United States Response
To Questionnaire Concerning Collective Management of Rights
ALAI 2013 Cartagena

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Note: The full text of the provisions of the U.S. Copyright Act referred to in these responses is available at http://www.copyright.gov/title17/. For copies of referenced cases, we suggest you visit either http://www.findlaw.com/casecode/ or http://www.law.cornell.edu/federal/.

Part I: Lawful dissemination – exhaustion, individual management and the role of collective management organisations

I.1. Relevance of exhaustion of rights in the digital environment

(1) In your country, does making copies of works available over digital networks (in the network environment) implicate the distribution right?

The United States does not have an explicit, legislative "make available" right. Section 106(3) of the Copyright Act defines distribution as "sale or other transfer of ownership, or by rental, lease or lending" and contemplates the changing of hands of a physical, rather than an electronic, copy.[2] Subsequent amendments to other sections of the Act anticipate electronic transmissions, "by means of a digital phonorecord delivery."[3] In the absence of explicit Congressional guidance, courts have attempted to answer whether making a work available over digital networks constitutes distribution.

Courts generally find that making a work available digitally implicates the distribution right in three different scenarios. First, if a work is actually disseminated and an infringing copy is made, that work was distributed.[4] Second, courts may infer that a distribution took place if a defendant took all the steps necessary for a public distribution to be possible.[5] Finally, liability is possible if making the work available constitutes "an offer to distribute that work for the purposes of its further distribution or public performance."[6]

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[2] 17 U.S.C. §106(3).
[3] *Id*. at §115(a)(1).
[4] *See, e.g.,* Playboy Enters. Inc., v. Frena, 839 F. Supp. 1552 (M.D. Fla. 1993).
[5] London Sire Records, Inc. v. Doe 1, 542 F. Supp 2d 153, 166-69 (D. Mass. 2008).
[6] Elektra Ent. Group v. Barker**,** 551 F. Supp. 2d. 234 (S.D.N.Y. 2008); 17 U.S.C. §101.

In *Playboy Enterprises, Inc. v. Frena*, the defendants used a bulletin board service where subscribers uploaded images scanned from a magazine and, by making the images available, the operator of the bulletin board service was held to have made an unauthorized distribution.[7] Other courts rely on *Frena* to arrive at the holding that website operators can be found to "distribute" a copyrighted work if they allow users to print and download copies.[8] This would not be the case when the provider's role in making the material available is passive, when the provider does not itself place the material on its website.[9] In that case, even if the website owner is deemed to have "distributed" the third-party material, it can generally take advantage of the section 512(c) safe harbor.

In *London Sire, Inc. v. Doe 1*, a peer-to-peer file sharing case, the District of Massachusetts grappled with whether making copies of a work available over digital networks was a distribution if there was no evidence that the work had been sent and received. In that case, users made digital copies of sound recordings available over peer-to-peer networks. The copyright owners hired a third-party investigator, MediaSentry, which searched for the files and downloaded them. The court held that the defendants, who had taken all of the necessary steps needed for distribution, could be presumed to have distributed the work.

The defendants in *London Sire* argued that the distribution right extends only to material objects; an electronic transfer could not satisfy that requirement because no material object was transferred. They also argued that distribution implies divestiture of ownership of the distributor's copy. Because the sender of a digital file retains her copy, defendants argued, electronic transfer does not constitute distribution. However, the court held that a material object does not have to exist throughout the entire transaction; the ultimate fixation of the sound recording in the recipient's hard drive is enough to constitute a transfer of a "copy." Moreover, the court held that "transfer of ownership" occurs when new ownership is created in the recipient; divestiture of the sender's copy is not required. Therefore, electronic transfers can implicate the distribution right.[10] However, it does not suffice to establish liability to show that the defendant merely authorized third parties to make infringing copies.[11] To prove a violation of the distribution rights, plaintiffs had to show that copies of the work were in fact received.[12] In *London Sire*, the only direct evidence of receipt that plaintiffs could adduce was the download made by its investigator, MediaSentry. Defendants argued that, because MediaSentry was an agent of the copyright owner, its authorized download was not infringing and could not furnish a basis for liability. However, the court was willing to

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[7] *Playboy Enters. Inc., v. Frena*, 839 F. Supp. 1552; *see also*, Playboy Enters. v. Webbworld, Inc., 991 F. Supp. 543 (N.D. Tex. 1997 and Playboy Ents., Inc. v. Russ Hardenburgh, Inc., 982 F. Supp. 503 (N.D. Ohio 1997).
[8] *See* Religious Tech. Ctr. v. Netcom, 907 F. Supp. 1361 (N.D. Cal. 1995); Marobie-FL, Inc. v. Nat'l Ass'n of Fire Equip. Distribs., 983 F. Supp. 1167 (N.D. Ill. 1997).
[9] *London Sire Records*, 542 F. Supp. 2d 153.
[10] *Id.*
[11] *Id*. (citing Venegas–Hernandez v. Ass'n De Compositores & Editores de Música Latinoamericana, 424 F.3d 50, 57–58 (1st Cir. 2005)).
[12] *Id*. at 166.

infer infringement from those activities of defendants that the plaintiff could demonstrate. Because the defendants had each shared "many, many music files—at least 100, and sometimes almost 700" and the evidence supported "an inference that the defendants participated in the peer-to-peer network precisely to share copyrighted files," the court held that the allegations and evidence were "sufficient to allow a statistically reasonable inference that at least one copyrighted work was downloaded at least once." [13] While the plaintiffs had to show that an actual distribution took place, they were able to do so through inference and circumstantial evidence.

In so finding, the *London Sire* court took guidance from *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, in which a library was held to have distributed a hard copy work by including the copy in its catalogue and "mak[ing] the copy available to the public."[14] The "make available" language in *Hotaling* led a small number of courts to find a making available right.[15] However, others have limited *Hotaling* to its facts and concluded it was only applicable in cases where demonstrating proof of infringement is impossible.[16] For example, in *Elektra Entm't. Group v. Barker*, the Southern District of New York, equating "distribution" with "publication," held that an offer to distribute copies of a work for the purpose of further distribution or public performance constituted a publication and, if unauthorized, could infringe the distribution right.[17] However, the court stopped short of finding a "contourless 'make available' right."[18] Finally, in *Capitol Records, Inc. v. Thomas*, the District of Minnesota found no statutory basis for a "making available" right, and rejected the contention that the United States' ratification of the WIPO Copyright Treaty (WCT) required interpretation of the U.S. Copyright Act consistently with art. 8 of the WCT in order to construe a making available right.[19]

Therefore, while Congress has not created an explicit "making available" right, making content available on digital networks can be a distribution. Courts generally require either an infringement (actual or implied) or a showing that the work was offered for the purpose of distribution before they will find liability.

(2) If so is the right exhausted when copies of works are so distributed?

