American film companies have not reported the reasons behind their selected estimation method.

It cannot be considered the intention of the damages provisions of the Copyright Act to prevent the record companies from obtaining damages as a result of not being able to relate their claims for damages for unlawful making available to a license market or similar within the industry. One method for estimating reasonable damages could be to, instead, base the estimations on what the rightsholders should have been paid for the downloading of a copyright-protected performance, particularly since the purpose behind the filesharing service The Pirate Bay was to enable users, via the service, to download (produce copies of) music and film recordings. By applying the equivalent approach, the American film companies would also be considered entitled to reasonable damages.

When using this method to estimate reasonable damages, it must also be considered that, as mentioned previously, the record companies and the American film companies have worded their claims in such a way that they involve precisely the unlawful making available, but that they have used an estimation method which is, more specifically, aimed at a different type of copyright utilisation.

The estimation method used by the companies must, therefore, be treated with some caution.

To this must be added the fact that the making available – as discussed by the District Court in the section on liability – took place in Sweden, while any production of copies which may have occurred as a result of the making available, would, according to the findings of what the investigation into the case, have taken place outside Sweden as well. The information on the number of downloads of the rights and works on which the companies have based their claims is information provided by The Pirate Bay's website and which has been based on a counter linked to the filesharing service. The investigation into the case has, however, shown that the information on the number of downloads may have been overstated and that there is some uncertainty regarding the figures specified for the number of downloads. This also suggests that some degree of caution must be exercised in using the information on the number of downloads specified by the companies as a basis for their estimates.

Taking these arguments into account, the District Court finds that when the reasonable damages payable to the record companies and the American film companies are determined, the initial starting point must be that this estimation should be based on half the number of downloads specified by the companies.

The record companies have stated that when a music file is legally downloaded, they are, on average, entitled to compensation of EUR 6.50 for a music album and EUR 0.70 for individual songs. This information has been confirmed to the District Court by John Kennedy, the Chairman of the Board of Directors of the International Federation of the Phonographic Industry (IFPI), by Ludvig Werner, Chairman of IFPI Sweden, and by Per Sundin from Universal Music. The District Court therefore finds that the price information shall be accepted in the estimation of reasonable damages.

The American film companies have estimated the price of a legal download of the companies' individual films at varying amounts, and have allocated a separate price to the television series. The film companies' own information shows that these prices are estimated, inter alia, on the basis of the price trend not only in Sweden, but in other European countries as well, and that certain additions have been made in the form of a preview supplement and for the lack of protection against the manufacture of copies.

The price of every film has also been determined on the basis of whether or not a film was a blockbuster. In the District Court's understanding, the film companies' price information is, consequently, based on several unknown variables which show what the price of the production of copies of a film via The Pirate Bay would have been, rather than the price commanded by a possible legal download. For the purpose of estimating reasonable damages for the utilisation of the company's films, the District Court, therefore, finds that the prices which are to be used in such estimates should be set lower than those quoted by the companies. After a careful assessment, the Court finds that these prices should be set at SEK 150 for the films and SEK 300 for the television series.

The plaintiff companies' right to reasonable damages for the unlawful utilisation of the companies' rights and works will, therefore, be determined on the basis of the principles reported here. For the Nordic companies, the damages will be set at the requested amounts, while the damages for the remaining companies are set at a reduced level.

#### *Damages for other losses*

If a right or a work has been intentionally used without permission, not only reasonable damages for the utilisation will be paid, but also damages for, for example, losses other than loss of royalties. This may include compensation, for example, for a fall in sales of performances made legally available, a loss of orders or loss of the opportunity to use the performance in other ways.

A common factor for all the plaintiff companies is that they claim to have suffered losses in the form of distribution losses, market damage, some internal losses and injury to goodwill.

Distribution losses have consisted of a reduced opportunity to sell individual performances, not only as a result of a drop in the online sale of legal downloads, but also as a result in a fall in the sale – or, in the case of films, the renting - of physical copies of the performances, i.e. CDs and DVDs.

Market-related injuries have been sustained in the sense that access to illegal copies has had a negative impact on the value of performances made legally available. Marketing campaigns, which have been implemented before the launch of musical records and films, have been rendered useless by the fact that the performances frequently have been available via The Pirate Bay before they have been made legally available to the general public. In many instances, primarily with reference to films, the making available via The Pirate Bay has involved a drop in sound or picture quality and also in a context in which the rightsholders have no desire to participate.

The defendants have argued that no evidence has been submitted which shows that the plaintiff companies have suffered any injuries in the form of falling sales of their equivalent, protected performances, and that, in other respects no adequate causal relationship has been shown between the making available via The Pirate Bay and the losses stated by the companies.

The copyright infringements which have occurred according to the indictment have been of significant scope, and it has – in the opinion of the District Court – already been demonstrated that, as a result of this, other losses of a not insignificant nature have been suffered by the rightsholders. In legal practice it has been deemed that no special investigation into this issue is required. In this case, however, the plaintiff companies, through opinions given by and the examination of individual experts in the industry, are regarded as having proved that compensatable losses have arisen as a result of the infringement of copyright of which the District Court has found the defendants guilty.

On the issue of determining the size of the damages for other losses, the plaintiff companies have argued that they should be determined on the basis of the reasonable damages for utilisation and, subsequently, estimated the losses at twice the reasonable damages (the record companies and the Nordic film companies) or at the same amount as the reasonable compensation (the American film companies). The record companies' claims have also been determined in the light of the fact that

certain sound recordings were available via The Pirate Bay before they were available for legal downloading.

In connection with the passing of the Copyright Act, it was already argued that it is important that the party who has suffered an injury is fully compensated for his injury in a financial sense. This view has been emphasised in subsequent legislation, in which it was stated that it is important that damages for infringement are payable at an amount which fully covers the injury suffered.

Assessing the size of damages in a case involving infringement of intellectual rights does, however, frequently present significant difficulties due, inter alia, to the fact that the actual circumstances, and the impact they have, are often complex and hard to ascertain with any great degree of accuracy.

It is, therefore, in many cases necessary to estimate the size of the damages at a reasonable amount.

As recently mentioned, the plaintiff companies have demonstrated that the copyright infringement has caused other losses. The analysis of the scope of the scope and value of the injuries is based on estimates. The analyses which form the basis of these estimates appear, in part, to take into account the general effects of filesharing services, where copyright-protected material is unlawfully made available to the general public. The task of the District Court is, however, to estimate the losses suffered by the plaintiff companies purely on the basis of the illegal making available of the rights and works to which the indictment refers.

Caution must, therefore, be exercised in assessing the plaintiff companies' claims for damages for other losses.

In the light of what has been stated here, the District Court finds, taking all factors into account within the framework of this trial, that a reasonable estimate of damages for other losses is half of the reasonable damages claimed.

#### THINK IT OVER

1. Unlike in the Fung case, where the US judge had to decide upon the civil liability of the owner of isoHunt, The Pirate Bay case was based upon a criminal procedure, where all the four defendants were sentenced to prison, and at the same time they were ordered to pay massive damages as well. Since secondary copyright liability doctrines are generally unknown to European countries (see especially the Dutch KaZaa case), it seems so that the fight against system operators is less effective under copyright norms in Europe. Criminal law or electronic commerce regulations might be, however, working options. ***What are the advantages and disadvantages of relying on these norms in the fight against unauthorized file-sharing? Is there any other practical method of law enforcement? Are website blockings, three-strike regimes or domain seizures such options?***

2. Some have recently argued that the severe enforcement of copyrights due to the massive online copyright infringements might lead to an imbalance between copyright holders' interests and fundamental rights of other members of the society. More precisely, the freedom of expression is called to be under attack by enforcement practices. Such arguments were raised after the introduction of France's HADOPI law (on the graduated response system) and during the Sunde case tried by the European Court of Human Rights. There the ECtHR has concluded that the final decision in the Swedish Pirate Bay case is not against the right to freedom of expression of the applicants (two of the founders of Pirate Bay, Mr. Sunde and Mr. Neij). Viewed from the perspective of freedom of expression ***is there any difference between participation in the discussion on political issues, or topics having general/public interest and sharing copyright-protected contents via the internet without the rightholders permission?***

## FURTHER CASE LAW

LG Hamburg 26.3.2001 (308 O 98/01) – Napster, *JurPC*, Web-Dok. 238/2001 ([www.jurpc.de/rechtspr/20010238.htm](http://www.jurpc.de/rechtspr/20010238.htm))

Supreme Court of Norway 27.1.2005 - Napster.no, *IIC - International Review of Intellectual Property and Competition Law*, Issue 1/2006, p. 120-123.

Vereiniguing Buma / Stichting Stemra v. Kazaa B.V., Nr. C02/186HR, Supreme Court of the Netherlands, 19 December 2003

ECtHR (Sect. V), 19 Feb. 2013, no. 40397/12, *Messrs Neij and Sunde Kolmisoppi v Sweden*

## RECOMMENDED READINGS

### *In English*

Spindler, Gerald - Leistner, Matthias: Secondary Copyright Infringement - New Perspectives in Germany and Europe, *International Review of Intellectual Property and Competition Law*, Issue 7/2006, p. 788-822.

Strowel, Alain (Ed.): *Peer-to-peer File Sharing and Secondary Liability in Copyright Law*, Edward Elgar, Cheltenham, 2009

Strowel, Alain: Internet Piracy as a Wake-up Call for Copyright Law Makers - Is the „Graduated Response” a Good Reply?, *WIPO Journal*, 2009: p. 75-86.

Bonadio, Enrico: File sharing, copyright and freedom of speech, *European Intellectual Property Review*, 2011: p. 619-631.

Mazziotti, Giuseppe: *EU Digital Copyright Law and the End-User*, Springer, Berlin, 2010

### *In Hungarian*

Faludi, Gábor: Az elektronikus kereskedelmi törvény, valamint a szerzői és iparjogvédelmi szabályok kapcsolata, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2002. október, p. 34-40.

Szabó, Imre: A „The Pirate Bay” ügy elsőfokú ítélete a magyar büntetőjog tükrében, *Infokommunikáció és Jog*, 2010. augusztus, p. 141-146.

Hajdú, Dóra: A fájlcsere elleni küzdelem egy lehetséges útja. Három a francia igazság?, *Infokommunikáció és Jog*, 2011. június, p. 95–103.

Faludi, Gábor - Gyenge, Anikó: A fájlmegosztás - hazai és uniós szemmel, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2011. december, p. 77-90.

Mezei, Péter: *A fájlcsere dilemma - A perek lassúak, az internet gyors*, HVG-Orac, Budapest, 2012: p. 112-131.

## **BMG Music, et al., v. Cecilia Gonzalez**

430 F.3d 888 (7th Cir. 2005)

### EASTERBROOK, Circuit Judge.

Last June the Supreme Court held in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), that a distributed file-sharing system is engaged in contributory copyright infringement when its principal object is the dissemination of copyrighted material. The foundation of this holding is a belief that people who post or download music files are primary infringers. In *re Aimster Copyright Litigation*, 334 F.3d 643, 645 (7th Cir. 2003), which anticipated *Grokster*, made the same assumption. In this appeal Cecilia Gonzalez, who downloaded copyrighted music through the KaZaA file-sharing network, denies the premise of *Grokster* and *Aimster*. She contends that her activities were fair use rather than infringement. The district court disagreed and granted summary judgment for the copyright proprietors. The court enjoined Gonzalez from further infringement and awarded \$22,500 in damages under 17 U.S.C. §504(c).

A “fair use” of copyrighted material is not infringement. Gonzalez insists that she was engaged in fair use under the terms of 17 U.S.C. §107 - or at least that a material dispute entitles her to a trial. It is undisputed, however, that she downloaded more than 1,370 copyrighted songs during a few weeks and kept them on her computer until she was caught. Her position is that she was just sampling music to determine what she liked enough to buy at retail. Because this suit was resolved on summary judgment, we must assume that Gonzalez is telling the truth when she says that she owned compact discs containing some of the songs before she downloaded them and that she purchased others later. She concedes, however, that she has never owned legitimate copies of 30 songs that she downloaded. (How many of the remainder she owned is disputed.)

Instead of erasing songs that she decided not to buy, she retained them. It is these 30 songs about which there is no dispute concerning ownership that formed the basis of the damages award. This is not a form of time-shifting, along the lines of *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). A copy downloaded, played, and retained on one's hard drive for future use is a direct substitute for a purchased copy-and without the benefit of the license fee paid to the broadcaster. The premise of *Betamax* is that the broadcast was licensed for one transmission and thus one viewing. *Betamax* held that shifting the time of this single viewing is fair use. The files that Gonzalez obtained, by contrast, were posted in violation of copyright law; there was no license covering a single transmission or hearing-and, to repeat, Gonzalez kept the copies. Time-shifting by an authorized recipient this is not.

Section 107 provides that when considering a defense of fair use the court must take into account “(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.” Gonzalez was not engaged in a nonprofit use; she downloaded (and kept) whole copyrighted songs (for which, as with poetry, copying of more than a couplet or two is deemed excessive); and she did this despite the fact that these works often are sold per song as well as per album. This leads her to concentrate on the fourth consideration: “the effect of the use upon the potential market for or value of the copyrighted work.”

As she tells the tale, downloading on a try-before-you-buy basis is good advertising for copyright proprietors, expanding the value of their inventory. The Supreme Court thought otherwise in *Grokster*, with considerable empirical support. As file sharing has increased over the last four years, the sales of recorded music have dropped by approximately 30%. Perhaps other economic factors contributed, but the events likely are related. Music downloaded for free from the Internet is a close substitute for purchased music; many people are bound to keep the downloaded files without buying originals. That is exactly what Gonzalez did for at least 30 songs. It is no surprise, therefore, that the only appellate decision on point has held that downloading copyrighted songs cannot be defended as fair use, whether or not the recipient plans to buy songs she likes well enough to spring for.

Although BMG Music sought damages for only the 30 songs that Gonzalez concedes she has never purchased, all 1,000+ of her downloads violated the statute. All created copies of an entire work. All undermined the means by which authors seek to profit. Gonzalez proceeds as if the authors' only interest were in selling compact discs containing collections of works. Not so; there is also a market in ways to introduce potential consumers to music.

Think of radio. Authors and publishers collect royalties on the broadcast of recorded music, even though these broadcasts may boost sales. Downloads from peer-to-peer networks such as KaZaA compete with licensed broadcasts and hence undermine the income available to authors. This is true even if a particular person never buys recorded media. Many radio stations stream their content over the Internet, paying a fee for the right to do so. Gonzalez could have listened to this streaming music to sample songs for purchase; had she done so, the authors would have received royalties from the

broadcasters (and reduced the risk that files saved to disk would diminish the urge to pay for the music in the end).

Licensed Internet sellers, such as the iTunes Music Store, offer samples-but again they pay authors a fee for the right to do so, and the teasers are just a portion of the original. Other intermediaries (not only Yahoo! Music Unlimited and Real Rhapsody but also the revived Napster, with a new business model) offer licensed access to large collections of music; customers may rent the whole library by the month or year, sample them all, and purchase any songs they want to keep. New technologies, such as SNOCAP, enable authorized trials over peer-to-peer systems.

