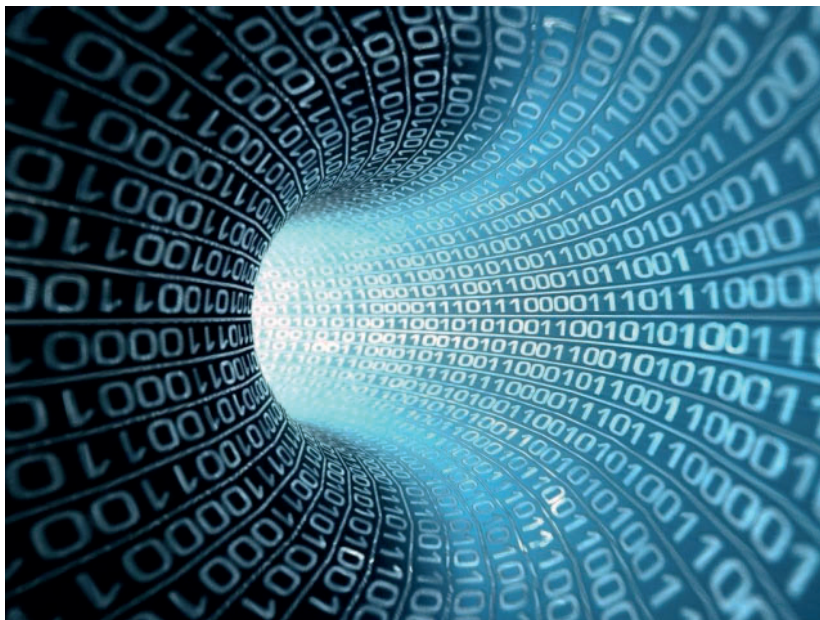


Péter Mezei – Dóra Hajdú – Luis Javier Capote-Pérez
Introduction to Digital Copyright Law

Fundamenta Fontium Iuris Internationalis
A szegedi nemzetközi jogi iskola tankönyvei



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Készült
a Szegedi Tudományegyetem
Állam- és Jogtudományi Kara
Nemzetközi Jogi és Európa-jogi Tanszékén

Tanszékvezető:
Blutman László
egyetemi tanár

**Péter Mezei
Dóra Hajdú
Luis Javier Capote-Pérez**

**Introduction to Digital
Copyright Law**

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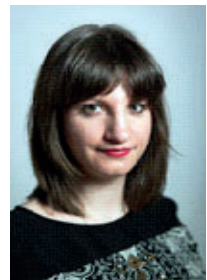
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Introduction

How to use the book?

(Péter Mezei – Dóra Hajdú – Luis Javier Capote-Pérez)

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 20th-21st 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 15th 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 third edition of the textbook further adds three 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 for that purpose.

The authors of this book are convinced that participants of the planned course will get familiarized with the practice-oriented, analytical aspects of copyright hot topics. The comparative legal aspect allows the students to understand the major differences between the common law and the continental legal systems in order 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.

Admittedly, the book does not include detailed analysis of all cases. The analysis is always reserved for the classroom and the in-person consultation with the students. Nevertheless, the concept of the book and the methodology used by the authors, in sum, the “style of classroom work” is introduced through the discussion of *Case C-360/13 – Public Relations Consultants Association Ltd v The Newspaper Licensing Agency Ltd and Others*, Judgment of the Court (Fourth Chamber), 5 June 2014, ECLI:EU:C:2014:1195.

Background of the case

The ordinary use of the internet involves the creation of temporary copies at several stages. Copies will be created during transmission in internet routers and proxy servers. Where a webpage is watched by an end-user or his computer, without being downloaded, the technical processes involved will require temporary copies to be made on screen and, in the internet cache on the hard disk. In computing, a cache is a hardware or software component that stores data so future requests for that data can be served faster. Data stored in a cache might be the result of an earlier computation or the duplicate of data stored elsewhere.