United States copyright law incorporates the exhaustion principle through the "first sale doctrine" in section 109, which provides, "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

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[13] *Id*. at 160.
[14] Hotaling v. Church of Jesus Christ of Latter-Day Saints, 118 F.3d 199, 201 (4th Cir. 1997).
[15] *See, e.g.*, A&M Records, Inc. v. Napster Inc., 239 F.3d 1004, 1014 (9th Cir. 2001) (users who uploaded file names for others to copy distributed the work unlawfully).
[16] *Arista Records, Inc. v. Mp3Board, Inc.*, No. 00-CV-4660, 20002 WL 1997918, at *4 (S.D.N.Y. Aug. 29, 2002).
[17] For more information and a comprehensive history of the distribution right, *see* Peter S. Menell, *In Search of Copyright's Lost Ark: Interpreting the Right to Distribute in the Internet Age*, 59 J. COPYRIGHT SOC'Y 1 (2011).
[18] *Elektra Ent't. Group v. Parker*, 551 F. Supp. 2d. 234.
[19] Capitol Records, Inc. v. Thomas, 579 F. Supp. 2d 1210 (D.Minn. 2008).

possession of that copy or phonorecord."[20] The first sale doctrine has generally been held to apply only to the "particular" physical copy of a work and does not extend to electronic works. The federal district court for the Southern District of New York, in *Capitol Records LLC v. ReDigi Inc*., recently declined to extend the first sale doctrine to digital music files that are recreated in the hard drives of the copies' recipients.[21]

In *ReDigi*, the court addressed whether the owner of a lawfully made and purchased digital music file could resell it under the first sale doctrine. ReDigi buys music files from individual users, electronically copies the files to a server in Arizona, and offers the files for resale. Its software deletes the digital file from the original owner's computer but cannot confirm that the owner has not stored copies elsewhere. Customers can purchase the "used" music file from ReDigi, and the file is transferred from ReDigi's server to the customer's hard drive.[22]

The court held that even if the transfer of a copy of a work over the internet does not produce extra retention copies, so that there is only one copy of the work before and after the transfer, it nonetheless infringes the copyright owner's exclusive reproduction right.[23] Reproduction occurs when a work is fixed in a new material object, and the fact that the file moves from one material object to another means a reproduction occurred.[24] In finding that the reproduction right was implicated, the court rejected the application of the first sale doctrine and further declined to find that the use was "fair."[25] Because the copies that ReDigi distributed were unauthorized, the court held that ReDigi had violated both the reproduction and the distribution rights.[26]

The court reasoned that the first sale doctrine applies only to the owner of a "particular" copy and is limited to the sale or other transfer of material items in the stream of commerce. Because the communication of a digital file (as opposed to a material object, such as a CD, in which the file is fixed) necessarily results in the creation of a new material instantiation (in the recipient's hard drive), the recipient will not have obtained possession of "that copy." New copies of works fall outside the scope of the first sale doctrine.[27]

In support of its construction of the statutory text, the court emphasized that the U.S. Copyright Office rejected an extension of the first sale doctrine to digital distributions.[28] The Copyright Office had declined to extend the doctrine past the physical world because the first sale doctrine supposes "the gradual degradation of books and analog works" which makes physical copies less desirable, unlike digital copies,

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[20] 17 U.S.C. § 109(a).
[21] Capitol Records, LLC v. ReDigi, Inc., 12 CIV. 95 RJS, 2013 WL 1286134 (S.D.N.Y. Mar. 30, 2013).
[22] *Id*.
[23] *Id*. at *5.
[24] *Id*. at *7.
[25] *Id*.
[26] *Id*. at *7; 17 U.S.C. §109(a).
[27] *Capitol Records, LLC v. ReDigi, Inc.*, 2013 WL 1286134 at *12.
[28] *Id*. at *11 (citing USCO, Library of Cong., DMCA Section 104 Report (2001)); Cartoon Network LP v. CSC Holdings, Inc., 536 F. 3d. 121, 129 (2d Cir. 2008).

which can be reproduced perfectly. The Southern District of New York held that section 109(a) does not completely exclude digital works from the statute. Instead, to be eligible for the first sale doctrine, a sale of the work would have to be of the "particular" phonorecord, through the sale of "a computer hard disc, iPod, or other memory device onto which the file was originally downloaded."[29] After declining to extend the first sale doctrine to the electronic realm, the court stated that any revision of the law would be up to Congress.[30]

(3) Does digital exhaustion of right apply to all kinds of works, or just to computer programs, or is digital exhaustion at all relevant in your country?

In the United States, exhaustion is limited to the first sale doctrine.[31] The first sale doctrine applies to physical copies of all types of copyrighted works, although sound recordings and computer programs are provided with a limited rental right not accorded to other types of works.[32] As discussed above, there is currently no explicit legislative or common law digital exhaustion right in the law.

(4) Is there a difference between a "sale" of a copy and a "license" of the right to make a copy, of the copyrighted work in question? If so, how is the difference between the two defined?

Yes, in the United States there is a difference between the "sale" and "license" of a copy of the work. For example, where a copy of a computer program is transferred pursuant to a license that involves "significant restrictions" on use of the program, the licensee is not entitled to certain defenses for infringement, such as the essential step defense and the first sale doctrine.[33] The essential step defense states that a software user who is the "owner of a copy" can make a copy of the computer program if it is "created as an essential step in the utilization of the computer program in conjunction with a machine and . . . is used in no other manner."[34] The first sale doctrine, codified in section 109 of the Copyright Act and discussed above, 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."[35]

In *Vernor v. Autodesk*, the court held that the possessor of a copy of a used software program was a licensee rather than an owner and therefore could not resell his copy of the program on eBay. The court crafted a three-part test to determine when a

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[29] *Capitol Records v. Redigi*, at *11.
[30] *Id*. The court emphasized that the clear language limiting the first sale doctrine to physical copies similarly precluded judicial creation of a "digital first sale doctrine" via the fair use defense. Fair use may excuse copying when new technology renders the statute ambiguous, *see* Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984) but when the statute is clear, proper recourse is to the legislature.
[31] 4 WILLIAM PATRY, PATRY ON COPYRIGHT §13:36.50 (2013).
[32] 17 U.S.C. §109(a), (b)(1).
[33] Vernor v. Autodesk, Inc., 621 F.3d. 1102, 1110 (9th Cir. 2010).
[34] 17 U.S.C. §117(a)(1); *see also, Vernor*, 621 F. 3d. at 1109-10.
[35] 17. U.S.C. §109(a).

work has been licensed, rather than sold, and held that possessors will be deemed licensees rather than owners where "the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions."[36]

While a contract stating that the transfer of possession of the copy is a license and not a sale may be one factor in determining when a work has been licensed instead of sold, it is not dispositive.[37] In *UMG Recordings, Inc. v. Augusto*, a transfer was held to be a sale even though it had been explicitly labeled as a license. In that case, a record company distributed promotional copies of CDs to music industry insiders. The discs in question were specially produced with copyrighted sound recordings distributed for marketing purposes to critics and disc jockeys. When defendant Troy Augusto obtained the discs and sold them at auction, he claimed that UMG's distribution was a transfer of ownership and the discs were subject to the first sale doctrine, which allowed him to sell them without permission.[38]

Although the record company had marked the CDs, "Acceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws," that declaration was not enough to create a license. The court was unwilling to assume acceptance of the "license" terms when the recipients had been sent the unsolicited CDs and had made no response at all. The court also considered that there was no prior arrangement between the recipient of the CDs and UMG; the CDs were not numbered and UMG did not attempt to keep track of where the copies went or how they were used. Furthermore, the CDs were "unordered merchandise," and an Unordered Merchandise Statute (39 U.S.C. section 3009) provided that mailing unordered merchandise could be considered a gift and the recipient could retain, use, discard, or dispose of it any way he sees fit. Because UMG had retained no "meaningful control or even knowledge of the status of the CDs after shipment" there had been a transfer of title and not a license.[39]

Therefore, as *Vernor* and *UMG* illustrate, United States copyright law recognizes both sales and licenses. Licenses restrict the use of the work and preclude a defendant's ability to use defenses like first sale and essential step against alleged infringement.

I.2 Collective versus individual management: Different models of collective and individual licensing

(5) **What are the collective licensing societies in your country? What works and what rights does each of them represent? Does the author grant exclusive or non-exclusive rights to these societies? To what extent is licensing of copyrighted works centralized in your country?**

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[36] *Vernor*, 621 F. 3d at 111.
[37] UMG Recordings, Inc. v. Augusto, 628 F.3d 1175, 1180 (9th Cir. 2011); *see also*, Wall Data Inc. v. Los Angeles Cnty. Sheriff's Dept., 447 F.3d 769 (9th Cir. 2006); Triad Sys. Corp. v. Se. Express Co., 64 F. 3d 1330 (9th Cir. 1995); MAI Sys. Corporation. v. Peak Computer, Inc., 991 F. 2d 511 (9th Cir. 1993).
[38] *UMG Recordings*, 628 F.3d at 1177.
[39] *Id*. at 1182.