Authorized previews share the feature of evanescence: if a listener decides not to buy (or stops paying the rental fee), no copy remains behind. With all of these means available to consumers who want to choose where to spend their money, downloading full copies of copyrighted material without compensation to authors cannot be deemed “fair use.” Copyright law lets authors make their own decisions about how best to promote their works; copiers such as Gonzalez cannot ask courts (and juries) to second-guess the market and call wholesale copying “fair use” if they think that authors err in understanding their own economic interests or that Congress erred in granting authors the rights in the copyright statute. Nor can she defend by observing that other persons were greater offenders; Gonzalez’s theme that she obtained “only 30” (or “only 1,300”) copyrighted songs is no more relevant than a thief’s contention that he shoplifted “only 30” compact discs, planning to listen to them at home and pay later for any he liked.

BMG Music elected to seek statutory damages under 17 U.S.C. §504(c)(1) instead of proving actual injury. This section provides that the author’s entitlement, per infringed work, is “a sum of not less than \$750 or more than \$30,000 as the court considers just.” But if an “infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than \$200.” 17 U.S.C. §504(c)(2). Gonzalez asked the district court to reduce the award under this proviso, but the judge concluded that §402(d) bars any reduction in the minimum award. This subsection provides: “If a notice of copyright in the form and position specified by this section appears on the published phonorecord or phonorecords to which a defendant in a copyright infringement suit had access, then no weight shall be given to such a defendant’s interposition of a defense based on innocent infringement in mitigation of actual or statutory damages”. It is undisputed that BMG Music gave copyright notice as required-“on the surface of the phonorecord, or on the phonorecord label or container” (§402(c)). It is likewise undisputed that Gonzalez had “access” to records and compact discs bearing the proper notice. She downloaded data rather than discs, and the data lacked copyright notices, but the statutory question is whether “access” to legitimate works was available rather than whether infringers earlier in the chain attached copyright notices to the pirated works. Gonzalez readily could have learned, had she inquired, that the music was under copyright.

If BMG Music had requested more than \$750 per work, then Gonzalez would have been entitled to a trial. See *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340 (1998). What number between \$750 and \$30,000 is “just” recompense is a question for the jury, unless both sides agree to decision by the court. But BMG Music was content with \$750 per song, which the district judge awarded on summary judgment. Gonzalez contends that this was improper: *Feltner*, she contends, holds that a jury must decide whether even the statutory minimum award will be allowed.

*Feltner* holds that a claim for statutory damages under § 504(c) is a suit at law to which the seventh amendment applies. This does not mean, however, that a jury must resolve every dispute. When there are no disputes of material fact, the court may enter summary judgment without transgressing the Constitution. While acknowledging this proposition, Gonzalez insists that copyright cases are different. She relies entirely on a single passage from *Feltner*: “The right to a jury trial includes the right to have a jury determine the *amount* of statutory damages, if any, awarded to the copyright

owner.” 523 U.S. at 353. Gonzalez maintains that by adding “if any” the Court allowed a jury to send an author home empty handed, even if the statute makes \$750 the minimum. In other words, she contends that *Feltner* creates a system of jury nullification unique to copyright litigation.

The Justices did not purport to give defendants in copyright cases the right to ask jurors to return verdicts in the teeth of the law. The sentence we have quoted is a general description of the jury's role, which the Court drew from seventeenth-century English jurisprudence. That's hardly a plausible source for a rule unique to American copyright law. In *Feltner* neither side had sought summary judgment. We read *Feltner* as establishing no more (and no less) than that cases under §504(c) are normal civil actions subject to the normal allocation of functions between judge and jury. When there is a material dispute of fact to be resolved or discretion to be exercised in selecting a financial award, then either side is entitled to a jury; if there is no material dispute and a rule of law eliminates discretion in selecting the remedy, then summary judgment is permissible.

Gonzalez says that the ninth circuit understood *Feltner* differently on remand, but that's mistaken. A jury trial was held-for there were material factual disputes-and the jury returned a verdict of \$31.68 million in statutory damages (or \$72,000 per infringed work, an award made possible by the jury's conclusion that infringement had been wilful). The defendant, ruing its Pyrrhic victory in the Supreme Court (the judge's original award, which the Court vacated, had been \$8.8 million), maintained that §504(c) is unconstitutional, and that only actual damages may be awarded, because §504(c) does not provide for a jury trial. The court of appeals rejected that contention, noting that after the Supreme Court's decision a jury trial had been held. Whether a jury resolves the dispute because of statutory language or because of the seventh amendment is all the same to the litigants. It is not possible to find, in a decision affirming a jury's verdict, a rule of law that a jury is required even when there are no factual disputes to resolve and no discretion to exercise.

As for the injunction: Gonzalez contends that this should be vacated because she has learned her lesson, has dropped her broadband access to the Internet, and is unlikely to download copyrighted material again. A private party's discontinuation of unlawful conduct does not make the dispute moot, however. An injunction remains appropriate to ensure that the misconduct does not recur as soon as the case ends. The district court did not abuse its discretion in awarding prospective relief.

#### **AFFIRMED.**

#### THINK IT OVER

1. Imagine that a law professor downloads multiple sound recording via a P2P filesharing application in order to include the downloaded sound recordings into his presentation on copyright law. *Is it possible that he/she might rely on fair use doctrine to defend his activity?*

2. The *USCA* allows the copyright owner to elect to recover instead of actual damages and profits, an award of *statutory damages* in a sum of not less than \$750 or more than \$30,000 per infringement. The minimum amount might be reduced to \$200 in case the infringer was not aware and had no reason to believe that her act constituted an infringement of copyright, and the maximum amount might be increased to \$150,000 in case the infringement was committed willfully. See: *USCA* §504. After mulziple rounds of jury trials and appeals, Jammie Thomas-Rasset was finally ordered to pay \$222.000 as damages (\$9.250 in damages for the downloaded 24 songs each). Joel Tenenbaum was finally ordered to pay \$675.000 as damages (\$22.500 in damages for the downloaded 30 songs each). Some have argued that “[w]hen a minimum statutory damage award has a large punitive component, the danger arises that the award’s punitive effect, when aggregated across many similar acts, will become so tremendous that it imposes a penalty grossly excessive in relation to any legitimate interest in punishment or deterrence. (...) The recent copyright infringement lawsuits targeting illegal file-

sharing create the context in which these factual predicates exist: a statutory damage award with a substantial punitive component, a large number of like-kind violations, and fairly low reprehensibility as assessed under the relevant Gore guidepost. Thus, massively aggregated awards of even the minimum statutory damages for illegal file-sharing will impose huge penalties, like the constitutionally infirm punitive damage award of Gore. Congress needs to act now and modify the minimum statutory damage provision of U.S. copyright law to remove the possibility of grossly excessive punishment.” [Barker (2004) 559.] *Do you agree with the above statement, that ultimately argues that extensive statutory damages run against the procedural due process clause of the US Constitution, Amendment XIV?*

#### FURTHER CASE LAW

Atlantic Recording Corporation, et al., v. Pamela and Jeffrey Howell, 554 *F.Supp.2d* 976 (2008)  
London-Sire Records, Inc., et al., v. Doe 1, et al., 542 *F.Supp.2d* 153 (2008)  
Sony BMG Music Entertainment, et al., v. Joel Tenenbaum, 660 *F.3d* 487 (2011)  
Capitol Records, Inc., et al. v. Jammie Thomas-Rasset, 692 *F.3d* 899 (2012)

#### RECOMMENDED READINGS

##### *In English*

J. Cam Barker: Grossly Excessive Penalties in the Battle Against Illegal File-sharing: The Trouble Effects of Aggregating Minimum Statutory Damages for Copyright Infringement, *Texas Law Review*, 2004: p. 525-559.

Ken Nicholds: The Free Jammie Movement: Is Making a File Available To Other Users Over a Peer-to-Peer Computer Network Sufficient to Infringe The Copyright Owner’s 17 U.S.C. § 106(3) Distribution Right?, *Fordham Law Review*, 2009: p. 983-1028.

##### *In Hungarian*

Mezei, Péter: *A fájlcsere dilemma - A perek lassúak, az internet gyors*, HVG-Orac, Budapest, 2012: p. 158-166.

#### **Productores de Música de España (Promusicae) v. Telefónica de España SAU**

JUDGMENT OF THE COURT (Grand Chamber)

29 January 2008

Case C-275/06

#### **(...) Legal context**

##### *International law*

3 Part III of the Agreement on Trade-Related Aspects of Intellectual Property Rights (‘the TRIPs Agreement’), which constitutes Annex 1C to the Agreement establishing the World Trade Organisation (‘the WTO’), signed at Marrakesh on 15 April 1994 and approved by Council Decision 94/800/EC of 22 December 1994 concerning the conclusion on behalf of the European Community, as regards matters within its competence, of the agreements reached in the Uruguay Round multilateral negotiations (1986-1994), is headed ‘Enforcement of intellectual property rights’. That part includes Article 41(1) and (2), according to which:

*‘1. Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.*

*2. Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.'*

4 In Section 2 of Part III, 'Civil and administrative procedures and remedies', Article 42, headed 'Fair and Equitable Procedures', provides: 'Members shall make available to right holders civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement'

5 Article 47 of the TRIPs Agreement, headed 'Right of Information', provides: 'Members may provide that the judicial authorities shall have the authority, unless this would be out of proportion to the seriousness of the infringement, to order the infringer to inform the right holder of the identity of third persons involved in the production and distribution of the infringing goods or services and of their channels of distribution.'

### *Community law*

*Provisions relating to the information society and the protection of intellectual property, especially copyright:*

#### Directive 2000/31

6 Article 1 of Directive 2000/31 states:

*'1. This Directive seeks to contribute to the proper functioning of the internal market by ensuring the free movement of information society services between the Member States.*

*2. This Directive approximates, to the extent necessary for the achievement of the objective set out in paragraph 1, certain national provisions on information society services relating to the internal market, the establishment of service providers, commercial communications, electronic contracts, the liability of intermediaries, codes of conduct, out-of-court dispute settlements, court actions and cooperation between Member States.*

*3. This Directive complements Community law applicable to information society services without prejudice to the level of protection for, in particular, public health and consumer interests, as established by Community acts and national legislation implementing them in so far as this does not restrict the freedom to provide information society services.*

*5. This Directive shall not apply to:*

*(b) questions relating to information society services covered by Directives 95/46/EC and 97/66/EC;'*

7 According to Article 15 of Directive 2000/31:

*'1. Member States shall not impose a general obligation on providers, when providing the services covered by Articles 12, 13 and 14, to monitor the information which they transmit or store, nor a general obligation actively to seek facts or circumstances indicating illegal activity.*

*2. Member States may establish obligations for information society service providers promptly to inform the competent public authorities of alleged illegal activities undertaken or information provided by recipients of their service or obligations to communicate to the competent authorities, at their request, information enabling the identification of recipients of their service with whom they have storage agreements.'*

8 Article 18 of Directive 2000/31 provides:

*'1. Member States shall ensure that court actions available under national law concerning information society services' activities allow for the rapid adoption of measures, including interim measures, designed to terminate any alleged infringement and to prevent any further impairment of the interests involved.'*

#### Directive 2001/29

9 According to Article 1(1) of Directive 2001/29, the directive concerns the legal protection of copyright and related rights in the framework of the internal market, with particular emphasis on the information society.

10 Under Article 8 of Directive 2001/29:

*'1. Member States shall provide appropriate sanctions and remedies in respect of infringements of the rights and obligations set out in this Directive and shall take all the measures necessary to ensure that those sanctions and remedies are applied. The sanctions thus provided for shall be effective, proportionate and dissuasive.*

*2. Each Member State shall take the measures necessary to ensure that rightholders whose interests are affected by an infringing activity carried out on its territory can bring an action for damages and/or apply for an injunction and, where appropriate, for the seizure of infringing material as well as of devices, products or components referred to in Article 6(2).*

*3. Member States shall ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right.'*

11 Article 9 of Directive 2001/29 reads:

*'This Directive shall be without prejudice to provisions concerning in particular patent rights, trade marks, design rights, utility models, topographies of semi-conductor products, type faces, conditional access, access to cable of broadcasting services, protection of national treasures, legal deposit requirements, laws on restrictive practices and unfair competition, trade secrets, security, confidentiality, data protection and privacy, access to public documents, the law of contract.'*

#### Directive 2004/48

12 Article 1 of Directive 2004/48 states:

*'This Directive concerns the measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights.'*

13 According to Article 2(3) of Directive 2004/48:

*'3. This Directive shall not affect:*

*(a) the Community provisions governing the substantive law on intellectual property, Directive 95/46/EC, Directive 1999/93/EC or Directive 2000/31/EC, in general, and Articles 12 to 15 of Directive 2000/31/EC in particular;*

*(b) Member States' international obligations and notably the TRIPS Agreement, including those relating to criminal procedures and penalties;*

*(c) any national provisions in Member States relating to criminal procedures or penalties in respect of infringement of intellectual property rights.'*

14 Article 3 of Directive 2004/48 provides:

*'1. Member States shall provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. Those measures, procedures and remedies shall be fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.*

*2. Those measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.'*

15 Article 8 of Directive 2004/48 provides:

*'1. Member States shall ensure that, in the context of proceedings concerning an infringement of an intellectual property right and in response to a justified and proportionate request of the claimant, the competent judicial authorities may order that information on the origin and distribution networks of the goods or services which infringe an intellectual property right be provided by the infringer and/or any other person who:*

*(a) was found in possession of the infringing goods on a commercial scale;*

*(b) was found to be using the infringing services on a commercial scale;*

*(c) was found to be providing on a commercial scale services used in infringing activities; or*

*(d) was indicated by the person referred to in point (a), (b) or (c) as being involved in the production, manufacture or distribution of the goods or the provision of the services.*

*2. The information referred to in paragraph 1 shall, as appropriate, comprise:*

*(a) the names and addresses of the producers, manufacturers, distributors, suppliers and other previous holders of the goods or services, as well as the intended wholesalers and retailers;*

*(b) information on the quantities produced, manufactured, delivered, received or ordered, as well as the price obtained for the goods or services in question.*

*3. Paragraphs 1 and 2 shall apply without prejudice to other statutory provisions which:*

*(a) grant the rightholder rights to receive fuller information;*

*(b) govern the use in civil or criminal proceedings of the information communicated pursuant to this Article;*

*(c) govern responsibility for misuse of the right of information; or*

*(d) afford an opportunity for refusing to provide information which would force the person referred to in paragraph 1 to admit to his/her own participation or that of his/her close relatives in an infringement of an intellectual property right; or*

*(e) govern the protection of confidentiality of information sources or the processing of personal data.'*

*Provisions on the protection of personal data:*

#### Directive 95/46/EC

16 Article 2 of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data states:

*'For the purposes of this Directive:*

*(a) "personal data" shall mean any information relating to an identified or identifiable natural person ("data subject"); an identifiable person is one who can be identified, directly or indirectly, in particular by reference to an identification number or to one or more factors specific to his physical, physiological, mental, economic, cultural or social identity;*

*(b) "processing of personal data" ("processing") shall mean any operation or set of operations which is performed upon personal data, whether or not by automatic means, such as collection, recording, organisation, storage, adaptation or alteration, retrieval, consultation, use, disclosure by transmission, dissemination or otherwise making available, alignment or combination, blocking, erasure or destruction;'*

17 According to Article 3 of Directive 95/46:

*'1. This Directive shall apply to the processing of personal data wholly or partly by automatic means, and to the processing otherwise than by automatic means of personal data which form part of a filing system or are intended to form part of a filing system.'*

18 Article 7 of Directive 95/46 reads as follows:

*'Member States shall provide that personal data may be processed only if:*

*(f) processing is necessary for the purposes of the legitimate interests pursued by the controller or by the third party or parties to whom the data are disclosed, except where such interests are overridden by the interests or fundamental rights and freedoms of the data subject which require protection under Article 1(1).'*