The screen copy is self-evidently an essential part of the technology involved, without which the webpage cannot be viewed by the user. It will remain on screen until the user moves away from the webpage visit. The function of the internet cache is somewhat more complex. It is a universal feature of current internet browsing technology. It would be possible to design browsing software without an internet cache, but in the present state of technology the result would be that the internet would be unable to cope with current volumes of traffic and would not function properly. The cache may be deliberately cleared by the end-user, but otherwise it will in the ordinary course be overwritten by other material after an interval which will depend on its capacity and on the volume and timing of the end-user’s internet usage.

Discussion

The case introduces an important question about the application of copyright law to the technical process involved in viewing copyright material on the Internet. The capacity of the internet cache may within limits be modified by altering the browser settings on the user's computer. Deleted material can sometimes be retrieved by special software or specialised technicians. However, this is not the ordinary use of the internet; the important point is that in none of these cases does the end-user set out to make a copy of the webpages unless he or she chooses to download it or print it out. The object is to view if the material and the copies temporarily retained on the screen or the internet cache are merely an incidental consequence of the use of a computer to do that. The question, for the Supreme Court of the United Kingdom, is whether those copies nonetheless infringing copies unless licensed by the rights owner.

Public Relations Consultants Association Limited is a professional association of public relations professionals who monitors news coverage on behalf of clients. One way of doing this is to use on line monitoring or search services.

Newspaper Licensing Agency (NLA) is a licensing organization that introduced a license covering media monitoring services that crawl sites and offer paid-for services based on their filtered results. The majority of media monitoring agencies signed up for the new web licence but not Meltwater, who argued no license was required by its clients for this purpose, and in conjunction with Public Relations Consultants Association referred the case to the Copyright Tribunal.

The case is about the services provided to members of Public Relations Consultants Association Limited by the Meltwater group of companies. This group uses automated software programmes to create an index of words appearing on newspaper websites. Meltwater's costumers provide them with search terms of interest to them, and Meltwater produces a monitoring report listing the results of a search of the index for those keywords. For each search hit, the monitoring report will present the opening words of the article, the keyword together with several words on either side of it, and a hyperlink –in the form of a reproduction of the headline- which enables the user to access the article on the relevant source website. It should, however, be noted that if that website has a paywall, the link will not enable the user to avoid it. He or she will have to pay for access to the material behind the paywall on the same terms as anyone else. Meltwater sends the monitoring report to the costumer by email or the costumer accesses it on the Meltwater website.

Common ground points:

Meltwater agreed to take a licence from the publisher of the newspaper to provide their service. Meltwater's customers require a licence to receive the service.

Central question:

Meltwater's service involves the transmission of the monitoring report by e-mail. The e-mail copy is not temporary. It is stored on the recipient's hard drive until the end-user chooses to delete it. The question is whether costumers would need a licence to receive the service if the monitoring report were made available only on the website. If the user downloads the report, there is a copy that will infringe the newspaper's copyright unless the costumer is licensed. But what if he or she merely views the material on the website? The Copyright Tribunal and the Court of Appeals held that a licence is also needed in that scenario but, in the Supreme Court words, the problem affects also millions of non-commercial users of the internet who may be incurring civil liability by viewing copyright material on the internet without the authority of the rights owner.

Legal context:

The creation of temporary copies is part of the process of viewing copyright material on a computer through the internet.

Section 28A Copyright, Designs and Patents Act 1988:

Making of temporary copies

Copyright in a literary work, other than a computer program or a database, or in a dramatic, musical or artistic work, the typographical arrangement of a published edition, a sound recording or a film, is not infringed by the making of a temporary copy which is transient or incidental, which is an integral and essential part of a technological process and the sole purpose of which is to enable—

(a) a transmission of the work in a network between third parties by an intermediary; or

(b) a lawful use of the work;

and which has no independent economic significance.

This rule is a consequence of giving effect to Directive 2001/29/EC of 22 May 2001 on *the harmonisation of certain aspects of copyright and related rights in the information society*. This Directive introduces the possibility of

some exceptions to the exclusive copyright to allow certain acts of temporary reproduction, in the name of the new electronic environment. According to the Directive:

Recital (31) A fair balance of rights and interests between the different categories of rightholders, as well as between the different categories of rightholders and users of protected subject-matter must be safeguarded. The existing exceptions and limitations to the rights as set out by the Member States have to be reassessed in the light of the new electronic environment. Existing differences in the exceptions and limitations to certain restricted acts have direct negative effects on the functioning of the internal market of copyright and related rights. Such differences could well become more pronounced in view of the further development of transborder exploitation of works and cross-border activities. In order to ensure the proper functioning of the internal market, such exceptions and limitations should be defined more harmoniously. The degree of their harmonisation should be based on their impact on the smooth functioning of the internal market.