There are several collective licensing societies in the United States. Generally, they are broken up by the genre(s) of work they represent.

For works of visual art, the two largest are the Artists Rights Society (ARS) and the Visual Arts and Galleries Association (VAGA).[40] Each of these societies represents a list of visual artists.[41] In general, they represent all the primary rights in the works of the artist including an exclusive right to negotiate all reproduction and licensing of the artists' works, although there are some artists for whom this is not true.[42] There is no firm rule; each artist or his or her estate negotiates individually with the organization regarding what rights they will grant to the licensing organization. Although these organizations represent the artists, each licensing opportunity that arises is brought to the artist in question and discussed with him or her (or his or her representatives). Robert Panza, Executive Director of VAGA, says this is because each artist wishes to control where his or her images are licensed and will not grant the licensing organizations the right to systematically license on his or her behalf without consent. It should be noted that neither of these organizations, together or separately, represent the entire market. There are many artists who do not participate in collective management of their works at all.

Copyright Clearance Center, Inc. (CCC), is a not-for-profit rights broker, representing copyright holders of all kinds of text-based works (including in- and out-of-print books, journals, newspapers, magazines, blogs and ebooks), in licensing the right to reproduce their works.[43] These licensees include for-profit and not-for-profit businesses, academic institutions, government agencies and individuals. CCC offers both digital-use and photocopy-use licenses in both pay-per-use form and repertory form (one payment for all covered uses for a year), and in both centralized (through CCC's office and website) and decentralized (at rightsholders' own websites) contexts. It then collects royalties from licensees and remits them to the applicable rightsholder. CCC's services are entirely voluntary, opt-in and non-exclusive for both rightsholders and users; that means that, unlike somewhat similar organizations in most other countries, CCC operates pursuant to no statutory licenses or levy systems. It is important to note that CCC is not currently as widely representative of rightsholders as are many RROs in other countries.

The Authors' Registry is an organization based in New York that collects and distributes to U.S. authors royalty payments collected abroad.[44] The Registry acts as a clearinghouse or payment agent for certain foreign organizations with whom it has agreements. It receives payments from those organizations and distribute them to U.S.-resident authors. Primarily it works with book authors, who cover the full spectrum, including trade, academic, and technical books, but will collect royalties for any author of the written word. It should be noted that it does not represent the rights of the authors to

[40] www.arsny.com and www.vagarights.com.
[41] For a complete list of artists represented by these two organizations, please visit their websites at http://www.vagarights.com/artists-represented/ and http://www.arsny.com/complete.html.
[42] VAGA and ARS do not handle sales of the works of art done by their members.
[43] www.copyright.com.
[44] www.authorsregistry.org.

whom they distribute these payments; they are merely assigned the duty to collect and distribute revenues collected from foreign collective management societies. Rather, the organization has an agreement with each payee which authorizes the Registry to collect and disburse these payments to them. All usage tracking and calculation are done by the foreign organizations in the context of their local laws and corporate requirements.

Grassroots groups such as Creative Commons[45] and iCopyright[46] allow authors to determine how they want their works licensed and then provide tools for authors to indicate these terms as their works are distributed across the internet. While Creative Commons does not provide a means for creators to license their works for remuneration, iCopyright allows creators to set a price for the license or reproduction of their works.[47]

Music songwriters and publishers are represented by two major collective licensing organizations, the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music, Inc. (BMI).[48] ASCAP and BMI collect royalties for the public performance of musical works in the U.S.. They also issue blanket licenses which authorize a user to perform all the music in the organization's repertoire for a set fee. SESAC is a similar organization which represents a wide variety of American songwriters and publishers, but, unlike ASCAP and BMI it is a for-profit organization and those wishing it to manage their catalogue must apply for affiliation. Most of these organizations have searchable, internet databases where the public or others can search for the appropriate party from which to license the work. The Harry Fox Agency represents music publishers and issues mechanical licenses and collects and distributes mechanical royalties due under section 115 of the Copyright Act.[49] Most major music publishers and songwriters belong to ASCAP or BMI. Harry Fox Agency's presence in the field is so strong that the licenses it – and others who issue mechanical licenses – issue are called "Harry Fox" licenses.

For sound recordings, SoundExchange is a nonprofit performance rights organization that collects section 112 and 114 statutory royalties on behalf of record companies and performing artists.[50] These royalties pertain to digital audio transmissions of sound recordings, such as webcasting. (Nondigital transmissions are not covered by the public performance right in sound recordings. Nor is on demand streaming covered

[45] www.creativecommons.org.
[46] www.info.icopyright.com.
[47] http://info.icopyright.com/about-history-copyright-protection-issues/faqs.
[48] www.ascap.com and www.bmi.com.
[49] www.harryfox.com. A mechanical license allows one person to make phonorecords of a published non-dramatic musical sound recording in which they do not hold the copyright, provided they are making them for distribution to the public for private use once there has been an initial license. These licenses are compulsory, meaning the original artist does not have the right to deny the request, and the rates are set by the Copyright Royalty Board.
[50] www.soundexchange.com. Section 114 allows digital audio transmissions of copyright protected sound recordings for services such as webstreaming, pursuant to a statutory license. Licensees are required to meet certain conditions and to pay a royalty set by the Copyright Royalty Judges. §114(c)(D)(2). Section 112(e) allows the making of a copy of a sound recording to facilitate transmissions permitted under the section 114 statutory license, also at a rate set by the Copyright Royalty Board. S*ee* 17 U.S.C. §112(e).

by the statutory license.) SoundExchange is the sole administrative body for subscription services' statutory license fees. Its rates are set by the Copyright Royalty Board.[51]

Photographers do not have a collective licensing group, although they have recently started a nonprofit initiative which will assist in the consistent management of image rights.[52] The Picture Licensing Universal System (PLUS) does not perform licensing functions. Instead, it provides a uniform lexicon and glossary (in many languages) for the photography community and those wishing to reproduce copyrighted photographs.[53] The PLUS website also has a search engine allowing potential licensees to locate the contact information for an image they wish to license.[54] Professional photographers often license their works through collective management groups called stock photo agencies.[55] Stock photo agencies differ from collective licensing societies in that stock photo agencies are for-profit businesses that are not set up primarily as royalty or fee distributors but as companies that license works, retain some of the license fees for their own use and then remit the remainder to the photographer member. These organizations contract with the photographer to represent either his entire portfolio or just certain of his images. The stock photo agency then licenses the work on behalf of the author. Some of the images these agencies represent are available for license at the click of a button;[56] some are even royalty-free.[57]

The major film and television studios grant public performance licenses of their full-length works (films and television shows) through a group called Swank USA. This includes educational and non-educational uses. Swank issues licenses on a one-time basis, or an organization can ask for a license to cover multiple showings during a specified period of time. Swank does not handle requests for use of film or television clips. Studios handle requests for clips (as well as use of movie posters or related paraphernalia) on a case-by-case basis and there is no collective management system for these materials. Another organization, the Motion Picture Licensing Corporation, grants umbrella licenses to groups and corporations who wish to host multiple public performances of a copyrighted motion picture. This license does not cover showings where admission is charged or where specific titles are publicly advertised, whereas Swank licenses do cover these scenarios.

(6) **What differences are there regarding different types of works and different rights administered?**

Please see the answer to Question 5 above.