19 Article 8 of Directive 95/46 provides:

*'1. Member States shall prohibit the processing of personal data revealing racial or ethnic origin, political opinions, religious or philosophical beliefs, trade-union membership, and the processing of data concerning health or sex life.*

*2. Paragraph 1 shall not apply where:*

*(c) processing is necessary to protect the vital interests of the data subject or of another person where the data subject is physically or legally incapable of giving his consent.'*

20 According to Article 13 of Directive 95/46:

*'1. Member States may adopt legislative measures to restrict the scope of the obligations and rights provided for in Articles 6(1), 10, 11(1), 12 and 21 when such a restriction constitutes a necessary measure to safeguard:*

*(a) national security;*

*(b) defence;*

*(c) public security;*

*(d) the prevention, investigation, detection and prosecution of criminal offences, or of breaches of ethics for regulated professions;*

*(e) an important economic or financial interest of a Member State or of the European Union, including monetary, budgetary and taxation matters;*

*(f) a monitoring, inspection or regulatory function connected, even occasionally, with the exercise of official authority in cases referred to in (c), (d) and (e);*

*(g) the protection of the data subject or of the rights and freedoms of others.'*

### Directive 2002/58/EC

21 Article 1 of Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (Directive on privacy and electronic communications) states:

*'1. This Directive harmonises the provisions of the Member States required to ensure an equivalent level of protection of fundamental rights and freedoms, and in particular the right to privacy, with respect to the processing of personal data in the electronic communication sector and to ensure the free movement of such data and of electronic communication equipment and services in the Community.*

*2. The provisions of this Directive particularise and complement Directive 95/46/EC for the purposes mentioned in paragraph 1.*

*3. This Directive shall not apply to activities which fall outside the scope of the Treaty establishing the European Community, such as those covered by Titles V and VI of the Treaty on European Union, and in any case to activities concerning public security, defence, State security (including the economic well-being of the State when the activities relate to State security matters) and the activities of the State in areas of criminal law.'*

22 Under Article 2 of Directive 2002/58:

*'Save as otherwise provided, the definitions in Directive 95/46/EC and in Directive 2002/21/EC of the European Parliament and of the Council of 7 March 2002 on a common regulatory framework for electronic communications networks and services (Framework Directive) shall apply.*

*The following definitions shall also apply:*

*(b) "traffic data" means any data processed for the purpose of the conveyance of a communication on an electronic communications network or for the billing thereof;*

*(d) "communication" means any information exchanged or conveyed between a finite number of parties by means of a publicly available electronic communications service. This does not include any information conveyed as part of a broadcasting service to the public over an electronic communications network except to the extent that the information can be related to the identifiable subscriber or user receiving the information;'*

23 Article 3 of Directive 2002/58 provides:

*'1. This Directive shall apply to the processing of personal data in connection with the provision of publicly available electronic communications services in public communications networks in the Community.'*

24 Article 5 of Directive 2002/58 provides:

*'1. Member States shall ensure the confidentiality of communications and the related traffic data by means of a public communications network and publicly available electronic communications services, through national legislation. In particular, they shall prohibit listening, tapping, storage or other kinds of interception or surveillance of communications and the related traffic data by persons other than users, without the consent of the users concerned, except when legally authorised to do so in accordance with Article 15(1). This paragraph shall not prevent technical*

*storage which is necessary for the conveyance of a communication without prejudice to the principle of confidentiality.'*

25 Article 6 of Directive 2002/58 provides:

*'1. Traffic data relating to subscribers and users processed and stored by the provider of a public communications network or publicly available electronic communications service must be erased or made anonymous when it is no longer needed for the purpose of the transmission of a communication without prejudice to paragraphs 2, 3 and 5 of this Article and Article 15(1).*

*2. Traffic data necessary for the purposes of subscriber billing and interconnection payments may be processed. Such processing is permissible only up to the end of the period during which the bill may lawfully be challenged or payment pursued.*

*3. For the purpose of marketing electronic communications services or for the provision of value added services, the provider of a publicly available electronic communications service may process the data referred to in paragraph 1 to the extent and for the duration necessary for such services or marketing, if the subscriber or user to whom the data relate has given his/her consent. Users or subscribers shall be given the possibility to withdraw their consent for the processing of traffic data at any time.*

*5. Processing of traffic data, in accordance with paragraphs 1, 2, 3 and 4, must be restricted to persons acting under the authority of providers of the public communications networks and publicly available electronic communications services handling billing or traffic management, customer enquiries, fraud detection, marketing electronic communications services or providing a value added service, and must be restricted to what is necessary for the purposes of such activities.*

*6. Paragraphs 1, 2, 3 and 5 shall apply without prejudice to the possibility for competent bodies to be informed of traffic data in conformity with applicable legislation with a view to settling disputes, in particular interconnection or billing disputes.'*

26 Under Article 15 of Directive 2002/58:

*'1. Member States may adopt legislative measures to restrict the scope of the rights and obligations provided for in Article 5, Article 6, Article 8(1), (2), (3) and (4), and Article 9 of this Directive when such restriction constitutes a necessary, appropriate and proportionate measure within a democratic society to safeguard national security (i.e. State security), defence, public security, and the prevention, investigation, detection and prosecution of criminal offences or of unauthorised use of the electronic communication system, as referred to in Article 13(1) of Directive 95/46/EC. To this end, Member States may, inter alia, adopt legislative measures providing for the retention of data for a limited period justified on the grounds laid down in this paragraph. All the measures referred to in this paragraph shall be in accordance with the general principles of Community law, including those referred to in Article 6(1) and (2) of the Treaty on European Union.'*

27 Article 19 of Directive 2002/58 provides:

*'Directive 97/66/EC is hereby repealed with effect from the date referred to in Article 17(1). References made to the repealed Directive shall be construed as being made to this Directive.'*

#### *National law*

28 Under Article 12 of Law 34/2002 on information society services and electronic commerce of 11 July 2002, headed 'Duty to retain traffic data relating to electronic communications':

*'1. Operators of electronic communications networks and services, providers of access to telecommunications networks and providers of data storage services must retain for a maximum of 12 months the connection and traffic data generated by the communications established during the supply of an information society service, under the conditions established in this article and the regulations implementing it.*

*2. The operators of electronic communications networks and services and the service providers to which this article refers may not use the data retained for purposes other than those indicated in the paragraph below or other purposes permitted by the Law and must adopt appropriate security measures to avoid the loss or alteration of the data and unauthorised access to the data.*

*3. The data shall be retained for use in the context of a criminal investigation or to safeguard public security and national defence, and shall be made available to the courts or the public*

*prosecutor at their request. Communication of the data to the forces of order shall be effected in accordance with the provisions of the rules on personal data protection.'*

### **The main proceedings and the order for reference**

29 Promusicae is a non-profit-making organisation of producers and publishers of musical and audiovisual recordings. By letter of 28 November 2005 it made an application to the Juzgado de lo Mercantil N° 5 de Madrid (Commercial Court No 5, Madrid) for preliminary measures against Telefónica, a commercial company whose activities include the provision of internet access services.

30 Promusicae asked for Telefónica to be ordered to disclose the identities and physical addresses of certain persons whom it provided with internet access services, whose IP address and date and time of connection were known. According to Promusicae, those persons used the KaZaA file exchange program (peer-to-peer or P2P) and provided access in shared files of personal computers to phonograms in which the members of Promusicae held the exploitation rights.

31 Promusicae claimed before the national court that the users of KaZaA were engaging in unfair competition and infringing intellectual property rights. It therefore sought disclosure of the above information in order to be able to bring civil proceedings against the persons concerned.

32 By order of 21 December 2005 the Juzgado de lo Mercantil N° 5 de Madrid ordered the preliminary measures requested by Promusicae.

33 Telefónica appealed against that order, contending that under the LSSI the communication of the data sought by Promusicae is authorised only in a criminal investigation or for the purpose of safeguarding public security and national defence, not in civil proceedings or as a preliminary measure relating to civil proceedings. Promusicae submitted for its part that Article 12 of the LSSI must be interpreted in accordance with various provisions of Directives 2000/31, 2001/29 and 2004/48 and with Articles 17(2) and 47 of the Charter, provisions which do not allow Member States to limit solely to the purposes expressly mentioned in that law the obligation to communicate the data in question.

34 In those circumstances the Juzgado de lo Mercantil N° 5 de Madrid decided to stay the proceedings and refer the following question to the Court for a preliminary ruling:

*'Does Community law, specifically Articles 15(2) and 18 of Directive [2000/31], Article 8(1) and (2) of Directive [2001/29], Article 8 of Directive [2004/48] and Articles 17(2) and 47 of the Charter ... permit Member States to limit to the context of a criminal investigation or to safeguard public security and national defence, thus excluding civil proceedings, the duty of operators of electronic communications networks and services, providers of access to telecommunications networks and providers of data storage services to retain and make available connection and traffic data generated by the communications established during the supply of an information society service?'*

### **(...) The question referred for a preliminary ruling**

41 By its question the national court asks essentially whether Community law, in particular Directives 2000/31, 2001/29 and 2004/48, read also in the light of Articles 17 and 47 of the Charter, must be interpreted as requiring Member States to lay down, in order to ensure effective protection of copyright, an obligation to communicate personal data in the context of civil proceedings.

#### *Preliminary observations*

42 Even if, formally, the national court has limited its question to the interpretation of Directives 2000/31, 2001/29 and 2004/48 and the Charter, that circumstance does not prevent the Court from providing the national court with all the elements of interpretation of Community law which may be of

use for deciding the case before it, whether or not that court has referred to them in the wording of its question.

43 It should be observed to begin with that the intention of the provisions of Community law thus referred to in the question is that the Member States should ensure, especially in the information society, effective protection of industrial property, in particular copyright, which Promusicae claims in the main proceedings. The national court proceeds, however, from the premiss that the Community law obligations required by that protection may be blocked, in national law, by the provisions of Article 12 of the LSSI.

44 While that law, in 2002, transposed the provisions of Directive 2000/31 into domestic law, it is common ground that Article 12 of the law is intended to implement the rules for the protection of private life, which is also required by Community law under Directives 95/46 and 2002/58, the latter of which concerns the processing of personal data and the protection of privacy in the electronic communications sector, which is the sector at issue in the main proceedings.

45 It is not disputed that the communication sought by Promusicae of the names and addresses of certain users of KaZaA involves the making available of personal data, that is, information relating to identified or identifiable natural persons, in accordance with the definition in Article 2(a) of Directive 95/46. That communication of information which, as Promusicae submits and Telefónica does not contest, is stored by Telefónica constitutes the processing of personal data within the meaning of the first paragraph of Article 2 of Directive 2002/58, read in conjunction with Article 2(b) of Directive 95/46. It must therefore be accepted that that communication falls within the scope of Directive 2002/58, although the compliance of the data storage itself with the requirements of that directive is not at issue in the main proceedings.

46 In those circumstances, it should first be ascertained whether Directive 2002/58 precludes the Member States from laying down, with a view to ensuring effective protection of copyright, an obligation to communicate personal data which will enable the copyright holder to bring civil proceedings based on the existence of that right. If that is not the case, it will then have to be ascertained whether it follows directly from the three directives expressly mentioned by the national court that the Member States are required to lay down such an obligation. Finally, if that is not the case either, in order to provide the national court with an answer of use to it, it will have to be examined, starting from the national court's reference to the Charter, whether in a situation such as that at issue in the main proceedings other rules of Community law might require a different reading of those three directives.

#### *Directive 2002/58*

47 Article 5(1) of Directive 2002/58 provides that Member States must ensure the confidentiality of communications by means of a public communications network and publicly available electronic communications services, and of the related traffic data, and must *inter alia* prohibit, in principle, the storage of that data by persons other than users, without the consent of the users concerned. The only exceptions relate to persons lawfully authorised in accordance with Article 15(1) of that directive and the technical storage necessary for conveyance of a communication. In addition, as regards traffic data, Article 6(1) of Directive 2002/58 provides that stored traffic data must be erased or made anonymous when it is no longer needed for the purpose of the transmission of a communication without prejudice to paragraphs 2, 3 and 5 of that article and Article 15(1) of the directive.

48 With respect, first, to paragraphs 2, 3 and 5 of Article 6, which relate to the processing of traffic data in accordance with the requirements of billing and marketing services and the provision of value added services, those provisions do not concern the communication of that data to persons other than those acting under the authority of the providers of public communications networks and publicly available electronic communications services. As to the provisions of Article 6(6) of Directive

2002/58, they do not relate to disputes other than those between suppliers and users concerning the grounds for storing data in connection with the activities referred to in the other provisions of that article. Since Article 6(6) thus clearly does not concern a situation such as that of Promusicae in the main proceedings, it cannot be taken into account in assessing that situation.

49 With respect, second, to Article 15(1) of Directive 2002/58, it should be recalled that under that provision the Member States may adopt legislative measures to restrict the scope inter alia of the obligation to ensure the confidentiality of traffic data, where such a restriction constitutes a necessary, appropriate and proportionate measure within a democratic society to safeguard national security (i.e. State security), defence, public security, and the prevention, investigation, detection and prosecution of criminal offences or of unauthorised use of the electronic communications system, as referred to in Article 13(1) of Directive 95/46.

50 Article 15(1) of Directive 2002/58 thus gives Member States the possibility of providing for exceptions to the obligation of principle, imposed on them by Article 5 of that directive, to ensure the confidentiality of personal data.

51 However, none of these exceptions appears to relate to situations that call for the bringing of civil proceedings. They concern, first, national security, defence and public security, which constitute activities of the State or of State authorities unrelated to the fields of activity of individuals, and, second, the prosecution of criminal offences.

52 As regards the exception relating to unauthorised use of the electronic communications system, this appears to concern use which calls into question the actual integrity or security of the system, such as the cases referred to in Article 5(1) of Directive 2002/58 of the interception or surveillance of communications without the consent of the users concerned. Such use, which, under that article, makes it necessary for the Member States to intervene, also does not relate to situations that may give rise to civil proceedings.

53 It is clear, however, that Article 15(1) of Directive 2002/58 ends the list of the above exceptions with an express reference to Article 13(1) of Directive 95/46. That provision also authorises the Member States to adopt legislative measures to restrict the obligation of confidentiality of personal data where that restriction is necessary inter alia for the protection of the rights and freedoms of others. As they do not specify the rights and freedoms concerned, those provisions of Article 15(1) of Directive 2002/58 must be interpreted as expressing the Community legislature's intention not to exclude from their scope the protection of the right to property or situations in which authors seek to obtain that protection in civil proceedings.

54 The conclusion must therefore be that Directive 2002/58 does not preclude the possibility for the Member States of laying down an obligation to disclose personal data in the context of civil proceedings.

55 However, the wording of Article 15(1) of that directive cannot be interpreted as compelling the Member States, in the situations it sets out, to lay down such an obligation.

56 It must therefore be ascertained whether the three directives mentioned by the national court require those States to lay down that obligation in order to ensure the effective protection of copyright.

*The three directives mentioned by the national court*

57 It should first be noted that, as pointed out in paragraph 43 above, the purpose of the directives mentioned by the national court is that the Member States should ensure, especially in the information society, effective protection of industrial property, in particular copyright. However, it follows from

Article 1(5)(b) of Directive 2000/31, Article 9 of Directive 2001/29 and Article 8(3)(e) of Directive 2004/48 that such protection cannot affect the requirements of the protection of personal data.