Recital (33) The exclusive right of reproduction should be subject to an exception to allow certain acts of temporary reproduction, which are transient or incidental reproductions, forming an integral and essential part of a technological process and carried out for the sole purpose of enabling either efficient transmission in a network between third parties by an intermediary, or a lawful use of a work or other subject-matter to be made. The acts of reproduction concerned should have no separate economic value on their own. To the extent that they meet these conditions, this exception should include acts which enable browsing as well as acts of caching to take place, including those which enable transmission systems to function efficiently, provided that the intermediary does not modify the information and does not interfere with the lawful use of technology, widely recognised and used by industry, to obtain data on the use of the information. A use should be considered lawful where it is authorised by the rightholder or not restricted by law.

Article 5

Exceptions and limitations

1. Temporary acts of reproduction referred to in Article 2, which are transient or incidental [and] an integral and essential part of a technological process and whose sole purpose is to enable:

- (a) a transmission in a network between third parties by an intermediary, or*
- (b) a lawful use*

of a work or other subject-matter to be made, and which have no independent economic significance, shall be exempted from the reproduction right provided for in Article 2.

5. The exceptions and limitations provided for in paragraphs 1, 2, 3 and 4 shall only be applied in certain special cases which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.

Decisions and Judgements:

The Copyright Tribunal judgement decided that Meltwater's customers needed a licence both to receive the monitoring reports by e-mail and to access them on Meltwater's website. Reasons were:

- That the making of copies, however temporary, in the end-user's computer during browsing was not part of the technological process because it was generated by his / her own volition (i. e. by the voluntary decision to access the webpage).
- That it was outside the scope of the technological process for the additional reason that it was in reality the end result of that process since it was what the end-user viewed.
- That the viewing of these copies did not constitute "lawful use" because they were not authorized by the copyright owner.

The Court of Appeals agreed with previous decision, because in their view, the acts of reproduction are those occasioned by the voluntary human process of accessing to a webpage.

Having consulted European case law about exceptions and limitations to copyrights, the Supreme Court decided to ask to the European Court of Justice for a preliminary ruling, because – as is said above – the issue had a transnational dimension and the application of copyright law to internet use has important implications for many millions of people across the EU. The critical point of the issue should be resolved in a manner which will apply uniformly in the EU. Thus, the Supreme Court referred to the ECJ the question whether the requirements of article 5.1 of the Directive that acts of reproduction should be (i) temporary, (ii) transient or incidental and (iii) an integral and essential part of the technological process, are satisfied in circumstances where:

- An end-user views a webpage without downloading, printing or otherwise setting out to make a copy of it.
- Copies of that webpage are automatically made on screen and in the internet 'cache' on the end-user's hard disk.
- The creation of those copies is indispensable to the technical processes involved in correct and efficient internet browsing.

- The screen copy remains on screen until the end-user moves away from the relevant web-page, when it is automatically deleted by the normal operation of the computer.
- The cached copy remains in the cache until it is overwritten by other material as the end-user views further webpages, when it is automatically deleted by the normal operation of the computer.
- The copies are retained for no longer than the ordinary processes associated with internet use referred to circumstances fourth and fifth.

The ECJ answered the question according to its case law, establishing that:

- Conditions for exceptions of article 5.1 and 5.5 must be interpreted strictly, because are a derogation from the general rule established that the copyright holder must authorize any reproduction of protected works.
- The exemption provided in those articles must allow and ensure the development and operation of new technologies, and safeguard a fair balance between the rights and interests of right holders and of users of protected works who wish to avail themselves of those technologies.
- About of the conditions:
 - The act of reproduction must be temporary and in the case:
 - On-screen copies are deleted when the internet user moves away from the website viewed.
 - Cached copies are normally automatically replaced by other content after a certain time, depending on the capacity of the cache and on the extent and frequency of internet usage.
 - Thus, it must be held that those copies satisfy the condition of being temporary.
 - The act of reproduction must be an integral part of a technological process and in the case:
 - The on-screen copies and the cached copies are created and deleted by the technological process used for viewing websites, with the result that they made entirely in the context of that process.
 - It is irrelevant that the process in question is activated by the internet user and that it is terminated by a temporary act of reproduction such as the on-screen copy.
 - There is no specification about at which stage of the technological
 - There is no preclusion of the technological process from involving human intervention and from being activated or completed manually.
 - Thus, it must be held that on-screen copies and cached copies are integral parts of the technological process described in the case.