[51] *See* 17 U.S.C. §112(e)(4) and 17 U.S.C. §114(f)(1)(B).
[52] www.useplus.com.
[53] www.useplus.com/aboutplus/system.asp.
[54] www.plusregistry.org/cgi-bin/WebObjects/PlusDB.
[55] Some examples of well-known stock photo agencies are Magnum Photos (www.magnumphotos.com), Corbis (www.corbis.com) and Getty Images (www.gettyimages.com).
[56] *See, e.g.*, www.gettyimages.com/Editorialimages/News?isource=usa-en_home_FTV_quicklinks_news.
[57] *Id.*

(7) **To what extent is it now possible (or will it soon be possible) to automate the management of one's works?**

Depending on the industry, it is now possible to automate the management of one's work. As discussed in Question 8 below, photographers, songwriters and authors are able to avail themselves (at least in some situations) of automated rights management regimes.

(8) **What does automated management involve? What functions of management can be automated?**

There are many different ways to "automate" management depending on how one defines automation. Assuming one means the ability to license a work without interaction or negotiations with another human being, many organizations have a searchable database which allows users to choose the image or work they wish to license, choose the medium in which they wish to use the work, choose the term of the license and the geographic location of the use. There are also compulsory license mechanisms in place in some industries which automatically produce royalties.

Depending on the work being licensed, many different steps in the licensing process can be automated, even if the entire transaction cannot be. Certainly the selection of the work, the intended use, geographic scope and desired duration of the license can be automatically conveyed to the licensor. In turn, the licensor can transmit information regarding the requisite fees for such use and can automatically generate a contract to be executed and returned with payment. What cannot be automated are changes to the basic contract or requests for uses not listed in the automated choice list.

(9) In what ways does the law in your country favor individual automated licensing?

The American courts have validated automatic licensing.[58] When deciding whether to enforce certain automated licenses, courts have focused on whether the terms of the contract were sufficiently brought to the licensee's attention. For browsewrap software licenses,[59] the courts are mixed as to what establishes sufficient notice to potential users. However, courts typically enforce clickwrap agreements,[60] because

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[58] We are using the term automatic licensing here to mean licenses where the user does not individually negotiate with the rightsholder but rather agrees to comply with the licensor's terms of use through automated, normally click-through, technology.

[59] Browsewrap is defined as "[T]erms and conditions, posted on a Web site or accessible on the screen to the user of a CD-ROM, that do not require the user to expressly manifest assent, such as by clicking 'yes' or 'I agree."' Christina L. Kunz et al., *Browse-Wrap Agreements: Validity of Implied Assent in Electronic Form Agreements*, 59 BUS. LAW. 279, 280 (2003).

[60] "A 'clickwrap' agreement appears when a user first installs computer software obtained from an online source or attempts to conduct an Internet transaction involving the agreement, and purports to condition further access to the software or transaction on the user's consent to certain conditions there specified; the user 'consents' to these conditions by 'clicking' on a dialog box on the screen, which then proceeds with the remainder of the software installation or Internet transaction." Kevin W. Grierson, *Enforceability of*

licensees assent to the terms by clicking before completion of the transaction. Shrinkwrap licenses are distinguished from clickwrap and browsewrap licenses because shrinkwrap licenses are usually not viewable until after purchase. Considering the challenges this provides to providing meaningful notice, the Seventh Circuit Court of Appeals in *ProCD, Inc. v. Zeidenberg* noted that shrinkwrap licenses that expressly allow consumers to return purchased software may be an adequate approach, rendering the license enforceable.[61]

Copyright law also protects copyright holders using automated licensing. In *Jacobsen v. Katzer*, the court upheld the limitations of an open source software license.[62] The plaintiff allowed end-users to download a computer software program free of charge provided end-users complied with the Artistic License attached to the work. The defendant did not fulfill all of the conditions and the plaintiff sued. Specifically, the defendant copied certain files from the plaintiff's software and included those files in the defendant's software in a way inconsistent with the Artistic License.[63] As a defense, the defendant argued that his conduct was not infringing because he had a license, and the copyright holder was not entitled to monetary or injunctive relief because the software was available to the public at no charge. The court rejected both arguments. First, the court acknowledged the limiting conditions in the license and held that the conditions in the license restricted downloaders' right to modify and distribute the copyrighted software. The court concluded that end-users who did not comply with these conditions, such as the defendant, violated material terms of the license and thus committed copyright infringement.[64] Had the limitations in the license been covenants, the court explained, they would have been governed by contract law instead of copyright law. Covenants are terms of a contract, which if breached, a non-breaching party may have a cause of action for breach of contract. Second, the court held that a software license provided for monetary consideration is entitled to no less legal recognition than one provided monetary consideration.

In 1941, the Second Circuit granted consent decrees to ASCAP and BMI allowing the organizations to issue blanket licenses for members' works without being in violation of the Sherman Antitrust Act.[65] Both organizations were forced to accept terms set out by the court. ASCAP had to agree not to be the exclusive licensor for its members' works and both organizations had to offer alternatives to the blanket license for members who wished a pay-per-play option. The Supreme Court reaffirmed this decision in 1991 in *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*: "The blanket license, as we see it, is not a "naked restrain[t] of trade with no purpose except stifling of

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"Clickwrap" or "Shrinkwrap" Agreements Common in Computer Software, Hardware, and Internet Transactions, 106 A.L.R.5th 309, 317 n.1 (2003).

[61] 86 F.3d. 1447 (7th. Cir. 1996).

[62] 535 F.3d 1373 (Fed. Cir. 2008).

[63] *Id.* at 1376.

[64] *Id*. at 1382.

[65] United States of America v. ASCAP, Civ. Action No. 41-1395 (2d Cir. 1941).

competition," but rather accompanies the integration of sales, monitoring, and enforcement against unauthorized copyright use."[66]

(10) Is automated management possible without the cooperation of search engines?

Yes. Knowledge of a particular industry and awareness of where to find desired content is critical, if search engines are unavailable. Automated management is feasible if certain resources are accessible to end-users. For instance, automated management is possible if end-users can access repositories of works with corresponding licenses. Alternatively, software, such as PicScout ImageExchange,[67] that makes available licenses to copyrighted content that appears on a webpage, is another tool that makes automated management possible without search engines.

(11) Given new technologies, is collective management still desirable? Does your answer depend on the type of work and/or on the type of rights licensed?

Collective management can be very desirable for users and creators alike. Under a collective licensing arrangement, users can more easily find the works they are seeking to license or reproduce and need not spend time and money locating an artist and negotiating rates. There are benefits to creators, too; participating in a collective management regime, whether it be for some or all of the rights associated with an author's work, can allow a creator to ensure that others can find his or her work and that licensing fees are collected, while reducing the time he or she must spend on managing these uses. In addition, most of the collecting societies tend to monitor for infringement, often having more resources than an individual artist would have in trying to do the same. Collective management does, however, come at a price, often both literally (most agencies charge a fee for providing this service) and figuratively as there can be less flexibility when a collective management organization handles licensing. Thus, creators who wish to evaluate individual uses of their work are not well-served by collective management.

(12) From the point of view of authors and users, what are the respective advantages and disadvantages of individual management (which can be more responsive to individual authors' intent) and collective licensing (which reduces transaction costs, especially for users)?

There are many advantages and disadvantages to collective management of rights. The main advantages of collective licensing are that first, the creators of the works do not need to manage the details of licensing agreements and spend time negotiating with each potential licensee, significantly reducing transaction costs associated with licensing.

[66] Broadcast Music, Inc. v. Columbia Broadcasting System, Inc. 441 U.S. 1, 20 (1991) *citing* White Motor Corp. v. United States, 372 U.S. 253 (1963).
[67] PicScout ImageExchange – How It Works, http://picscout.com/imageexchange/how-it-works (last visited April 8, 2013).