58 Article 8(1) of Directive 2004/48 admittedly requires Member States to ensure that, in the context of proceedings concerning an infringement of an intellectual property right and in response to a justified and proportionate request of the claimant, the competent judicial authorities may order that information on the origin and distribution networks of the goods or services which infringe an intellectual property right be provided. However, it does not follow from those provisions, which must be read in conjunction with those of paragraph 3(e) of that article, that they require the Member States to lay down, in order to ensure effective protection of copyright, an obligation to communicate personal data in the context of civil proceedings.

59 Nor does the wording of Articles 15(2) and 18 of Directive 2000/31 or that of Article 8(1) and (2) of Directive 2001/29 require the Member States to lay down such an obligation.

60 As to Articles 41, 42 and 47 of the TRIPs Agreement, relied on by Promuscaie, in the light of which Community law must as far as possible be interpreted where – as in the case of the provisions relied on in the context of the present reference for a preliminary ruling – it regulates a field to which that agreement applies, while they require the effective protection of intellectual property rights and the institution of judicial remedies for their enforcement, they do not contain provisions which require those directives to be interpreted as compelling the Member States to lay down an obligation to communicate personal data in the context of civil proceedings.

#### *Fundamental rights*

61 The national court refers in its order for reference to Articles 17 and 47 of the Charter, the first of which concerns the protection of the right to property, including intellectual property, and the second of which concerns the right to an effective remedy. By so doing, that court must be regarded as seeking to know whether an interpretation of those directives to the effect that the Member States are not obliged to lay down, in order to ensure the effective protection of copyright, an obligation to communicate personal data in the context of civil proceedings leads to an infringement of the fundamental right to property and the fundamental right to effective judicial protection.

62 It should be recalled that the fundamental right to property, which includes intellectual property rights such as copyright, and the fundamental right to effective judicial protection constitute general principles of Community law.

63 However, the situation in respect of which the national court puts that question involves, in addition to those two rights, a further fundamental right, namely the right that guarantees protection of personal data and hence of private life.

64 According to recital 2 in the preamble to Directive 2002/58, the directive seeks to respect the fundamental rights and observes the principles recognised in particular by the Charter. In particular, the directive seeks to ensure full respect for the rights set out in Articles 7 and 8 of that Charter. Article 7 substantially reproduces Article 8 of the European Convention for the Protection of Human Rights and Fundamental Freedoms signed at Rome on 4 November 1950, which guarantees the right to respect for private life, and Article 8 of the Charter expressly proclaims the right to protection of personal data.

65 The present reference for a preliminary ruling thus raises the question of the need to reconcile the requirements of the protection of different fundamental rights, namely the right to respect for private life on the one hand and the rights to protection of property and to an effective remedy on the other.

66 The mechanisms allowing those different rights and interests to be balanced are contained, first, in Directive 2002/58 itself, in that it provides for rules which determine in what circumstances and to what extent the processing of personal data is lawful and what safeguards must be provided for, and in the three directives mentioned by the national court, which reserve the cases in which the measures adopted to protect the rights they regulate affect the protection of personal data. Second, they result from the adoption by the Member States of national provisions transposing those directives and their application by the national authorities.

67 As to those directives, their provisions are relatively general, since they have to be applied to a large number of different situations which may arise in any of the Member States. They therefore logically include rules which leave the Member States with the necessary discretion to define transposition measures which may be adapted to the various situations possible.

68 That being so, the Member States must, when transposing the directives mentioned above, take care to rely on an interpretation of the directives which allows a fair balance to be struck between the various fundamental rights protected by the Community legal order. Further, when implementing the measures transposing those directives, the authorities and courts of the Member States must not only interpret their national law in a manner consistent with those directives but also make sure that they do not rely on an interpretation of them which would be in conflict with those fundamental rights or with the other general principles of Community law, such as the principle of proportionality.

69 Moreover, it should be recalled here that the Community legislature expressly required, in accordance with Article 15(1) of Directive 2002/58, that the measures referred to in that paragraph be adopted by the Member States in compliance with the general principles of Community law, including those mentioned in Article 6(1) and (2) EU.

70 In the light of all the foregoing, the answer to the national court's question must be that Directives 2000/31, 2001/29, 2004/48 and 2002/58 do not require the Member States to lay down, in a situation such as that in the main proceedings, an obligation to communicate personal data in order to ensure effective protection of copyright in the context of civil proceedings. However, Community law requires that, when transposing those directives, the Member States take care to rely on an interpretation of them which allows a fair balance to be struck between the various fundamental rights protected by the Community legal order. Further, when implementing the measures transposing those directives, the authorities and courts of the Member States must not only interpret their national law in a manner consistent with those directives but also make sure that they do not rely on an interpretation of them which would be in conflict with those fundamental rights or with the other general principles of Community law, such as the principle of proportionality.

#### THINK IT OVER

1. Shortly after publishing the *Promusicae* decision, the ECJ has further crystallized its practice with respect to the balance of copyright and data protection. In the *LSG v. Tele2* (Case C-557/07), in order to bring a civil action against copyright offenders, LSG (the CMO of Austrian producers of phonograms) requested Tele2 to disclose the data of certain persons to whom it provides internet access and whose IP addresses and access date and time are known. Tele2 rejected the request, arguing that Tele2 is not an intermediary and has no right to collect login data. The ECJ ruled that *Community law does not prevent Member States from establishing an obligation to transmit personal data to third parties in order to bring a civil action for copyright infringement*. However, Community law requires that Member States must ensure a fair balance between the different fundamental rights as well as complying with the general principle of proportionality. Later, again, in *Bonnier Audio v. Perfect Communication Sweden* (Case C-461/10) the ECJ confirmed that national legislators might regulate the disclosure of personal data by internet access providers in civil cases as well.

**2. Is an IP-Address a reasonable evidence to find someone (the account holder) liable for a copyright infringement?** The U.S. District court for the Western District of Washington held in *Elf-Man v. Cariveau* that “simply identifying the account holder associated with an IP address tells us very little about who actually downloaded ‘Elf-Man’ using that IP address. While it is possible that the subscriber is the one who participated in the BitTorrent swarm, it is also possible that a family member, guest, or freeloader engaged in the infringing conduct”. Later, however, another US district court highlighted that “defendant also claims that the complaint does not plausibly allege copyright infringement by him because the only facts alleged are that he had an internet account and that some computer associated with that account held some bits of Plaintiff’s works. Defendant relies on *Elf-Man*, which held that similar allegations failed to state a claim. The Court disagrees with Defendant and the *Elf-Man* court. *The allegations that Defendant is the internet subscriber whose internet address was being used to distribute bits of Plaintiff’s movies make it plausible that he was the infringer. These allegations are not so sketchy or implausible that they fail to give Defendant sufficient notice of Plaintiff’s claim.*”

**3. Is an IP-Address personal data? (And consequently is it subject to strict protection even if it is used to commit copyright infringements?)** The German Federal Court of Justice (BGH) in its decision dated October 28, 2014 (court reference number VI ZR 135/13) referred two questions to the European Court of Justice for a preliminary ruling with respect to the interpretation of the EU Data Protection Directive concerning the definition of the term “personal data” therein and recording of dynamic IP-addresses. The decision might have a direct consequence on the law enforcement of copyrights in the digital age as well.

#### FURTHER CASE LAW

*Case C-557/07 – LSG-Gesellschaft zur Wahrnehmung von Leistungsschutzrechten GmbH v. Tele2 Telecommunication GmbH*, European Court of Justice, February 19, 2009  
*Case C-461/10 – Bonnier Audio AB, Earbooks AB, Norstedts Förlagsgrupp AB, Piratförlaget AB, Storyside AB v. Perfect Communication Sweden AB*, European Court of Justice, April 19, 2012  
*Elf-Man, LLC, v. Eric Cariveau, et al.*, 2014 WL 202096 (2014)  
*Maliba Media LLC v. Kaleb Gilvin*, 2014 WL 1260110 (2014)

#### RECOMMENDED READINGS

##### *In English*

Kuner, Christopher: Data Protection and Rights Protection on the Internet: The Promusicae Judgment of the European Court of Justice, *European Intellectual Property Review*, 2008: p. 199-202.  
Davies, Isabel - Helmer, Stuart: Productores de Música de España (“Promusicae”) v Telefónica de España SAU (“Telefónica”) (C-275/06), *European Intellectual Property Review*, 2008: p. 307-308.  
Tuomas Mylly: The Constitutionalization of the European Legal Order: Impact of Human Rights on Intellectual Property in the EU. In: Christophe Geiger: *Research Handbook on Human Rights and Intellectual Property*, Edgar Elgar, 2015: p. 103-131.

##### *In Hungarian*

Békés, Gergely: Internetszolgáltatók a fájlcsere ellen?, *Infokommunikáció és Jog*, 2009. október, p. 194-200.  
Mezei, Péter: *A fájlcsere dilemma - A perek lassúak, az internet gyors*, HVG-Orac, Budapest, 2012: p. 185-211.  
Lábod, Tamás: A közvetítő szolgáltatók bevonása a szerzői jogi jogérvényesítésbe - Közösségi jogi lehetőségek, *Infokommunikáció és Jog*, 2012. február, p. 3-10.  
Liber, Ádám: A közvetítő szolgáltatók felelőssége a szellemi tulajdon megsértéséért az Európai

**Scarlet Extended SA v. Société belge des auteurs, compositeurs et éditeurs SCRL (SABAM)**

JUDGMENT OF THE COURT (Third Chamber)

24 November 2011

Case C-70/10

**(...) Legal context**

*European Union law*

Directive 2000/31

3 Recitals 45 and 47 in the preamble to Directive 2000/31 state:

*'(45) The limitations of the liability of intermediary service providers established in this Directive do not affect the possibility of injunctions of different kinds; such injunctions can in particular consist of orders by courts or administrative authorities requiring the termination or prevention of any infringement, including the removal of illegal information or the disabling of access to it.*

*(47) Member States are prevented from imposing a monitoring obligation on service providers only with respect to obligations of a general nature; this does not concern monitoring obligations in a specific case and, in particular, does not affect orders by national authorities in accordance with national legislation.'*

4 Article 1 of Directive 2000/31 states:

*'1. This Directive seeks to contribute to the proper functioning of the internal market by ensuring the free movement of information society services between the Member States.*

*2. This Directive approximates, to the extent necessary for the achievement of the objective set out in paragraph 1, certain national provisions on information society services relating to the internal market, the establishment of service providers, commercial communications, electronic contracts, the liability of intermediaries, codes of conduct, out-of-court dispute settlements, court actions and cooperation between Member States.'*

5 Article 12 of that directive, which features in Section 4, entitled 'Liability of intermediary service providers', of Chapter II thereof, provides:

*'1. Where an information society service is provided that consists of the transmission in a communication network of information provided by a recipient of the service, or the provision of access to a communication network, Member States shall ensure that the service provider is not liable for the information transmitted, on condition that the provider:*

*(a) does not initiate the transmission;*

*(b) does not select the receiver of the transmission; and*

*(c) does not select or modify the information contained in the transmission.*

*3. This Article shall not affect the possibility for a court or administrative authority, in accordance with Member States' legal systems, of requiring the service provider to terminate or prevent an infringement.'*

6 Article 15 of Directive 2000/31, which also features in Section 4 of Chapter II, states:

*'1. Member States shall not impose a general obligation on providers, when providing the services covered by Articles 12, 13 and 14, to monitor the information which they transmit or store, nor a general obligation actively to seek facts or circumstances indicating unlawful activity.*

*2. Member States may establish obligations for information society service providers promptly to inform the competent public authorities of alleged unlawful activities undertaken or information provided by recipients of their service or obligations to communicate to the competent authorities, at their request, information enabling the identification of recipients of their service with whom they have storage agreements.'*

Directive 2001/29

7 Recitals 16 and 59 in the preamble to Directive 2001/29 state:

*'(16) This Directive should be implemented within a timescale similar to that for the implementation of [Directive 2000/31], since that Directive provides a harmonised framework of principles and provisions relevant, inter alia, to important parts of this Directive. This Directive is without prejudice to provisions relating to liability in that Directive.*

*(59) In the digital environment, in particular, the services of intermediaries may increasingly be used by third parties for infringing activities. In many cases such intermediaries are best placed to bring such infringing activities to an end. Therefore, without prejudice to any other sanctions and remedies available, rightholders should have the possibility of applying for an injunction against an intermediary who carries a third party's infringement of a protected work or other subject-matter in a network. This possibility should be available even where the acts carried out by the intermediary are exempted under Article 5. The conditions and modalities relating to such injunctions should be left to the national law of the Member States.'*

8 Article 8 of Directive 2001/29 states:

*'1. Member States shall provide appropriate sanctions and remedies in respect of infringements of the rights and obligations set out in this Directive and shall take all the measures necessary to ensure that those sanctions and remedies are applied. The sanctions thus provided for shall be effective, proportionate and dissuasive.*

*3. Member States shall ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right.'*

#### Directive 2004/48

9 Recital 23 in the preamble to Directive 2004/48 provides:

*'Without prejudice to any other measures, procedures and remedies available, rightholders should have the possibility of applying for an injunction against an intermediary whose services are being used by a third party to infringe the rightholder's industrial property right. The conditions and procedures relating to such injunctions should be left to the national law of the Member States. As far as infringements of copyright and related rights are concerned, a comprehensive level of harmonisation is already provided for in Directive [2001/29]. Article 8(3) of Directive [2001/29] should therefore not be affected by this Directive.'*

10 Article 2(3) of Directive 2004/48 provides as follows:

*'This Directive shall not affect:*

*(a) the Community provisions governing the substantive law on intellectual property ... or Directive [2000/31], in general, and Articles 12 to 15 of Directive [2000/31] in particular;'*

11 Article 3 of Directive 2004/48 provides:

*'1. Member States shall provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. Those measures, procedures and remedies shall be fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.*

*2. Those measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.'*

12 Article 11 of Directive 2004/48 states:

*'Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement. Where provided for by national law, non-compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view to ensuring compliance. Member States shall also ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive [2001/29].'*

## *National law*

13 Article 87(1), first and second subparagraphs, of the Law of 30 June 1994 on copyright and related rights states:

*'The President of the Tribunal de première instance (Court of First Instance) shall determine the existence of any infringement of a copyright or related right and shall order that it be brought to an end. He may also issue an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right.'*

14 Articles 18 and 21 of the Law of 11 March 2003 on certain legal aspects of information society services (*Moniteur belge* of 17 March 2003, p. 12962) transpose Articles 12 and 15 of Directive 2000/31 into national law.

### **The dispute in the main proceedings and the questions referred for a preliminary ruling**

15 SABAM is a management company which represents authors, composers and editors of musical works in authorising the use of their copyright-protected works by third parties.

16 Scarlet is an internet service provider ('ISP') which provides its customers with access to the internet without offering other services such as downloading or file sharing.

17 In the course of 2004, SABAM concluded that internet users using Scarlet's services were downloading works in SABAM's catalogue from the internet, without authorisation and without paying royalties, by means of peer-to-peer networks, which constitute a transparent method of file sharing which is independent, decentralised and features advanced search and download functions.

18 On 24 June 2004, SABAM accordingly brought interlocutory proceedings against Scarlet before the President of the Tribunal de première instance, Brussels, claiming that that company was the best placed, as an ISP, to take measures to bring to an end copyright infringements committed by its customers.

19 SABAM sought, first, a declaration that the copyright in musical works contained in its repertoire had been infringed, in particular the right of reproduction and the right of communication to the public, because of the unauthorised sharing of electronic music files by means of peer-to-peer software, those infringements being committed through the use of Scarlet's services.