- The act of reproduction must be an essential part of a technological process and in the case:
 - Cached copies greatly facilitate browsing on the internet, since without these copies, the internet would be unable to cope with current volumes of data transmitted online.
 - Without the creation of such copies, the process used for viewing websites would be less efficient and would not be able to function properly.
 - The on-screen copies are required in the process of viewing websites on computers to function correctly and efficiently.
 - Thus, it must be held that on-screen copies and cached copies are essential parts of the technological process described in the case.
- The act of reproduction must be either transient or incidental:
 - An act will be held to be transient, in the light of the technological process used, if its duration is limited to what is necessary for that process to work properly, it being understood that that process must be automated inasmuch as it deleted such an act automatically, without human intervention, once its function of enabling the completion of such a process has come to an end.
 - The requirement of automatic deletion does not preclude such a deletion from being preceded by human intervention directed at terminating the use of the technological process. It is permissible for the technological process at issue in the main proceedings to be activated and completed manually.
 - An act of reproduction does not lose its transient nature merely because the deletion by the system of the copy generated is preceded by the intervention of the end-user designed to terminate the technological process concerned.
 - An act of reproduction can be regarded as incidental if it neither exists independently of, nor has a purpose independent of, the technological process of which it forms part.
 - On-screen copies are automatically deleted by the computer at the moment when the internet user moves away from the website concerned and, therefore, at the moment when there is a termination of the technological process used for viewing that site.
 - On-screen copies remain in existence strictly during the time needed for the proper functioning of the technological process used for viewing the website concerned. Consequently, on-screen copies must be regarded as transient.
 - Cached copies, unlike on-screen copies, are not deleted at the time when the internet user terminates the technological process

- used for viewing the website concerned, since they are retained in the cache for the purposes of possible subsequent viewing of that site.
- The process of viewing websites could function without cached copies, but less efficiently.
- Cached copies neither exist independently of, nor have a purpose independent of the technological process used, thus they must be held as incidental copies.
- Thus, it must be held that on-screen copies are transient and cached copies are incidental.
- A temporary act of reproduction is exempt from the reproduction right only in certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holders.
 - On-screen copies and cache copies are created only for the purpose of viewing websites.
 - Those copies make it possible for internet users to access works displayed on websites without the authorization of the copyright holders, but do not unreasonably prejudice the legitimate interests of those right holders.
 - The works are made available to internet users by the publishers of the websites, those publishers being required to obtain authorization from the copyright holders concerned, since that making available constitutes a communication to the public.
 - Legitimate interests of copyright holders concerned are thus properly safeguarded.

According to the ECJ judgement, the viewing of websites by means of the technological process at issue represents a normal exploitation of the works which makes it possible for internet users to avail themselves of the communication to the public made by the publisher on the website concerned. The creation of the copies in question forms part of such viewing and it cannot operate to the detriment of such an exploitation of the works.

Consequently, the answer to the question referred by the United Kingdom Supreme Court is that Article 5 of Directive 2001/29 must be interpreted as meaning that the on-screen copies and the cached copies made by an end-user in the course of viewing a website satisfy the conditions that those copies must be temporary, that they must be transient or incidental in nature and that they must constitute an integral and essential part of a technological process, as well as the conditions laid down in Article 5.5 of that Directive, and that they may therefore be made without the authorization of the copyright holders.

According to the judgement of the ECJ, the Supreme Court overturned previous decisions of the Copyright Tribunal and the Court of Appeals, deciding that Meltwater's customers do not need an additional licence to receive the service in the website.

THINK IT OVER!