Second, with consistent rates and other terms, the value of the works is set and well-known, resulting in greater certainty in the marketplace. Third, a single repository allows users to easily find those works they wish to license, reducing the number of "orphan" works and expediting the licensing process. The disadvantage of collective licensing is the lack of flexibility afforded the licensor. Many creators are uncomfortable with the idea of their work(s) being used in different media or contexts without their consent. For example, a visual artist may be willing to license his work for some commercial exploitations and not others. He may permit the use of his work on a tote bag, for instance, in one circumstance and not in another (perhaps one would be used for a retrospective exhibit while another would pair his work with that of an artist with whom he did not wish to be affiliated, or might associate his work with a product of which he disapproved). Individual management of rights allows each creator to decide how to license his or her work(s) on a case-by-case basis, keeping control over his own work.

(13) Are there legislative measures taken or planned in order to endorse either individual or collective management (or both)? Can you foresee a trend in legislative measures ahead in this area of law?

There are no immediate legislative measures planned to endorse any system of management of rights, although the U.S. Register of Copyrights, Maria Pallante, and senior members of the U.S. Congress have recently announced that efforts will be made to overhaul the entire U.S. Copyright Act. It is likely that issues of collective management of rights will at least be discussed in drafting any new legislation.

I.3 Multi-territorial licenses

(14) In your country, what are the actual legal rules for granting transborder multi-territorial licences?

There are few legal rules regarding the granting of transborder multi-territorial licenses. Most such licenses are negotiated individually and by private organizations. Sometimes collecting societies collect royalties only for reproductions, licenses and performances completed in the United States, having reciprocal arrangements with similar societies in other jurisdictions.

(15) What is the current practice of granting transborder multi-territorial licences?

It varies from industry to industry and from licensor to licensor. VAGA and ARS do not license internationally, instead relying on their sister agencies in other countries to negotiate licenses in their respective geographic areas. These foreign groups transfer any monies received for foreign uses of U.S. works to the U.S. collecting society which, in turn, sends these monies to the respective artist. Getty Image, Magnum Photos, and Corbis license photographs for use throughout the world. (In fact, some of their images are not available for license in the United States and are only available for use abroad.) ASCAP licenses its members' works for use abroad through affiliation agreements with foreign performing rights societies, and licenses works from those foreign PROs' repertories in the United States. For example, ASCAP members' works are licensed in

France under the licenses SACEM grants, and works of SACEM members are licensed in the U.S. under the licenses ASCAP grants. The foreign PROs and ASCAP then exchange the foreign royalties based on each PRO's distribution system, and pay their members for the foreign performances. CCC licenses apply to domestic and international use, unless the copyright holder has specifically forbidden use in a certain geographic area. As mentioned before in response to the previous question, there are not legal rules as much as there are contractual limitations imposed by the copyright holders and reciprocal arrangements in place to ease the bureaucratic burden of licensing organizations.

(16) In your country, is the present situation considered satisfactory from the view point of authors, intermediaries and consumers?

We believe most copyright holders are satisfied with the current system and do not find the private ordering to pose unmanageable hurdles. Consumers wishing to license works for international uses would probably enjoy greater simplicity in this process as they would not have to locate and negotiate with a multitude of individual artists. From discussions with collecting societies, we conclude that they are satisfied with the current situation as they could, in most cases, grant multiterritoral licenses if they wished, but often choose to defer to licensing regimes in the countries where the work would be exploited.

Part II Illicit Dissemination and the role of intermediaries

II.1 Liability and Implication of intermediaries

II.1.1 Who are the technological intermediaries

(17) In your country, is there a statutory list of intermediaries which are subject to a special liability regime? If so, which intermediaries are listed? Does this list comprise Web 2.0 hosts, search engines, link aggregators?

The statute does not list specific intermediaries. Service providers that fall within the scope of the statutory definitions under section 512 may be entitled to a special liability regime. Section 512 of the Copyright Act provides safe harbors, or limitations on liability, for online service providers under certain conditions. For transitory digital network communications, a 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."[68] Section 512 covers certain intermediaries that provide links to content stored on other websites as well as those that provide content originated by third parties. Under section 512(k)(1)(B), "service provider" can also mean a provider of online services or network access or the operator of facilities used to promote the same, but this is only with regard to those providers who

[68] U.S.C. §512(k)(1).

seek protection under sections 512(b),(c) and (d).[69] For more information concerning service providers who may seek protection from liability under section 512, please see the answer to question 21 below.

(18) In case this list is based on a superior norm (such as, within the EU, a Directive),
- **did your national legislature just copy that list or did he add other intermediaries not listed?**
- **if he did so, did he subject them to the same legal regime as the intermediaries listed or did he create another liability regime for them?**

This question is not relevant to U.S. copyright law, because there is not a list of intermediaries.

(19) How did the courts in your country deal with intermediaries which are not expressly listed in the relevant statute? Did the courts extend to these intermediaries an already applicable regime? Have they created a new regime?

As discussed above in question 17, the definition of service provider under section 512 includes various intermediaries. Furthermore, some courts have extended the special liability regime under copyright law to other areas of the law such as trademark. For instance, in *Tiffany (NJ) Inc. v. eBay Inc*., the Second Circuit affirmed that eBay, an online auction site, satisfied certain requirements and conditions under section 512 and thus was protected against direct and indirect trademark liability even though there is no provision equivalent to section 512 in trademark law.[70] Specifically, the court held that eBay was not directly liable, because eBay promptly removed listings that Tiffany challenged as counterfeit and eBay took proactive steps to identify and remove the listings for counterfeit Tiffany goods. Additionally, the court held that eBay was not liable for contributory infringement, because eBay did not have specific knowledge of the listings of infringing objects that remained on the auction site.

(20) In your country, are there any plans to evaluate or revise the statutory list of intermediaries?

No, there is no plan to evaluate or revise the list of classes of specified intermediaries.

II.1.2 Bases for liability; mandatory or voluntary intervention

(21) On what legal grounds are intermediaries held liable in your jurisdiction? Are there any special rules on intermediaries' liability or does general copyright or tort law form the basis of intermediaries' liability?

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[69] For a discussion of §512(b), (c) and (d), see the answer to Question 21 below.
[70] Tiffany (NJ) Inc. v. Ebay, 600 F. 3d. 93 (2d. Cir. 2010).

There are three legal bases for holding intermediaries liable in the United States. The first is a theory of direct liability for intermediaries who themselves infringe copyright, albeit without knowing conduct, such as when an internet service provider—at the direction of a user—copies on its servers copyright protected works without the consent of the copyright owner.[71] The second two bases for holding intermediaries liable, "vicarious" and "contributory" liability, are forms of secondary liability whereby intermediaries are held accountable for third parties' copyright infringement. The Digital Millennium Copyright Act (the "DMCA") provides special statutory safe harbors from liability for direct and secondary infringement for certain kinds of online intermediaries.[72]

Under the common law of torts, vicarious liability arises where a defendant with the "right and ability to control the infringer" receives a "financial benefit directly attributable to the infringing activity."[73] Contributory liability arises when a defendant has "knowledge of" and "materially contributes" to direct infringement.[74] Under the doctrine known as "inducement of infringement," contributory liability also arises when a defendant distributes a device (or technology) with the "object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement."[75] There is no presumption, however, of an intent to promote infringement solely from the design or distribution of a product capable of substantial lawful use even though the distributor knows the product is in fact used for infringement.[76]