20 SABAM also sought an order requiring Scarlet to bring such infringements to an end by blocking, or making it impossible for its customers to send or receive in any way, files containing a musical work using peer-to-peer software without the permission of the rightholders, on pain of a periodic penalty. Lastly, SABAM requested that Scarlet provide it with details of the measures that it would be applying in order to comply with the judgment to be given, on pain of a periodic penalty.

21 By judgment of 26 November 2004, the President of the Tribunal de première instance, Brussels, found that copyright had been infringed, as claimed by SABAM, but, prior to ruling on the application for cessation, appointed an expert to investigate whether the technical solutions proposed by SABAM were technically feasible, whether they would make it possible to filter out only unlawful file sharing, and whether there were other ways of monitoring the use of peer-to-peer software, and to determine the cost of the measures envisaged.

22 In his report, the appointed expert concluded that, despite numerous technical obstacles, the feasibility of filtering and blocking the unlawful sharing of electronic files could not be entirely ruled out.

23 By judgment of 29 June 2007, the President of the Tribunal de première instance, Brussels, accordingly ordered Scarlet to bring to an end the copyright infringements established in the judgment of 26 November 2004 by making it impossible for its customers to send or receive in any way files containing a musical work in SABAM's repertoire by means of peer-to-peer software, on pain of a periodic penalty.

24 Scarlet appealed against that decision to the referring court, claiming, first, that it was impossible for it to comply with that injunction since the effectiveness and permanence of filtering and blocking systems had not been proved and that the installation of the equipment for so doing was faced with numerous practical obstacles, such as problems with the network capacity and the impact on the network. Moreover, any attempt to block the files concerned was, it argued, doomed to fail in the very short term because there were at that time several peer-to-peer software products which made it impossible for third parties to check their content.

25 Scarlet also claimed that that injunction was contrary to Article 21 of the Law of 11 March 2003 on certain legal aspects of information society services, which transposes Article 15 of Directive 2000/31 into national law, because it would impose on Scarlet, *de facto*, a general obligation to monitor communications on its network, inasmuch as any system for blocking or filtering peer-to-peer traffic would necessarily require general surveillance of all the communications passing through its network.

26 Lastly, Scarlet considered that the installation of a filtering system would be in breach of the provisions of European Union law on the protection of personal data and the secrecy of communications, since such filtering involves the processing of IP addresses, which are personal data.

27 In that context, the referring court took the view that, before ascertaining whether a mechanism for filtering and blocking peer-to-peer files existed and could be effective, it had to be satisfied that the obligations liable to be imposed on Scarlet were in accordance with European Union law.

28 In those circumstances, the cour d'appel de Bruxelles decided to stay the proceedings and to refer the following questions to the Court for a preliminary ruling:

*'(1) Do Directives 2001/29 and 2004/48, in conjunction with Directives 95/46, 2000/31 and 2002/58, construed in particular in the light of Articles 8 and 10 of the European Convention on the Protection of Human Rights and Fundamental Freedoms, permit Member States to authorise a national court, before which substantive proceedings have been brought and on the basis merely of a statutory provision stating that: 'They [the national courts] may also issue an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right', to order an [ISP] to install, for all its customers, in abstracto and as a preventive measure, exclusively at the cost of that ISP and for an unlimited period, a system for filtering all electronic communications, both incoming and outgoing, passing via its services, in particular those involving the use of peer-to-peer software, in order to identify on its network the movement of electronic files containing a musical, cinematographic or audio-visual work in respect of which the applicant claims to hold rights, and subsequently to block the transfer of such files, either at the point at which they are requested or at which they are sent?*

*(2) If the answer to the [first] question ... is in the affirmative, do those directives require a national court, called upon to give a ruling on an application for an injunction against an intermediary whose services are used by a third party to infringe a copyright, to apply the principle of proportionality when deciding on the effectiveness and dissuasive effect of the measure sought?'*

### **Consideration of the questions referred**

29 By its questions, the referring court asks, in essence, whether Directives 2000/31, 2001/29, 2004/48, 95/46 and 2002/58, read together and construed in the light of the requirements stemming

from the protection of the applicable fundamental rights, must be interpreted as precluding an injunction imposed on an ISP to introduce a system for filtering

- all electronic communications passing via its services, in particular those involving the use of peer-to-peer software;
- which applies indiscriminately to all its customers;
- as a preventive measure;
- exclusively at its expense; and
- for an unlimited period,

which is capable of identifying on that provider's network the movement of electronic files containing a musical, cinematographic or audio-visual work in respect of which the applicant claims to hold intellectual property rights, with a view to blocking the transfer of files the sharing of which infringes copyright ('the contested filtering system').

30 In that regard, it should first be recalled that, under Article 8(3) of Directive 2001/29 and the third sentence of Article 11 of Directive 2004/48, holders of intellectual property rights may apply for an injunction against intermediaries, such as ISPs, whose services are being used by a third party to infringe their rights.

31 Next, it follows from the Court's case-law that the jurisdiction conferred on national courts, in accordance with those provisions, must allow them to order those intermediaries to take measures aimed not only at bringing to an end infringements already committed against intellectual-property rights using their information-society services, but also at preventing further infringements.

32 Lastly, it follows from that same case-law that the rules for the operation of the injunctions for which the Member States must provide under Article 8(3) of Directive 2001/29 and the third sentence of Article 11 of Directive 2004/48, such as those relating to the conditions to be met and to the procedure to be followed, are a matter for national law.

33 That being so, those national rules, and likewise their application by the national courts, must observe the limitations arising from Directives 2001/29 and 2004/48 and from the sources of law to which those directives refer.

34 Thus, in accordance with recital 16 in the preamble to Directive 2001/29 and Article 2(3)(a) of Directive 2004/48, those rules laid down by the Member States may not affect the provisions of Directive 2000/31 and, more specifically, Articles 12 to 15 thereof.

35 Consequently, those rules must, in particular, respect Article 15(1) of Directive 2000/31, which prohibits national authorities from adopting measures which would require an ISP to carry out general monitoring of the information that it transmits on its network.

36 In that regard, the Court has already ruled that that prohibition applies in particular to national measures which would require an intermediary provider, such as an ISP, to actively monitor all the data of each of its customers in order to prevent any future infringement of intellectual-property rights. Furthermore, such a general monitoring obligation would be incompatible with Article 3 of Directive 2004/48, which states that the measures referred to by the directive must be fair and proportionate and must not be excessively costly.

37 In those circumstances, it is necessary to examine whether the injunction at issue in the main proceedings, which would require the ISP to install the contested filtering system, would oblige it, as part of that system, to actively monitor all the data of each of its customers in order to prevent any future infringement of intellectual-property rights.

38 In that regard, it is common ground that implementation of that filtering system would require

- first, that the ISP identify, within all of the electronic communications of all its customers, the files relating to peer-to-peer traffic;
- secondly, that it identify, within that traffic, the files containing works in respect of which holders of intellectual-property rights claim to hold rights;
- thirdly, that it determine which of those files are being shared unlawfully; and
- fourthly, that it block file sharing that it considers to be unlawful.

39 Preventive monitoring of this kind would thus require active observation of all electronic communications conducted on the network of the ISP concerned and, consequently, would encompass all information to be transmitted and all customers using that network.

40 In the light of the foregoing, it must be held that the injunction imposed on the ISP concerned requiring it to install the contested filtering system would oblige it to actively monitor all the data relating to each of its customers in order to prevent any future infringement of intellectual-property rights. It follows that that injunction would require the ISP to carry out general monitoring, something which is prohibited by Article 15(1) of Directive 2000/31.

41 In order to assess whether that injunction is consistent with European Union law, account must also be taken of the requirements that stem from the protection of the applicable fundamental rights, such as those mentioned by the referring court.

42 In that regard, it should be recalled that the injunction at issue in the main proceedings pursues the aim of ensuring the protection of copyright, which is an intellectual-property right, which may be infringed by the nature and content of certain electronic communications conducted through the network of the ISP concerned.

43 The protection of the right to intellectual property is indeed enshrined in Article 17(2) of the Charter of Fundamental Rights of the European Union ('the Charter'). There is, however, nothing whatsoever in the wording of that provision or in the Court's case-law to suggest that that right is inviolable and must for that reason be absolutely protected.

44 As paragraphs 62 to 68 of the judgment in *Promusicae* make clear, the protection of the fundamental right to property, which includes the rights linked to intellectual property, must be balanced against the protection of other fundamental rights.

45 More specifically, it follows from paragraph 68 of that judgment that, in the context of measures adopted to protect copyright holders, national authorities and courts must strike a fair balance between the protection of copyright and the protection of the fundamental rights of individuals who are affected by such measures.

46 Accordingly, in circumstances such as those in the main proceedings, national authorities and courts must, in particular, strike a fair balance between the protection of the intellectual property right enjoyed by copyright holders and that of the freedom to conduct a business enjoyed by operators such as ISPs pursuant to Article 16 of the Charter.

47 In the present case, the injunction requiring the installation of the contested filtering system involves monitoring all the electronic communications made through the network of the ISP concerned in the interests of those rightholders. Moreover, that monitoring has no limitation in time, is directed at all future infringements and is intended to protect not only existing works, but also future works that have not yet been created at the time when the system is introduced.

48 Accordingly, such an injunction would result in a serious infringement of the freedom of the ISP concerned to conduct its business since it would require that ISP to install a complicated, costly, permanent computer system at its own expense, which would also be contrary to the conditions laid

down in Article 3(1) of Directive 2004/48, which requires that measures to ensure the respect of intellectual-property rights should not be unnecessarily complicated or costly.

49 In those circumstances, it must be held that the injunction to install the contested filtering system is to be regarded as not respecting the requirement that a fair balance be struck between, on the one hand, the protection of the intellectual-property right enjoyed by copyright holders, and, on the other hand, that of the freedom to conduct business enjoyed by operators such as ISPs.

50 Moreover, the effects of that injunction would not be limited to the ISP concerned, as the contested filtering system may also infringe the fundamental rights of that ISP's customers, namely their right to protection of their personal data and their freedom to receive or impart information, which are rights safeguarded by Articles 8 and 11 of the Charter respectively.

51 It is common ground, first, that the injunction requiring installation of the contested filtering system would involve a systematic analysis of all content and the collection and identification of users' IP addresses from which unlawful content on the network is sent. Those addresses are protected personal data because they allow those users to be precisely identified.

52 Secondly, that injunction could potentially undermine freedom of information since that system might not distinguish adequately between unlawful content and lawful content, with the result that its introduction could lead to the blocking of lawful communications. Indeed, it is not contested that the reply to the question whether a transmission is lawful also depends on the application of statutory exceptions to copyright which vary from one Member State to another. Moreover, in some Member States certain works fall within the public domain or can be posted online free of charge by the authors concerned.

53 Consequently, it must be held that, in adopting the injunction requiring the ISP to install the contested filtering system, the national court concerned would not be respecting the requirement that a fair balance be struck between the right to intellectual property, on the one hand, and the freedom to conduct business, the right to protection of personal data and the freedom to receive or impart information, on the other.

54 In the light of the foregoing, the answer to the questions submitted is that Directives 2000/31, 2001/29, 2004/48, 95/46 and 2002/58, read together and construed in the light of the requirements stemming from the protection of the applicable fundamental rights, must be interpreted as precluding an injunction made against an ISP which requires it to install the contested filtering system.

#### THINK IT OVER

1. Later, the ECJ has confirmed its "first" SABAM ruling in the following "second" SABAM case. There, however, the defendant was not an ISP, but rather a social networking site (Netlog) that was classified under E-Commerce law as hosting provider. ***What is the general problem with the ECJ's ban on general monitoring and filtering system?***

2. Later, again, the ECJ has faced with another factual situation, where the Austrian referring court wanted to know, whether an obligation to block a specific domain, where the obliged ISP might choose the best method to reach a general result (practically, the general exclusion of users' ability to access the Kino.to website that offered numerous illegal audiovisual contents for free) is compatible with the EU law. The ECJ has concluded in the UPC v. Constantin Film case that "the fundamental rights recognised by EU law must be interpreted as not precluding a court injunction prohibiting an internet service provider from allowing its customers access to a website placing protected subject-matter online without the agreement of the rightholders when that injunction does not specify the

measures which that access provider must take and when that access provider can avoid incurring coercive penalties for breach of that injunction by showing that it has taken all reasonable measures, provided that (i) the measures taken do not unnecessarily deprive internet users of the possibility of lawfully accessing the information available and (ii) that those measures have the effect of preventing unauthorised access to the protected subject-matter or, at least, of making it difficult to achieve and of seriously discouraging internet users who are using the services of the addressee of that injunction from accessing the subject-matter that has been made available to them in breach of the intellectual property right, that being a matter for the national authorities and courts to establish.” ***Is such “Erfolgsverbot” practically workable solution against online copyright infringements?***

#### FURTHER CASE LAW

*Case C-360/10* - Belgische Vereniging van Auteurs, Componisten en Uitgevers CVBA (SABAM) v. Netlog NV, European Court of Justice, February 16, 2012  
*Case C-314/12* - UPC Telekabel Wien GmbH kontra Constantin Film Verleih GmbH és Wega Filmproduktionsgesellschaft mbH, European Court of Justice, March 27, 2014

#### RECOMMENDED READINGS

##### *In English*

Rantou, Marianna: The growing tension between copyright and personal data protection on an online environment: The position of Internet Service Providers according to the European Court of Justice, *European Journal of Law and Technology*, Issue 2/2012, p. 1-24.  
Meale, Darren: SABAM v Scarlet: Of Course Filtering of the Internet is Unlawful, but this Isn't the End of the Story, *European Intellectual Property Review*, 2012: p. 429-432.  
Psychogiopoulou, Evangelia: Copyright Enforcement, Human Rights Protection and the Responsibilities of Internet Service Providers after Scarlet, *European Intellectual Property Review*, 2012: p. 552-555.  
Nagel, Daniel: Network Blocking in the EU: A Slippery Slope to (Third Party) Censorship?, *Computer und Recht*, 2014: p. 113-116.  
Angelopoulos, Christina: Are blocking injunctions against ISPs allowed in Europe? Copyright enforcement in the post-Telekabel EU legal landscape, *Journal of Intellectual Property Law and Practice*, 2014: p. 812-821.  
Tuomas Mylly: The Constitutionalization of the European Legal Order: Impact of Human Rights on Intellectual Property in the EU. In: Christophe Geiger: *Research Handbook on Human Rights and Intellectual Property*, Edgar Elgar, 2015: p. 103-131.

##### *In Hungarian*

Mezei Péter: *A fájlcsere dilemma - A perek lassúak, az internet gyors*, HVG-Orac, Budapest, 2012: p. 185-211.  
Mezei Péter: Az Európai Bíróság ítélete a jogellenes tartalmakat szolgáltató streaming oldalak blokkolásának egyes kérdéseiről. A szerzői jog érvényesítésének új útjai az online világban, *Jogesetek Magyarázata*, Issue 4/2014, p. 63-72.

MR JUSTICE ARNOLD

## INTRODUCTION

1. The Claimant (“FAPL”) is the governing body of the football competition known as the Barclays Premier League (“the Premier League”). As explained in more detail below, FAPL owns the copyright in recordings of television footage of all Premier League matches, and in artistic works which appear within that footage. The Defendants are the six main retail internet service providers (“ISPs”) in the United Kingdom. Between them they have a fixed line market share of some 94% of UK internet users. By this claim FAPL seeks an injunction against the Defendants pursuant to section 97A of the Copyright, Designs and Patents Act 1988 (“the 1988 Act”), which implements Article 8(3) of European Parliament and Council Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (“the Information Society Directive”), requiring the Defendants to take measures to block or at least impede access by their customers to a website known as FirstRow Sports (“FirstRow”). (...)

## THE PRESENT APPLICATION

6. The present application differs from the applications considered in the judgments referred to above in a number of respects. First, the applicant and its supporters constitute a different class of rightholder. Secondly, unlike the websites the subject of the previous applications, FirstRow is not a peer-to-peer (“P2P”) file-sharing website. Rather, it is a website which facilitates access to streams of television broadcasts of sporting events. Thirdly, as a result, the issues on infringement are somewhat different.

7. As in the *Dramatico v Sky* and *EMI v Sky* cases, FAPL seeks orders in terms which have been agreed with the Defendants and the Defendants do not oppose the making of those orders. That does not absolve the Court of the responsibility of determining whether the orders sought are justified. I have considered the matter on paper.

## FAPL AND ITS RIGHTS

8. FAPL is authorised by its member clubs to license broadcasters throughout the world to provide coverage of Premier League matches. A high proportion of the revenue generated by FAPL derives from the sale of such rights. The rights are offered to broadcasters by open competitive tender for a specified territory or groups of territories and term. The rights for the United Kingdom and the Republic of Ireland are sold separately from the rest of the world. The broadcast rights for the UK alone were last auctioned for some £3.018 billion, which is by a very considerable margin the largest amount paid for sporting broadcast rights in the UK.

9. The broadcasting of Premier League matches for viewing in the UK during the “Closed Period” is restricted by Article 48 of the Statutes of UEFA. This empowers each national football association to designate a period of two and half hours in each week during which the broadcasting of football matches in that territory is prohibited. The purpose of this is to encourage attendance at football matches, and in that way to support the sport of football. The Football Association has designated 2.45 pm to 5.15 pm on Saturdays as the Closed Period in England.

10. Each Premier League match is filmed by one of three broadcasters (referred to as the “Host Broadcasters”), using between 8 and 25 cameras with built-in microphones. The live pictures and ambient sound from the stadium are referred to as the “Clean Live Feed”. The Clean Live Feed also includes action replays added by the Host Broadcaster’s production team. These consist of recordings

of pictures of incidents of particular interest (“the Action Replay Films”). The Clean Live Feed is transmitted directly to some broadcasters who have been licensed by FAPL, notably those in the UK, Republic of Ireland, United States of America and India.

11. The Clean Live Feed is also transmitted to IMG Media Ltd, which incorporates certain onscreen graphics and logos into it to produce the “World Feed”. Prior to the 2012/2013 season, the World Feed was transmitted live to broadcasters who had been licensed by FAPL other than those who receive the Clean Live Feed. Since the beginning of the 2012/2013 season, the World Feed has been recorded (“the Recorded World Feed”) before it is transmitted to the broadcasters.

12. For the purposes of the present application, FAPL claims copyright in the following works:

- i) the films comprising the Action Replay Films included in the Clean Live Feed (and hence the Recorded World Feed);
- ii) the films comprising the Recorded World Feed;
- iii) the artistic works comprising the Premier League and Barclays logos which are incorporated in the Recorded World Feed; and
- iv) the artistic works comprising two sets of on-screen graphics (referred to as the “AEL Onscreen Graphics” and the “IMG Onscreen Graphics”) which are incorporated in the Recorded World Feed.

13. I am satisfied by the evidence filed by FAPL that copyright subsists in these works and that FAPL owns those copyrights.

### **FIRSTROW**

14. FirstRow is a website which has been operating for some time as an indexing and aggregation portal to streamed broadcasts of sporting events. The site is currently located at [www.firstrow1.eu](http://www.firstrow1.eu), although a number of other domain names have been used, some of which have been seized by the US Department of Homeland Security. A visitor to the FirstRow website is presented with lists of links, organised by sport and time of the day, to streams containing live coverage of a wide range of sporting events, including in particular Premier League matches and events organised by the other supporting rightholders. Upon clicking on one of those links, the user is taken to a new page which features a “frame” or window in which that live coverage then appears, accompanied by advertising. As an alternative, the user can download a free app from the website to their computer which will enable them to access links.

15. The streams that are indexed on FirstRow are provided by third party streamers using one of a number of User Generated Content (“UGC”) websites. There are around six or seven such UGC sites which are commonly used for this purpose, one of the most popular of which is called 04stream.com. There are a number of stages to the process. First, the third party streamer digitally captures a broadcast of a live sports event on his or her computer. The captured broadcast may be one that the streamer is watching on his television or computer legally (e.g. via a legitimate subscription) or it may be an illegal stream. Secondly, the streamer sends the captured images in real time to the server of a UGC site. Thirdly, the streamer uses the UGC site to create an “embed code” which enables the stream player to be embedded into a website like FirstRow. Fourthly, the streamer submits the embed code to FirstRow. If it is accepted, it will be listed as a link on FirstRow. It appears that FirstRow has moderators who vet and index these submissions. It is common for multiple links to be listed for each event. These may comprise multiple versions of the same broadcast and/or different broadcasts. Fifthly, the user clicks on the link, thereby enabling the user to watch the stream.

16. Three points should be noted about this process. First, whilst FirstRow gives the impression - by way of a “Submit your video” link - that it is open to the submission of streams by any member of the public, this does not in fact appear to be the case. FAPL’s evidence is that it is likely that it works with a number of existing, trusted streamers (and, perhaps, new streamers introduced by existing streamers). Secondly, FAPL’s evidence is that none of the streams links to which are provided by

FirstRow comes directly from an official source (such as a broadcaster licensed by FAPL). Thirdly, FirstRow itself does not itself transmit any of the streams. Rather, the streams emanate from the UGC sites.

17. The scale of FirstRow's activities is very large. There are a large number of links listed on the site at any one time. FirstRow was ranked by Alexa as the 268<sup>th</sup> most popular website in the UK in January 2013 and the 239<sup>th</sup> most popular in April 2013. To put that in perspective, FirstRow was on that basis more popular, in January 2013, than both [www.lastminute.com](http://www.lastminute.com) and [www.ft.com](http://www.ft.com). In April 2013 alone, FirstRow received 9.98 million unique user hits worldwide.

18. The generation of traffic at these levels enables FirstRow to make considerable sums in advertising and affiliation revenues. Using his expertise acquired from over twelve years of researching and analysing digital piracy, and on the basis of a detailed analysis of the website and the adverts which appear there, FAPL's expert witness Dr David Price estimates that FirstRow is likely to be generating between £5,360,680 and £9,505,564 in annual revenue. Many of the UGC streamers are also motivated by financial reward, since they are able to add their own adverts to the streams.

19. FirstRow does not have permission from FAPL to engage in this activity. Nor, as the witnesses make clear, does FirstRow have permission from the other supporting rightholders, all of whose content has also been streamed via FirstRow.

20. FirstRow is not merely used to watch coverage of sporting events in users' homes. On the contrary, FAPL's agents have discovered that FirstRow is being used by some public houses in the UK so as to show their customers broadcasts of Premier League matches, including during the Closed Period on a Saturday afternoon.

21. FAPL has been unable to establish who the operators of FirstRow are and where they can be contacted. FirstRow has been registered under many different domain names, using a mixture of what appear to be false name and address details and registrations via proxy registration firms. The current host of the site is Portlane in Sweden, which FAPL's witness Tim Cooper, Chief Technology Officer of NetResult Solutions Ltd ("NetResult"), a company specialising in internet investigation, monitoring and enforcement, describes as "a well-known haven for pirate sites".

22. NetResult has sent a number of cease and desist letters on behalf of FAPL to FirstRow, but these have not been responded to. Furthermore, although FirstRow states that it will accept takedown notices, the address given turns out to be fictitious. (...)

#### **ARE THE DEFENDANTS SERVICE PROVIDERS?**

25. As I stated in *Dramatico v Sky (No 2)* at [5], I am in no doubt that the Defendants are service providers within the meaning of regulation 2 of the Electronic Commerce (EC Directive) Regulations 2002, SI 2002/2013, and hence within the meaning of section 97A of the 1988 Act. None of the Defendants has suggested otherwise.

#### **DO THE OPERATORS AND USERS OF FIRSTROW INFRINGE FAPL COPYRIGHTS?**

26. FAPL contends that the operators of FirstRow infringe their copyrights in two ways. First, by communicating the copyright works to the public within section 20 of the 1988 Act, alternatively by acting as joint tortfeasors with the operators of the UGC websites. Secondly, by authorising infringements by users. FAPL contends that some UK users of FirstRow, namely the publicans who use FirstRow to show Premier League matches in their public houses, infringe their copyrights by communicating the copyright works to the public.

27. In view of the Supreme Court's decision and reference to the Court of Justice of the European Union in *Public Relations Consultants Association Ltd v The Newspaper Licensing Agency Ltd* [2013] UKSC 18, [2013] ECDR 10, FAPL does not advance any claim based on copying, whilst reserving its right to do so in later proceedings.

#### *Communication to the public*

28. Section 20 of the 1988 Act provides:

- (a) a literary, dramatic, musical or artistic work,
  - (b) a sound recording or film, or
  - (c) a broadcast.
- (2) References in this part to communication to the public are to communications to the public by electronic transmission, and in relation to a work includes-
- (a) the broadcasting of the work;
  - (b) the making available to the public of the work by electronic transmission in such a way that members of the public may access it from a place and at a time individually chosen by them."

29. Section 20 implements Article 3 of the Information Society Directive, which provides as follows:

***“Right of communication to the public of works and right of making available to the public other subject-matter***

- 1. Member States shall provide authors with the exclusive right to authorise or prohibit any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them.
- 2. Member States shall provide for the exclusive right to authorise or prohibit the making available to the public, by wire or wireless means, in such a way that members of the public may access them from a place and at a time individually chosen by them:
  - (a) for performers, of fixations of their performances;
  - (b) for phonogram producers, of their phonograms;
  - (c) for the producers of the first fixations of films, of the original and copies of their films;
  - (d) for broadcasting organisations, of fixations of their broadcasts, whether these broadcasts are transmitted by wire or over the air, including by cable or satellite.
- 3. The rights referred to in paragraphs 1 and 2 shall not be exhausted by any act of communication to the public or making available to the public as set out in this Article.”

30. I reviewed the law with regard to communication to the public under Article 3 of the Information Society Directive and section 20 of the 1988 Act in *Dramatico v Sky* at [45]-[70] (...).

31. I concluded in *EMI v Sky* that whether there is a communication to the public depends on the answers to three questions:

- i) Is there a communication of copyright works by way of electronic transmission?
- ii) Is there a communication to a new public, that is to say, to a public which was not taken into account by the authors of the protected works when they authorised their communication to the original public?
- iii) Does the act of communication to the public take place in the UK? If the communication originates from outside the UK, that depends on whether it is targeted at the public in the UK.

32. The CJEU has since given judgment in Case C-607/11 *ITV Broadcasting Ltd v TVCatchup Ltd* [2013] ECR-0000, [2013] ECDR 9. That case concerned a website which re-transmitted live television broadcasts, via the internet, to persons who already held a licence to watch such broadcasts on a television. As to whether there was a “communication” under Article 3, the Court of Justice held:

“22. Directive 2001/29 does not define the concept of ‘communication’ exhaustively. Thus, the meaning and scope of that concept must be defined in the light of the context in which it occurs and also in the light of the objective referred to in paragraph 20 above.

23. It follows, in particular, from recital 23 in the preamble to Directive 2001/29 that the author’s right of communication to the public covers any transmission or retransmission of a work to the public not

present at the place where the communication originates, by wire or wireless means, including broadcasting. In addition, it is apparent from Article 3(3) of that directive that authorising the inclusion of protected works in a communication to the public does not exhaust the right to authorise or prohibit other communications of those works to the public.

24. It follows that, by regulating the situations in which a given work is put to multiple use, the European Union legislature intended that each transmission or retransmission of a work which uses a specific technical means must, as a rule, be individually authorised by the author of the work in question.

25. Those findings are, moreover, supported by Articles 2 and 8 of Directive 93/83, which require fresh authorisation for a simultaneous, unaltered and unabridged retransmission by satellite or cable of an initial transmission of television or radio programmes containing protected works, even though those programmes may already be received in their catchment area by other technical means, such as by wireless means or terrestrial networks.

26. Given that the making of works available through the retransmission of a terrestrial television broadcast over the internet uses a specific technical means different from that of the original communication, that retransmission must be considered to be a ‘communication’ within the meaning of Article 3(1) of Directive 2001/29. Consequently, such a retransmission cannot be exempt from authorisation by the authors of the retransmitted works when these are communicated to the public.

27. That conclusion cannot be undermined by TVC’s objection that the making of the works available over the internet, as was done in the case in the main proceedings, is merely a technical means to ensure or improve reception of the terrestrial television broadcast in its catchment area.

28. Admittedly, it follows from the case-law of the Court that a mere technical means to ensure or improve reception of the original transmission in its catchment area does not constitute a ‘communication’ within the meaning of Article 3(1) of Directive 2001/29 (see, to that effect, *Football Association Premier League and Others*, paragraph 194, and *Airfield and Canal Digitaal*, paragraphs 74 and 79).

29. Thus, the intervention of such a technical means must be limited to maintaining or improving the quality of the reception of a pre-existing transmission and cannot be used for any other transmission.

30. In the present case, however, the intervention by TVC consists in a transmission of the protected works at issue which is different from that of the broadcasting organisation concerned. TVC’s intervention is in no way intended to maintain or improve the quality of the transmission by that other broadcasting organisation. In those circumstances, that intervention cannot be considered to be a mere technical means within the meaning specified in paragraph 28 above.”

33. Thus the Court has confirmed that any retransmission of a terrestrial television broadcast via the internet will constitute a communication because it involves “...a specific technical means different from that of the original communication” and an “...intervention ... which is different from that of the broadcasting organisation concerned”. This reasoning is equally applicable to re-transmission of satellite and cable television broadcasts via the internet.

34. The Court then went on to consider the issue of whether there was communication to the “public”:

“32. In that connection, it follows from the case-law of the Court that the term ‘public’ in Article 3(1) of Directive 2001/29 refers to an indeterminate number of potential recipients and implies, moreover, a fairly large number of persons (see, to that effect, *SGAE*, paragraphs 37 and 38 and the case law cited).

33. As regards that last criterion specifically, the cumulative effect of making the works available to potential recipients should be taken into account. In that connection, it is in particular relevant to ascertain the number of persons who have access to the same work at the same time and successively (*SGAE*, paragraph 39).

34. In that context, it is irrelevant whether the potential recipients access the communicated works through a one-to-one connection. That technique does not prevent a large number of persons having access to the same work at the same time.

35. In the present case, it should be noted that the retransmission of the works over the internet at issue in the main proceedings is aimed at all persons resident in the United Kingdom who have an internet connection and who claim to hold a television licence in that State. Those people may access the protected works at the same time, in the context of the ‘live streaming’ of television programmes on the internet.