The DMCA's safe harbors create a specialized liability regime for online intermediaries. Online intermediaries are divided into two categories: those protected under section 512(a) and those protected under sections 512(b), (c) and (d). Section 512(a) applies to internet service providers that send digital communications of others over digital networks provided they are merely a conduit for the information (i.e. that they do not initiate the transmission, select what material will be transmitted or to whom it will be sent, edit the material, or store self-made copies of the material.[77] Under section 512(b), service providers are not responsible for items temporarily stored in their systems while material is transmitted at the direction of a user.[78] Section 512(c) provides

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[71] *See e.g.*, *Religious Tech. Ctr*., 907 F. Supp. 1361.
[72] 17 U.S.C. §512.
[73] 18 AM. JUR. 2D *Copyright and Literary Property* §219 (2013) ("One may be liable as a vicarious infringer if a special relationship such as agency or partnership exists, or in the absence of such relationship, if the defendant has the right and ability to supervise the infringing activities as well as a direct financial interest in those activities.")
[74] *Id.* ("A defendant may be held liable as a contributory infringer if he or she acts with knowledge of a copyright infringing activity to induce, cause, or materially contribute to the infringing conduct of another.")
[75] Metro-Goldwyn Mayer Studios v. Grokster, Ltd., 545 U.S. 913 (2005). In *Grokster*, the evidence of inducement included business plans predicated on infringement, public-facing statements about Grokster's intent to promote infringement, technology designed to facilitate infringement, advertising the ability to acquire copyrighted materials, and an absence of filtering. The Court was quite clear however that an absence of filtering could not, in itself, be enough to prove inducement.
[76] *Id.* at 933.
[77] 17 U.S.C. §512(a).
[78] 17 U.S.C. §512(b).

protection for service providers when they store materials online for a longer time than contemplated in section 512(b) but only if such storage is under the user's direction and provided the service provider does not know the material is infringing (or, if or when it finds out, immediately removes it from its servers) and does not receive financial benefit from the infringing material.[79] Section 512(d) exempts service providers who merely refer or link users to an online location that contains infringing materials or infringing activity, provided the service provider has no actual knowledge of the infringement(s) and removes or disables access to the infringing site(s) as soon as knowledge is acquired.[80] There are, however, certain conditions providers must meet to be eligible for this protection. These are described in the following answer.

(22) What is the scope of intermediaries' liability (duty to monitor, filter and/or block, etc.?)

The DMCA's safe harbors are expressly conditioned on: (1) the online service provider's adoption and reasonable implementation of "a policy that provides for the termination in appropriate circumstances of subscribers and account holders . . . who are repeat infringers;" and (2) the online service provider's accommodation of (and forbearance from interfering with) "standard technical measures."

Search engines and online service providers that store content at the direction of users must additionally comply with the requirements of the DMCA's notice-and-takedown provisions to qualify for the safe harbor. The notice-and-takedown regime in essence requires that when online intermediaries receive formal notice (that complies with the statute) of copyright infringement, they quickly remove or disable access to that material.[81] Just how expeditiously online intermediaries must respond to a takedown notice is not defined in the statute, and courts have not yet settled on an approach.[82] The intermediaries must also notify the users who posted the allegedly infringing content of the takedown, and afford them an opportunity to provide a counter-notice that the material is not infringing. If the copyright holder does not initiate suit against the counter-notifying user within 10 days, the host service provider must restore access to the material.

While many of these obligations are relatively cleanly defined, in other ways, the scope of intermediaries' liability both outside and inside of the DMCA remains hazy and disputed. The DMCA's safe-harbor provisions expressly dispense the service provider from an obligation to monitor.[83] The Second Circuit recently interpreted this provision as meaning that, on the one hand, online intermediaries need not affirmatively monitor their services to qualify for the safe harbor, but on the other hand, online intermediaries may

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[79] 17 U.S.C. §512(c).
[80] 17 U.S.C. §512(d).
[81] *See* 17 U.S.C. §512(c)(3).
[82] *See, e.g.*, Viacom Int'l Inc. v. YouTube, Inc., 718 F. Supp. 2d 514, 521 (S.D.N.Y. 2010) aff'd in part, vacated in part, remanded, 676 F.3d 19 (2d Cir. 2012) ("Because the factual circumstances and technical parameters may vary from case to case, it is not possible to identify a uniform time limit for expeditious action.").
[83] 17 U.S.C. §512(m).

not deliberately avoid confirming the existence of infringement (i.e., be "willfully blind").[84]

(23) Are the duties of intermediaries regulated by law, best practices or other means of voluntary participation of intermediaries?

The duties of intermediaries are regulated by law and, increasingly, by self-regulation or private agreement. Large internet service providers, such as Google, have implemented technological protocols that attempt to identify user-posted content that may be infringing.[85] While such monitoring is—as noted—expressly not required by law, it does help to rebut the accusation that such online intermediaries are indifferent to the copyright infringement on their networks and helps them as they negotiate with rightsholders to reach licensing agreements.

In another example of private ordering, several media companies and service providers have joined together to advocate increasing the role of filtering technology in copyright enforcement and produced a document setting out the terms of their agreement.[86] These "Principles for User Generated Content Services" mandate that all user-generated content sites employ filtering technology and allow rightholders to determine how matches that the filters find should be treated.[87] The Principles also ask service providers to communicate the importance of copyright to users, to track repeat infringers and to identify and remove links to sites that are clearly used primarily for infringement. In return, the signers of the document agree to work with service providers to ensure that fair use of copyrighted materials is accommodated, and pledge that if a service provider adheres to the Principles, the content providers will not assert infringement claims in the event that infringing content is posted by users. In response, several American research institutions and interest groups drafted the Fair Use Principles of User Generated Video Content, which are guidelines designed to facilitate copyright enforcement and at the same time protect fair use.[88]

Recently, national internet service providers AT&T, Cablevision, Time Warner, Verizon, and Comcast have implemented a private voluntary system called the Copyright Alert System ("CAS") for alerting and deterring internet subscribers who infringe

[84] Viacom Int'l v. YouTube, 676 F.3d 19 (2d Cir. 2012). On remand to the District Court for the Southern District of New York, however, the court failed to find willful blindness on the part of YouTube. Viacom Int'l , Inc. v. YouTube, Inc., 2013 U.S. Dist. LEXIS 56646 (2013) at *10.

[85] *See, e.g.*, The state of our video ID tools, GOOGLE OFFICIAL BLOG (June 14, 2007), available at http://googleblog.blogspot.com/2007/06/state-of-our-video-id-tools.html.

[86] Companies including CBS Corporation, Sony Pictures, Disney, Viacom, Microsoft, NBCUniversal and Veoh developed and adopted the Principles for User Generated Content Services. These guidelines can be found at http://www.ugcprinciples.com/ (last visited May 17, 2013). *See also*, William C. Harrelson, *PART II: Filtering the Internet to Prevent Copyright Infringement: ISP Safe Harbors and Secondary Liability in the U.S. and France*, 35 NEW MATTER, no. 2, 2010 at 7.

[87] Principles for User Generated Content Services, http://www.ugcprinciples.com/. *See also*, Alan N. Braverman & Terri Southwick, *The User-Generated Content Principles: The Motivation, Process, Results and Lessons Learned*, 32 COLUM. J. L. & ARTS 471 (2009).

[88] https://www.eff.org/pages/fair-use-principles-user-generated-video-content.

copyrighted content online.[89] CAS uses a graduated response system that provides up to six electronic warnings (hence its nickname the "six strikes" program) to users suspected of copyright infringement.[90] If the system continues to detect infringement by that subscriber, the internet service providers have agreed to implement "mitigation measures," which can include temporarily cutting off or slowing down internet service.[91] In addition, some intermediaries have entered into private agreements with rightsholders which compensate them for any postings of materials in which they own the rights.[92]

Moreover, the DMCA to a certain extent incorporates best practices into the law through its threshold condition that online service providers accommodate "standard technical measures," that is, measures "used by copyright owners to identify or protect copyrighted works and [among other things]—have been developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process."[93]

(24) Should there be international harmonization in this respect?