36. Thus, the retransmission in question is aimed at an indeterminate number of potential recipients and implies a large number of persons. Consequently, it must be held that, by the retransmission in question,

*the protected works are indeed communicated to a 'public' within the meaning of Article 3(1) of Directive 2001/29."*

35. Finally, the Court considered whether there was a "new public" in that particular case, because of the pre-existence of a television licence:

*"37 TVC contends that the retransmission at issue in the main proceedings does not satisfy the requirement that there must be a new public, which is none the less necessary within the meaning of the judgments in SGAE (paragraph 40), Football Association Premier League and Others (paragraph 197), and Airfield and Canal Digitaal (paragraph 72). The recipients of the retransmission effected by TVC are, it submits, entitled to follow the televised broadcast, identical in content, using their own television sets.*

*38. In that connection, it should be noted that the situations examined in the cases which gave rise to the abovementioned judgments differ clearly from the situation at issue in the case in the main proceedings. In those cases, the Court examined situations in which an operator had made accessible, by its deliberate intervention, a broadcast containing protected works to a new public which was not considered by the authors concerned when they authorised the broadcast in question.*

*39. By contrast, the main proceedings in the present case concern the transmission of works included in a terrestrial broadcast and the making available of those works over the internet. As is apparent from paragraphs 24 to 26 above, each of those two transmissions must be authorised individually and separately by the authors concerned given that each is made under specific technical conditions, using a different means of transmission for the protected works, and each is intended for a public. In those circumstances, it is no longer necessary to examine below the requirement that there must be a new public, which is relevant only in the situations on which the Court of Justice had to rule in the cases giving rise to the judgments in SGAE, Football Association Premier League and Others and Airfield and Canal Digitaal."*

36. The Court thus held that, where a television broadcast is re-transmitted via the internet, there is no need to show that the "public" to which the re-transmission is communicated is any different from the public to which the original transmission was addressed. The fact that it is a separate communication to the public by a different technical means suffices.

#### *Communication to the public by the operators of FirstRow*

37. Although some of the copyright works relied on by FAPL are "films" within the meaning of the 1988 Act and some are artistic works, it is not necessary to differentiate between them for the purposes of considering FAPL's claims of infringement by communication to the public for the reasons explained in *Dramatico v Sky* at [61]-[65].

38. *Is there a communication by FirstRow?* FAPL contends that FirstRow communicates FAPL's copyright works by electronic transmission. In my judgment it is clear from the CJEU's reasoning in *ITV v TVCatchup* at [26] and [30] that there is a communication of the works. More specifically, the works are made available by electronic transmission in such a way that members of the public may access the recordings from a place and at a time individually chosen by them within section 20(2)(b).

39. The more difficult question is whether FirstRow is responsible for the communication. FAPL accepts that, in technical terms, the streams emanate from the UGC sites and not from FirstRow itself. FAPL nevertheless contends that both the UGC sites and FirstRow communicate the works.

40. In support of this contention, FAPL relies upon the reasoning of Kitchin J (as he then was) in *Twentieth Century Fox Film Corp v Newzbin Ltd* [2010] EWHC 608 (Ch), [2010] FSR 21 at [125]:

*"The defendant has provided a service which, upon payment of a weekly subscription, enables its premium members to identify films of their choice using the Newzbin cataloguing and indexing system and then to download those films using the NZB facility, all in the way I have described in detail earlier in this judgment. This service is not remotely passive. Nor does it simply provide a link to a film of interest which is made available by a third party. To the contrary, the defendant has intervened in a highly material way to make the claimants' films available to a new audience, that is to say its premium*

*members. Furthermore it has done so by providing a sophisticated technical and editorial system which allows its premium members to download all the component messages of the film of their choice upon pressing a button, and so avoid days of (potentially futile) effort in seeking to gather those messages together for themselves. As a result, I have no doubt that the defendant's premium members consider that Newzbin is making available to them the films in the Newzbin index. Moreover, the defendant has provided its service in full knowledge of the consequences of its actions."*

41. FAPL also relies on what I said in *EMI v Sky* at [46]:

*"I would add that I see nothing in Football Dataco v Sportradar to exclude the possibility that more than one person may be involved in an act of communication to the public. In the present situation, the communication to the public involves both the operators of Websites, who provide a mechanism specifically designed to achieve this, and the users, who provide the actual recordings. (Even if I am wrong about this, the operators may still be liable on the grounds of authorisation and joint tortfeasance.)"*

42. In the present case the operators of FirstRow have intervened in a manner which, although technically different, is analogous to that of the websites under consideration in those cases. FirstRow aggregates together a large number of streams from a variety of streamers, indexes them for the convenience of the user and provides a simple link for the user to click on in order to access a specific stream. It is true that the technical effect of clicking on the link is to direct the stream from the UGC site to the user's computer, but even so the stream is presented in a frame provided by FirstRow. In all the circumstances, I consider that FirstRow is responsible for the communication.

43. Even if I am wrong about that, I consider that FirstRow is jointly liable for the communication by the UGC sites: compare *EMI v Sky* at [71]-[74].

44. *Is the communication to the public?* FAPL contends that the communication is to the public, relying on the reasoning of the CJEU in *ITV v TVCatchup* at [35]-[36]. I agree that this reasoning is equally applicable to the present case. Furthermore, FAPL contends that it is not necessary for it to show that the communication is to a new public, relying on *ITV v TVCatchup* at [39]. I accept this. In any event, even if FAPL had to show that the communication was to a new public, I consider that it is clear that that requirement is satisfied, since the effect of FirstRow's activities is to make the broadcasts available to persons who are not legitimately entitled to view them either because those persons have not subscribed to the broadcaster's service or because the broadcaster has only been licensed by FAPL for a different territory.

45. *Is the communication in the UK?* FAPL accepts that it must show an intention on the part of the operators of FirstRow to target the public in the UK. FAPL relies upon the following matters as evidencing such an intention:

- i) The website is an English language website.
- ii) The advertising on FirstRow includes adverts for companies located in the UK and products consumed in the UK.
- iii) FirstRow provides access to a large number of competitions which are extremely popular with UK audiences. In particular, the amount of Premier League content on the website is up to 11% whilst a Premier League match is being played.
- iv) As noted above, FirstRow is a very popular site in the UK.
- v) Between 12 and 13.7% of the worldwide traffic to the site comes from the UK.
- vi) FirstRow is discussed on internet blogs and forums, where a significant proportion of the internet traffic to those blogs and forums comes from the UK.

46. I accept that these matters evidence an intention to target the public in the UK. Accordingly, there is communication to the public in the UK.

47. *Conclusion.* I am satisfied that FirstRow communicates FAPL's copyright works to the public in the UK and thereby infringes FAPL's copyrights in those works.

*Communication to the public by users of FirstRow who are publicans*

48. FAPL contends that publicans who use FirstRow to screen Premier League matches in their public houses are thereby communicating FAPL's copyright works to the public. In support of this, FAPL relies upon the decision of the CJEU in *FAPL v QC*, where the Court held at [207] that:

“... 'communication to the public' within the meaning of Article 3(1) of the Copyright Directive must be interpreted as covering transmission of the broadcast works, via a television screen and speakers, to the customers present in a public house.”

49. Clearly, the same reasoning must apply where the technical means used is a computer rather than a television. Accordingly, I conclude that the publicans communicate FAPL's copyright works to the public.

*Authorisation by the operators of FirstRow*

50. FAPL contends that the operators of FirstRow authorise the infringements by the users and thus also infringe in that way. I have to say that I have doubts as to whether it can be said that the operators of FirstRow authorise the screening of Premier League matches using FirstRow in public houses. It is not necessary for me to reach a conclusion on this point, however, given that I have already concluded that the operators of FirstRow infringe FAPL's copyrights by communication to the public.

**DO THE USERS AND/OR OPERATORS USE THE DEFENDANTS' SERVICES TO INFRINGE?**

51. I held in *20CFox v BT* at [99]-[113], *Dramatico v Sky (No 2)* at [6] and *EMI v Sky* at [76]-[88] that both users and the operators of the websites in issue used the Defendants' services to infringe the claimants' copyrights. In my judgment that reasoning is equally applicable to the present case.

**DO THE DEFENDANTS HAVE ACTUAL KNOWLEDGE?**

52. On 7 June 2013 FAPL's solicitors sent detailed letters before action to the Defendants which attached the evidence relied upon by FAPL in the present application. I am satisfied that, as a result, the Defendants do have actual knowledge that users and the operators of the Websites use the Defendants' services to infringe copyright. Indeed, I note that none of the Defendants denies this.

**PROPORTIONALITY AND DISCRETION**

53. FAPL contends that I should exercise my discretion to make the orders sought. Unlike in *20C Fox v BT*, the Defendants do not advance any reasons as to why I should exercise my discretion to refuse to make the orders sought. Even so, as FAPL rightly accepts, the onus remains on FAPL to satisfy the Court that it is appropriate to make such orders, and in particular that the orders are proportionate.

54. I reviewed the correct approach to the assessment of proportionality in *EMI v Sky* at [91]-[106]. I shall adopt the same approach here.

55. FAPL contends that the orders are proportionate for the following reasons:

- i) As between FAPL and the Defendants, the Defendants do not oppose the making of the orders and the terms of the orders have been agreed between FAPL and the Defendants. The costs to the Defendants of implementation are modest and proportionate.
- ii) The orders are necessary to protect the copyrights of FAPL and the supporting rightholders, which are being infringed on a large scale. Given the difficulty of identifying, let alone bringing proceedings against, the operators of FirstRow, no other effective remedy is open to FAPL in this jurisdiction.

iii) The orders are also necessary, or at least desirable, in order to protect the sporting objectives which lie behind the Closed Period, and in that sense are in the public interest. This is a legitimate factor to take into account.

iv) While FirstRow features international content some of which may not be protected by copyright or may be licensed, the vast bulk of the content which is likely to be of interest to UK users infringes the rights of FAPL and the supporting rightholders.

v) The orders are narrow and targeted ones, and they contain safeguards in the event of any change of circumstances. While they are unlikely to be completely efficacious, since some users will be able to circumvent the technical measures which the orders require the Defendants to adopt, it is likely that they will be reasonably effective.

56. So far as sub-paragraph (v) is concerned, two points should be noted. First, the orders require IP address blocking of the IP address for FirstRow's domain name firstrow1.eu. FAPL's evidence is that this will not result in over-blocking since that IP address is not shared. The orders also require IP address re-routing and URL blocking for URLs at any shared IP addresses.

57. Secondly, on 25 June 2013 Mann J granted orders under section 97A concerning a website known as EZTV. He required the orders to contain an additional liberty to apply in the following terms:

*"The operator(s) of the Target Website (as defined in the Schedule to this order) and the operators of any other website who claim to be affected by this Order, are to have permission to apply to vary or discharge this Order insofar as it affects such an applicant, any such application to be on notice to all the parties and to be supported by materials setting out and justifying the grounds of the application. Any such application shall clearly indicate the status of the applicant and indicate clearly (supported by evidence) that it is the operator of the website which is the subject of the application."*

58. I agree that this is a beneficial provision to include in orders of this nature. In the present case, the parties have agreed to the inclusion of a similar provision.

59. Having considered the proportionality of the orders sought by the present applications as between FAPL (and the supporting rightholders) and the Defendants and as between FAPL and the operators and users of FirstRow, I am satisfied that the orders sought are proportionate for the reasons advanced by FAPL. The interests of FAPL and the supporting rightholders in enforcing their copyrights clearly outweigh the Article 11 EU Charter rights of the users of the Websites, who can obtain the copyright works from lawful sources. They even more clearly outweigh the Article 11 rights of the operators of the Websites, who are profiting from infringement on a large scale. They also outweigh the Defendants' Article 11 rights to the extent that they are engaged.

## CONCLUSION

60. I will make the orders requested by FAPL.

### THINK IT OVER

A recent research paper has concluded that "blocking The Pirate Bay had little impact on UK users' consumption through legal channels. Instead blocked users switched to other piracy sites or circumvented the block by using Virtual Private Networks. However, unlike the May 2012 Pirate Bay block, our results showed that when 19 sites were blocked simultaneously, former users of these sites increased their usage of paid legal streaming sites by 12% on average, relative to the control group. The blocks caused the lightest users of the blocked sites (and thus the users who were least affected by the blocks, other than the control group) to increase their use of paid streaming sites by 3.5% while they caused the heaviest users of the blocked sites to increase paid streaming visits by 23.6%, strengthening the causal inference in our result. As we discuss in our paper, the most likely explanation for this result – and one supported by other observations in the data – is that when only

one site is blocked, most pirates have an easy time finding and switching to other piracy sites. But, blocking many sites can increase the cost of finding alternate sources of piracy enough that a significant number of former pirates will switch their behavior toward legal sources” [Danaher - Smith - Telang (2015)]. ***Do you agree with such conclusion? Do you think that blocking of illicit websites is a practical and effective method of fights against file-sharing?***

#### FURTHER CASE LAW

Twentieth Century Fox Film Corp v British Telecommunications plc [2011] *EWHC* 1981 (Ch)  
Twentieth Century Fox Film Corp v British Telecommunications plc (No 2) [2011] *EWHC* 2714 (Ch)  
Dramatico Entertainment Ltd v British Sky Broadcasting Ltd [2012] *EWHC* 268 (Ch), [2012]  
Dramatico Entertainment Ltd v British Sky Broadcasting Ltd (No 2) [2012] *EWHC* 1152 (Ch)  
EMI Records Ltd v British Sky Broadcasting Ltd [2013] *EWHC* 379 (Ch)  
The Football Association Premier League Ltd v British Sky Broadcasting Ltd & Ors [2013] *EWHC* 2058 (Ch)  
Paramount Home Entertainment International Ltd & Ors v British Sky Broadcasting Ltd & Ors [2013] *EWHC* 3479 (Ch)  
Paramount Home Entertainment & Anor v British Sky Broadcasting & Ors [2014] *EWHC* 937 (Ch)  
Twentieth Century Fox Film Corporation & Ors v Sky UK Ltd & Ors [2015] *EWHC* 1082 (Ch)

#### RECOMMENDED READINGS

Rachel Alexander: FirstRow - Access Denied, *Entertainment Law Review*, Issue 8/2013, p. 280-283.  
Pekka Savola: Blocking Injunctions and Website Operators' Liability for Copyright Infringement for User-Generated Links, *European Intellectual Property Review*, Issue 5/2014, p. 279-288.  
Danaher, Brett - Smith, Michael D. - Telang, Rahul: The Effect of Piracy Website Blocking on Consumer Behaviour (manuscript) (<http://ssrn.com/abstract=2612063>)

## TEST YOUR KNOWLEDGE

Try to answer the following essay questions that have been assigned as exam questions by the lecturers of the course!

1. *Open Library*, a non-profit institution, allows members of the public to become a patron of the library for a fixed yearly subscription fee. Patrons are allowed to lend books for free. Open Library also operates a request-based photocopy service for the patrons of the library. The photocopy service is not free of charge; however, the library only asks for the production costs of the photocopies, that is, they don't generate any profit from this service. Patrons of the library may request the reproduction of copyrighted or public domain works. In case the patron cannot visit the library in person, she may ask for the delivery of the copy by mail, facsimile or via e-mail. In case the patron asks for sending the copy via mail or facsimile, she has to pay an extra flat rate for the postal or telephone service. The owner of a publishing company (Mr. Publisher) visits you in your office, and reveals that he has evidences that 14 copies were made for the patrons of the Open Library about "The history of photocopying". The book was published in Turku, Finland, and subsequently in New York, US in 2000 (hereinafter: Book). Mr. Publisher owns the copyright of the Book. Four copies were shipped by mail, three copies were sent via e-mail and two by facsimile to the patrons, and the rest was handed over personally to the patron. Mr. Publisher seeks your advice, whether the above mentioned practice is illegal or not. Please consider Mr. Publisher's question under the European Union's law.

2. *Space Kaapeli (SpaceCable)*, a Finnish cable television company has contracted *Throughcom*, a Finnish TV channel owner to transmit the audiovisual contents of the television channel via cable television to its subscribers. The contract was validly formed in 2005 and it covers only the transmission of television signals within the borders of Finland. *Space Kaapeli* decided in 2011 to publish a new application (*SCableTV*) for tablet computers that subscribers of *Space Kaapeli* can download at no price. With the help of *SCableTV* users can stream audiovisual contents on their tablet computers for no extra fee. *Space Kaapeli* also published a second application (*SCableTV+*) with which subscribers can also download (reproduce) the television programs of *Throughcom*. Subscribers can choose from two payment models, when downloading *SCableTV+*. Subscribers either opt to pay a monthly lump sum of €9.99 for an unlimited number of downloads, or €0.39 per each downloads. (Each program, including episodes of TV shows, movies, news report etc., is deemed to be one separate download.) *Throughcom* is looking for some legal guidance from you. Under the original contract between *Throughcom* and *Space Kaapeli* any digital transmission of the copyrighted and non-copyrighted programs of *Throughcom* by *Space Kaapeli* shall be deemed legal as long as the transmitted signals are received within the home of the subscribers, irrespectively of the type of receiver of the transmitted signals (including, but not limited to, televisions, personal computers). *Throughcom* asks for your guidance on the possible infringements of its copyrights on the television programs committed by *Space Kaapeli* and the respective subscribers. You should also summarize your opinion on the legal solution of the above hypothetical under the European Union's law.

## BIBLIOGRAPHY

- Appl, Clemens - Schmidt, Marlene: Zweitverwertung gebrauchter Digitalgüter - Die Folgen des UsedSoft-Urteils für Schöpfungen anderer Werkarten, *Medien und Recht*, Issue 4/2014, p. 189-200.
- Balás P., Elemér: Szerzői jog. In: Károly Szladits: *Magyar Magánjog I.*, Grill Kiadó, Budapest, 1941
- Berger, Christian: Urheberrechtliche Erschöpfungslehre und digitale Informationstechnologie, *Gewerblicher Rechtsschutz und Urheberrecht*, 2002: p. 198-203.
- Bodó Balázs: *A szerzői jog kalózzai – A kalózzok szerepe a kulturális termelés és csere folyamataiban a könyvnyomtatástól a fájlcsere hálózatokig*, Typotex, Budapest, 2011
- Burckhardt, Jacob: *A reneszánsz Itáliában*, Képzőművészeti Alap Kiadóvállalata, Budapest, 1978
- Caron, Christophe: A propos d'un contrat conclu sous l'empire des lois révolutionnaires, *Communication, commerce électronique*, n° 7 juillet 2005, comm. 109
- Chiarizio, Matthew: An American Tragedy: E-books, Licences, and the End of Public Lending Libraries, *Vanderbilt Law Review*, 2013: p. 615-644.
- Communication „i2010: Digital Libraries”*, Brussels, 30.09.2005, COM(2005) 465 final
- David, Paul A.: The End of Copyright History?, *Review of Economic Research on Copyright Issues*, Issue 2/2004, p. 5-10.
- Davis, Nakimuli: Reselling Digital Music: is there a Digital First Sale Doctrine?, *Loyola of Los Angeles Entertainment Law Review*, 2009: p. 363-373.
- De La Durantaye, Katharina: H is for Harmonization: The Google Book Search Settlement and Orphan Works Legislation in the European Union, *New York Law School Law Review*, 2010/11: p. 157-173.
- Dreier, Thomas: Online and Its Effect on the 'Goods' Versus 'Services' Distinction, *IIC*, 2013: p. 137-139.
- Espantaleon, Jaime: Exhaustion light in European television, *European Intellectual Property Review*, Issue 1/2010: p. 29-42.
- Final Report on Digital Preservation, Orphan Works, and Out-of-Print Works*, June 2008, p. 8. ([http://ec.europa.eu/information\\_society/activities/digital\\_libraries/doc/hleg/reports/copyright/copyright\\_subgroup\\_final\\_report\\_26508-clean171.pdf](http://ec.europa.eu/information_society/activities/digital_libraries/doc/hleg/reports/copyright/copyright_subgroup_final_report_26508-clean171.pdf))
- Friedman, Milton: *Price Theory*, Fourth printing, Transaction Publishers, New Brunswick, 2008
- Gaubiac, Yves: The exhaustion of rights in the analogue and digital environment, *Copyright Bulletin*, Issue 4/2002: p. XXX.
- Gowers, Andrew: *Gowers Review of Intellectual Property*, 2006 ([http://www.hm-treasury.gov.uk/media/6/E/pbr06\\_gowers\\_report\\_755.pdf](http://www.hm-treasury.gov.uk/media/6/E/pbr06_gowers_report_755.pdf))
- Helberger, Natali - Huygen, Annelies - van Eijk, Nico: *Ups and Downs - Economic and cultural effects of file sharing on music, film and games*, Culture and Science, Economic Affairs and Justice, February 2009; Amsterdam Law School Research Paper No. 2012-33; Institute for Information Law Research Paper No. 2012-27
- Impact Assessment on the Cross-border Online Access to Orphan Works - Accompanying the document Proposal for a Directive of the European Parliament and of the Council on certain permitted uses of orphan works*, Brussels, 24.5.2011, SEC(2011) 615 final
- Institute for Information Law: *Study on the Implementation and Effect in Member States' Law of Directive 2001/29/EC on the Harmonization of Certain Aspects of Copyright and Related Rights in the Information Society, Final Report, Part I.*, Amsterdam, February 2007 ([http://www.ivir.nl/publications/guibault/Infosoc\\_report\\_2007.pdf](http://www.ivir.nl/publications/guibault/Infosoc_report_2007.pdf))
- IFPI Digital Music Report 2011 - Music at the touch of a button*, 20 January 2012
- Karjala, Dennis S.: "Copying" and "Piracy" in the Digital Age, *Washburn Law Journal*, 2013: p. 245-266.
- Kawabata, B. Makoa: Unresolved Textual Tension: Capitol Records v. ReDigi and a Digital First Sale Doctrine, *UCLA Entertainment Law Review*, 2014: p. 33-78.
- Kenedi, Géza: *A magyar szerzői jog*, Athenaeum Irodalmi és Nyomdai Részvénytársulat, Budapest, 1908
- Kroes, Neelie: *Addressing the orphan works challenge*, Speech 11/163, March 10, 2011 (<http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/11/163&format=HTML&aged>)

[=0&language=EN&guiLanguage=en\)](#)

- Larsson, Stefan: *Metaphors and Norms - Understanding copyright law in a digital society*, Lund Studies in Sociology of Law 36, Lund University, 2011
- Larsson, Stefan - Hydén, Håkan: Law, Deviation and Paradigmatic Change: Copyright and its Metaphors. In: Miguel Vargas Martin - Miguel A. Garcia-Ruiz - Arthur Edwards (Ed.): *Technology for Facilitating Humanity and Combating Social Deviations: Interdisciplinary Perspectives*, ICI Global, 2011: p. 188-208.
- Larsson, Stefan - Svensson, Måns: Compliance or Obscurity? Online Anonymity as a Consequence of Fighting Unauthorized File Sharing, *Policy & Internet*, 2010, Volume 2., Issue 4., Article 4.
- Latournerie, Anne: Petite histoire des batailles du droit d'auteur, *Multitudes*, 2001/2 n°5, p. 43-46.
- Lessig, Lawrence: *Free Culture - How Big Media Uses Technology and the Law to Lock Down Culture and Control Creativity*, The Penguin Press, New York, 2004
- Lessig, Lawrence: *Remix: Making Art and Commerce Thrive in a Hybrid Economy*, Bloomsbury, London, 2008
- Litman, Jessica: *Digital Copyright*, Prometheus Books, Amherst, 2006
- Loughlan, Paricia: 'You Wouldn't Steal a Car': Intellectual Property and the Language of Theft, *European Intellectual Property Review*, 2007: p. 401-405.
- Maclean, Fiona: European Union (CJEU) has delivered its long-awaited decision in *UsedSoft v. Oracle International Corp.*, *Computer and Telecommunications Law Review*, Issue 1/2013: p. 1-2.
- Macrez, Franck: L'exploitation numérique des livres indisponibles: que reste-t-il du droit d'auteur? *Receuil Dalloz*, n° 12 du 22/03/2012, e-version
- Matthews, Brander: The Evolution of Copyright, *Political Science Quarterly*, 1890: p. 583-602.
- Mezei, Péter: Digital Technologies - Digital Culture, *Nordic Journal of Commercial Law*, Issue 1/2010, p. 1-26.
- Mezei, Péter: *A fájlcseré dilemma - A perek lassúak, az internet gyors*, HVG-Orac, Budapest, 2012
- Mezei, Péter – Németh, László: A Direct Download Link (DDL) szolgáltatás szerzői jogi megítélése, *Infokommunikáció és Jog*, 2009. október, p. 180.
- Mtima, Lateef - Jamar, Steven D.: Fulfilling the Copyright Social Justice Promise: Digitizing Textual Information, *New York Law School Law Review*, 2010/11: p. 77-108.
- Mulligan, Deirdre K. - Perzanowski, Aaron K.: The Magnificence of the Disaster: Reconstructing the Sony BMG Rootkit Incident, *Berkley Technology Law Journal*, 2007: p. 1157-1232.
- Nizsalovszky, Endre: Fogalomkutató és érdekkutató jogtudomány, a szabadjogi iskola és a tiszta jogtan. In: *Tanulmányok a jogról*, Akadémiai Kiadó, Budapest, 1984
- Pallante, Maria A.: The Next Great Copyright Act, *Columbia Journal of Law & the Arts*, 2013: p. 315-344.
- Parker, James: *Comparing Strategies of the 2d Punic War: Rome's Strategic Victory Over the Tactical/Operational Genius, Hannibal Barca*, USAWC Strategy Research Project, U.S. Army War College, Carlisle Barracks, 2001
- Patry, William: *Moral Panics and the Copyright Wars*, Oxford University Press, New York, 2009
- Patterson, L. Ray - Birch, Stanley F. - Joyce, Craig: A Unified Theory of Copyright - Chapter 2: The Copyright Clause and Copyright History, *Houston Law Review*, 2009: p. 244-256.
- Piriou, Florence-Marie: Nouvelle querelle des anciennes et de modernes: la loi du 1er mars 2012 relative à l'exploitation numérique des livres indisponibles du XXe siècle, *Communication Commerce électronique*, n° 10 octobre 2012, e-version,
- Public Consultation on the Review of the EU Copyright rules*, 2013 ([http://ec.europa.eu/internal\\_market/consultations/2013/copyright-rules/docs/consultation-document\\_en.pdf](http://ec.europa.eu/internal_market/consultations/2013/copyright-rules/docs/consultation-document_en.pdf))
- Reding, Viviane: *Digital Europe - Europe's Fast Track to Economic Recovery*, The Ludwig Erhard Lecture 2009, Lisbon Council, Brussels, 9 July 2009
- Report of the Comité des Sages: *The New Renaissance*, 2011 ([http://ec.europa.eu/information\\_society/activities/digital\\_libraries/doc/reflection\\_group/final-report-cdS3.pdf](http://ec.europa.eu/information_society/activities/digital_libraries/doc/reflection_group/final-report-cdS3.pdf))
- Riehl, Damien - Kassim, Jumi: Is "Buying" Digital Content Just "Renting" for Life? Contemplating a Digital First-Sale Doctrine, *William Mitchell Law Review*, 2014: p. 783-812.

- Ruffler, Friedrich: Is Trading in Used Software an Infringement of Copyright? The Perspective of European Law, *European Intellectual Property Review*, Issue 6/2011: p. 375-383.
- Schulze, Ellen Franziska: Resale of digital content such as music, films or eBooks under European law, *European Intellectual Property Review*, Issue 1/2014: p. 9-13.
- Soma, John T. - Kugler, Michael K.: Why Rent When You Can Own? How ReDigi, Apple, and Amazon Will Use the Cloud and the Digital First Sale Doctrine to Resell Music, E-books, Games, and Movies, *North Carolina Journal of Law & Technology*, 2014: p. 425-461.
- Sosnitza, Olaf: Gemeinschaftsrechtliche Vorgaben und urheberrechtlicher Gestaltungsspielraum für den Handel mit gebrauchter Software, *Zeitschrift für Urheber- und Medienrecht*, 2009: p. 521-526.
- Spedicato, Giorgio: *Online Exhaustion and the Boundaries of Interpretation*. In: Roberto Caso - Federica Giovanella (Eds.): *Balancing Copyright Law in the Digital Age - Comparative Perspectives*, Springer Verlag, Berlin - Heidelberg, 2015: p. 27-64.
- Stothers, Christopher: When is Copyright Exhausted by a Software Licence?: *UsedSoft v. Oracle*, *European Intellectual Property Review*, Issue 11/2012: p. 787-791.
- Tai, Eric Tjong Tjin: Exhaustion and online delivery of digital works, *European Intellectual Property Review*, Issue 5/2003: p. 207-211.
- Tamura, Yoshiyuki: Rethinking Copyright Institution for the Digital Age, *WIPO Journal*, Issue 1/2009, p. 63-74.
- Tobin, Jonathan C.: Licensing as a Means of Providing Affordability and Accessibility in Digital Markets: Alternatives to a Digital First Sale Doctrine, *Journal of the Patent and Trademark Office Society*, 2011: p. 167-207.
- Toldy (Schedel), Ferencz: Néhány szó az írói tulajdonról, *Athenaeum*, 1838: p. 705-717.
- Triaille, Jean-Paul (Ed.): *Study on the Application of Directive 2001/29/EC on Copyright and Related Rights in the Information Society (the „Infosoc Directive“)*, 2013 ([http://ec.europa.eu/internal\\_market/copyright/docs/studies/131216\\_study\\_en.pdf](http://ec.europa.eu/internal_market/copyright/docs/studies/131216_study_en.pdf))
- Twain, Mark: *Tom Sawyer Abroad*, 1<sup>st</sup> World Library - Literary Society, Fairfield, 2004
- UK Intellectual Property Office: *Taking Forward the Gowers Review of Intellectual Property - Proposed Changes to Copyright Exceptions*, 2008 (<http://www.ipo.gov.uk/consult-copyrightexceptions.pdf>)
- Verbraeken, Erik: The Exhaustion Theory is not yet Exhausted, *les Nouvelles*, March 2013: p. 7-12.
- Vonnegut, Kurt: Address at Rededication of Wheaton College Library, 1973. In: *Wampeters, Foma and Granfalloon (Opinions)*, Delta Book, New York, 1974
- Wiebe, Andreas: The Principle of Exhaustion in European Copyright Law and the Distinction between Digital Goods and Digital Services, *Gewerblicher Rechtsschutz und Urheberrecht International*, 2009: p. 114-118.
- WIPO Guide to the Copyright and Related Rights Treaties Administered by WIPO and Glossary of Copyright and Related Rights Terms, 2003: [http://www.wipo.int/edocs/pubdocs/en/copyright/891/wipo\\_pub\\_891.pdf](http://www.wipo.int/edocs/pubdocs/en/copyright/891/wipo_pub_891.pdf)
- Yu, Peter K.: Six Secret (and Now Open) Fears of ACTA, *SMU Law Review*, 2011: p. 975-1094.
- Yu, Peter K.: The Rise and Decline of the Intellectual Property Powers, *Campbell Law Review*, Issue 3/2012, p. 525-578.