We believe that international harmonization is a worthwhile idea. Whether it could be achieved is another question.

II.2 Toward the extension of obligations to financial and other intermediaries?

II.2.1 The role of financial and advertising actors

(25) Apart from ISPs, which other intermediaries are economically involved in the online dissemination and marketing of copyrighted works (e.g., financial intermediaries such as the providers of credit cards; advertisers et al.)?

The breadth of online activity and infrastructure makes it impossible to catalogue all the types of intermediaries that are literally "economically involved" in the dissemination and marketing of copyrighted works. This difficulty is compounded by the ambiguity of how U.S. law treats "economic involvement." Under both common law vicarious liability and the safe harbors of the Digital Millennium Copyright Act, the defendant's "direct financial benefit" from infringement is an element in establishing (or, in the case of safe harbor, precluding) a defendant's secondary liability. In the context of the secondary liability of intermediaries, it is generally understood that defendants receive a "direct

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89 Major ISPs Agree to "Six Strikes" Copyright Enforcement Plan, ARSTECHNICA (June 7, 2011), available at http://arstechnica.com/tech-policy/2011/07/major-isps-agree-to-six-strikes-copyright-enforcement-plan/ (last visited April 23, 2013).

90 *Music, Movie, TV and Broadband Leaders Team to Curb Online Content Theft*, RIAA (July 2011), *available at* http://www.riaa.com/newsitem.php?content_selector=newsandviews&news_month_filter=7&news_year_filter=2011&id=2DDC3887-A4D5-8D41-649D-6E4F7C5225A5 (last visited April 23, 2013).

91 *Id.*

92 Yafit Lev-Aretz, *Second Level Agreements*, 45 AKRON L. REV. 137 (2012).

93 17 U.S.C. §512(i)(2).

financial benefit" when the infringing activity causes the defendants' economic benefit—that is, roughly speaking, when more infringement leads to more financial benefit for the defendant.[94] Thus, an online intermediary who receives a flat, up-front fee for providing a service to a copyright infringer does not directly benefit from the infringement,[95] whereas an online intermediary whose advertising revenues increase in proportion to traffic to infringing content might be deemed to derive a direct financial benefit.[96]

U.S. case law points to a number of intermediaries who are, literally speaking, "economically involved" in the dissemination of copyrighted works, although not all of them have been held to receive a "direct financial benefit" for purposes of vicarious liability:

- Financial intermediaries (such as credit card companies,[97] PayPal, etc.)
- Websites and internet services deriving revenues from users' transfers of content (such as YouTube,[98] Tumblr, etc.)
- Creators and distributors of software or hardware that permits transfers of content over the internet (such Napster,[99] Vine, Twitter, etc.) if there is no substantial non-infringing use
- Online auction services (such as eBay,[100])
- Online advertisers (both the companies that themselves serve online advertising and the companies that purchase the advertisements served on infringing websites)
- Online age verification services used by infringers[101]
- Venture capital firms and other investors that fund companies that facilitate or induce infringement[102]
- Educational institutions providing internet access to students

II.2.2 – Bases for liability

(26) In your country, is there any existing legal basis for extending certain obligations to financial and other intermediaries?

[94] *See, e.g.*, Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 263-64 (9th Cir. 1996) ("In this case, the sale of pirated recordings at the Cherry Auction swap meet is a 'draw' for customers, as was the performance of pirated music in the dance hall cases and their progeny.")

[95] Perfect 10, Inc. v. CCBill LLC, 488 F.3d 1102, 1118 (9th Cir. 2007) ("Furthermore, the legislative history expressly states that "receiving a one-time set-up fee and flat, periodic payments for service from a person engaging in infringing activities would not constitute receiving a 'financial benefit directly attributable to the infringing activity.'")

[96] If infringing content is a "lure" for traffic (see, e.g., *MGM v. Grokster*, 545 U.S. 913 at 940), the economic benefit may be deemed sufficiently related to the infringement. But if the advertising rates are based simply on the number of "hits" the site received, without distinction between infringing and non-infringing content, it may be more difficult to show a sufficient nexus between the economic benefit and the infringement, particularly if non-infringing content generates a high volume of hits.

[97] Perfect 10, Inc. v. Visa Int'l, 494 F.3d 788 (9th Cir. 2007).

[98] *Viacom Int'l v. YouTube*, 676 F.3d 19.

[99] *A&M Records*, 239 F.3d 1004.

[100] Hendrickson v. eBay, Inc., 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

[101] Perfect 10 Inc. v. Cybernet Ventures, Inc., 213 F. Supp. 2d 1146 (C.D. Cal. 2002).

[102] In re Napster, Inc. Copyright Litigation, 377 F. Supp. 2d 796 (N.D. Cal. 2005).

U.S. law certainly extends legal obligations to a variety of online intermediaries in general, as noted in section II.1.2(21-22) above. As a theoretical matter, the same legal basis exists for holding financial intermediaries in particular responsible for the infringing activities of their clients. However, as a practical matter, courts by and large have not extended secondary liability to financial intermediaries for the direct infringement of their clients because courts have viewed their contribution to and right and ability to control direct infringement as too attenuated to satisfy the elements of secondary liability.

In *Perfect 10 v. Visa International*, the Ninth Circuit considered whether Visa could be secondarily liable to Perfect 10 for providing credit card processing services to websites that infringed Perfect 10's copyrights.[103] The court held that payment processing by Visa did not constitute a material contribution to the infringement because payment processing merely made profiting from infringement easier; it did not directly contribute to locating or distributing infringing content. The court also held that Visa did not have the right and ability to control the infringement because suspending credit card processing services would have merely hindered the profitability of infringement, not impeded the individual acts of infringement. In other words, defendant's financial services were not necessary to the accomplishment of the infringement, at least as a matter of technology (if not, as the dissenting judge stressed, as a matter of economic reality.) Given these holdings, the court concluded that Visa could not be contributorily or vicariously liable for its role in the direct infringement. Judge Kozinski, however, issued a dissent criticizing the majority's reasoning. Judge Kozinski argued that Visa's services enhanced the profitability of direct infringement and that was a sufficient basis for finding "material contribution" to the infringing conduct—a necessary element in contributory liability. Judge Kozinski also argued that Visa's contractual right and ability to impede, if not stop outright, direct infringement by refusing to continue providing credit card processing services to direct infringers was enough to satisfy the "right and ability to control" element of vicarious liability. The majority and the dissent clearly define the debate over extending obligations to financial intermediaries and parties in a similar position. The key question turns on whether it is enough that intermediaries have the right to hinder direct infringement, or whether intermediaries must be in a position to stop it outright.

Visa International was not a DMCA case. Financial intermediaries have, however, argued for the availability of DMCA's safe harbors. In *Perfect 10 v. CCBill*, defendants CCBill and CWIE provided payment processing and web-hosting/connectivity services respectively to direct infringers of Perfect 10's copyrights.[104] There was no question that these intermediaries were subject to obligations to avoid liability for secondary infringement; the question was whether they had satisfied those obligations. The conduct of CWIE, the provider of web-hosting and networking services, was analyzed under section 512(c)'s safe harbor for infringing content stored at the direction of the user. The conduct of CCBill, the payment processing provider, was analyzed under 512(a)'s safe harbor for mere conduit ISPs. The Ninth Circuit rejected the

[103] *Perfect 10, Inc. v. Visa Int'l*, 494 F. 3d 788.
[104] *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d. 1102.

plaintiff's argument that CCBill could not qualify for the safe-harbor despite the fact that CCBill did not itself transmit any infringing content (it just provided payment processing services), noting that "it would be perverse to hold a service provider immune for transmitting information that was infringing on its face, but find it contributorily liable for transmitting information that did not infringe."[105]

On the other hand, in *Perfect 10 v. Cybernet Ventures* (another DMCA case), a California federal court held that an online age verification service (that acted as—among other things—a financial gatekeeper to adult websites) could be contributorily and vicariously liable.[106] The court, in granting Perfect 10's motion for a preliminary injunction of Cybernet's service, held that Cybernet, which provided age-verification services for pornographic sites, knew that some of the sites to which it linked did not own the copyrights in the works posted on their websites. The court said Cybernet knew or should have known of the infringements because the pornography sites openly disclosed their non-ownership of the works, and because, in the course of Cybernet's business, it regularly visited these members sites in order to do what the court termed "quality control."[107] The court also ruled Cybernet was potentially liable for vicarious infringement because of its direct financial interest in the pornographic sites' content; it marketed its services to sites based on the number and quality of images posted.[108] In addition, the court found that there was a likelihood that Perfect 10 could establish a symbiotic interest between Cybernet and the infringing websites which, to the consumer, looked like a single brand.[109] The court also concluded that the defendant was unlikely to qualify for the DMCA safe harbor because of its deficient repeat infringer policy.

Taken together, these cases suggest that intermediaries providing financial services to direct infringers are at least theoretically within the ambit of those who have "obligations" under the law. The weight of the case law, however, points to the conclusion that financial intermediaries must do more than provide "content-neutral" payment processing services to satisfy the elements for secondary liability. If, as the Ninth Circuit contemplated in *CCBill*, financial intermediaries are akin to those service providers eligible for protection under section 512(a) for purposes of the statute, financial intermediaries need not comply with the notice-and-takedown requirements, and it is irrelevant whether they know that their clients infringe copyright. Although perhaps not a natural fit for any of the DMCA's safe harbors, online financial intermediaries certainly qualify as "service providers" under the section 512(c), but to the extent that they seek any of the safe harbors, they must of course satisfy the threshold requirements of adopting a repeat infringer policy and respecting standard technical measures.[110]

(27) Are you aware of any discussions in your country with regard to future law making concerning such (additional) obligations?

[105] *Id*. at 1116.
[106] *Perfect 10, Inc. v. Cybernet Ventures*, 213 F.Supp.2d. 1146.
[107] *Id.* at 1170.
[108] *Id.* at 1171.
[109] *Id.*
[110] *Perfect 10, Inc. v. CCBill*, 488 F.3d 1102 at 1111.

In 2011 and 2012, the U.S. legislature considered adoption of two main online copyright bills, colloquially known as "SOPA" (the Stop Online Piracy Act)[111] and "PIPA" (the PROTECT IP Act).[112] Although these bills contained different features from one another, and themselves went through different iterations, the final versions of both bills would have changed the law concerning the obligations of certain kinds of online intermediaries. SOPA and PIPA both proposed to bolster the existing copyright enforcement regime to solve the problem of foreign online infringement, but their approaches reflected somewhat different perspectives on the nature of online infringement and the appropriate remedy. They differed in particular with regard to the websites subject to remedy and the remedies offered to plaintiffs and the government. Ultimately, technical details aside, both bills would have required that certain online intermediaries, including financial intermediaries, advertisers, and search engines, take—under court order or voluntarily—reasonable steps to disable access to or discontinue providing services to infringing websites.

Under PIPA, websites "dedicated to infringing activities" were subjected to sanction. A website was "dedicated to infringing activities" if it had "no significant use other than" or "[was] designed, operated, or marketed by its operator[s] …, and facts or circumstances suggest [was] used, primarily as a means for" "engaging in, enabling, or facilitating" copyright infringement under section 501 or violations of section 1201.[113] Thus, PIPA required no particular additional conduct by website operators if there was no significant use other than engaging in, enabling, or facilitating the prohibited activities. If "facts or circumstances suggest," however, "primarily" prohibited uses and the operators have the relevant mental state for the prohibited conduct, the Act's remedies attach. PIPA also had a bifurcated geographic structure: the government could pursue remedies against non-domestic infringing domains, while "qualifying plaintiffs" could pursue a subset of those same remedies against domestic and non-domestic infringing domains.[114]

SOPA contained two definitions of infringing websites. First, it defined foreign infringing sites as internet sites being "operated in a manner that would, if it were a domestic internet site, subject it to prosecution" for certain kinds of copyright infringement.[115] Meanwhile, an internet site was "dedicated to theft of U.S. property" if, among other things: (1) "the site [was] primarily designed or operated for the purpose of, [had] only limited purpose or use other than, or [was] marketed by its operator … primarily for use in, offering goods and services in violation of" section 501 of the Copyright Act "for purposes of commercial advantage or private financial gain," or in violation of section 1201 of the DMCA; or (2) "the operator of the site operates the site with the object of promoting, or has promoted, its use to carry out acts that constitute a

[111] H.R. 3261, 112th Cong. (2011). [hereinafter "SOPA"].
[112] S. 968, 112th Cong. (2011) [hereinafter "PIPA"].
[113] PIPA, §2(7).
[114] PIPA, §§ 3(a)(1), 4(a)(1). "Qualifying plaintiffs" could, with a court order, compel financial transaction service providers and internet advertising service providers to undertake reasonable efforts to deny services to infringing activities, but they cannot compel DNS blocking. (For a description of DNS blocking, please see the following paragraph.)
[115] SOPA, § 102(a)(2) (in particular for violations of § 1201's prohibitions on circumventing technological measures designed to control access to copyrighted works).

violation of section 501 or 1201."[116] SOPA, in its revised form, removed domestic websites from the scope of the act's provisions.[117]

The other primary axis along which the bills varied was remedies. PIPA and SOPA both required non-authoritative domain name system ("DNS") servers to take reasonable measures to prevent domain names under court orders from resolving to the domain name's IP address ("DNS blocking").[118] Both bills also required that, upon receiving court orders, search engines and financial intermediaries, including advertisers and payment processing services, cease providing access and/or services to infringing websites. Under PIPA, this remedy applied to domestic domains as well as non-domestic websites.[119] All of the bills granted third parties immunity from liability for actions taken pursuant to court orders or voluntary decisions by the third parties if the third party has a reasonable belief based on "credible evidence" that the internet site is infringing in the manner defined by the bill.[120] SOPA required that the voluntary action be consistent with the terms of service and other contractual obligations, and SOPA further required that the action be "narrowly" tailored.[121] PIPA conditioned immunity on only good faith and credible evidence.[122]

SOPA and PIPA generated substantial backlash that appears to have killed both pieces of legislation for the time being. The reaction was likely due to two controversial provisions: the provision in the initial version of SOPA allowing copyright owners to approach financial service providers and internet advertisers—without court order—and insist that services to infringing websites be terminated within five days, and the DNSblocking provisions mentioned above. The backlash against SOPA and PIPA also reflected a growing power center in political debates: large internet companies. Google, Facebook, Twitter, Reddit and others exerted significant legislative pressure and rallied internet users to oppose both pieces of legislation.

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116 SOPA, §103(a)(1).
117 BRIAN T. YEH, CONG. RESEARCH SERV., ONLINE COPYRIGHT INFRINGEMENT AND COUNTERFEITING : LEGISLATION IN THE 112TH CONGRESS, 26 (2012).
118 PIPA, §3(d)(2)(A); SOPA §102(c)(2)(A).
119 PIPA gave to "qualifying plaintiffs" certain remedies against domestic websites, and "qualifying plaintiffs" is defined to include both the Attorney General and "an owner of an intellectual property right, or one authorized to enforce such right." PIPA, §§ 2(11), 4(a)(1).
120 SOPA, §105(a); PIPA, §5(a).
121 SOPA, §105(a).
122 PIPA, §5(a).