1. What do you think about the argument exposed in the case that says that if the viewing of copyright material on a webpage did not require licence from the copyright owner, he or she would be exposed to a ***large-scale piracy of a kind which would be difficult to detect or prevent?***
2. What do you think about the possibility that ***every access to copyright materials requires compensation*** of their right holders with no exceptions?
3. Meltwater was also the defendant in another case in the United States, in which Associated Press sued it, for clipping and sharing news items under copyright infringement and news misappropriation under New York common law. Meltwater argued there was no infringement under the requirements of fair use, but the New York Southern District Court held that the copying by the defendant was not protected under the fair use doctrine and was infringing the copyright of Associated Press. What are the similarities of the two cases and the judgements? ***What are the differences of copyright regulations in the United States and in the European Union?*** What are the consequences of different decisions over similar cases – according to national laws – in a globalised market?
4. ***What if the end-user has a backup system programmed to do periodical copies of all data stored in his / her hard disk?*** If temporary copies of webpages viewed are included in each backup, is there a copy that will infringe the newspaper's copyright unless the costumer is licensed?

FURTHER CASE LAW

Case C-527/15 – Stichting Brein vs Jack Frederik Wullens, Judgment of the Court (Second Chamber), 26th April 2017, ECLI:EU:C:2017:300

Case C-110/15 – Microsoft Mobile Sales International Oy and others vs Ministero per I beni e le attività culturali, Judgment of the Court (Second Chamber), 22nd September 2016, ECLI:EU:C:2016:717

Associated Press v. Meltwater U. S. Holdings, Inc., et. al, 931 *F.Supp.2d* 537 (2013)

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

(Péter Mezei)

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“Copyright laws become obsolete when technology renders the assumptions on which they were based outmoded.”¹

(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,² 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,

¹ LITMAN (2006) 22.

² MEZEI (2010) 9–13.

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)³ 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.⁴ 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.⁵

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

³ 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*).

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

⁵ MULLIGAN – PERZANOWSKI (2007) 1157–1232.

known as “*material side*” by the classic Hungarian copyright commentators.⁶ 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.⁷ The intellectual creations have turned to be marketable due to the emergence of multiplication technologies.⁸ *Elemér Balás P.* remarked that “the intellectual creations have become negotiable, thus goods”.⁹

Subsequently, authors demanded an increased protection of their personal/intellectual interests.¹⁰ 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.¹¹

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”.¹² 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 15th-16th century: the kings granted so called “patents” to specific printers, who used these monopolies to exclusively print specific or any kind of books at a designated geographical territory.¹³ 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

⁶ BALÁS P. (1941) 664.

⁷ NIZSALOVSKY (1984) 15.

⁸ MATTHEWS (1890) 586.

⁹ BALÁS P. (1941) 684.

¹⁰ NIZSALOVSKY (1984) 15.

¹¹ BURCKHARDT (1978) 94.

¹² TOLDY (1838) 712.

¹³ MATTHEWS (1890) 587–589.

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 10th, 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.¹⁴ 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).¹⁵ 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 18th 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.¹⁶

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.

¹⁴ Ibid. at 589-590.

¹⁵ Ibid. at 599-601.

¹⁶ PATTERSON [et al.] (2009) 244-256.

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.¹⁷ 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 19th century. At that time, the Hungarian publishing industry was strong, new newspapers and journals 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,¹⁸ 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

¹⁷ LATOURNERIE (2001) 43–46.

¹⁸ MATTHEWS (1890) 587–589; KENEDI (1908) 7; PATTERSON [et al.] (2009) 246–248.

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 20th 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.¹⁹

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).²⁰ 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".

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.

¹⁹ TAMURA (2009) 66–68.

²⁰ DAVID (2004) 5–10.

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 19th 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 19th 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.²¹ 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.²² 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 on a congressional hearing (of the third US Copyright Act, finally accepted in 1909) in 1906 as follows:

*„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.”*²³

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

²¹ LITMAN (2006) 22–23.

²² Ibid. at 23.

²³ LESSIG (2008) 24–25.

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 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.”²⁴

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.*²⁵

²⁴ HELBERGER [et al.] (2012) 19.

²⁵ MEZEI (2012) 13–63.

Chapter I

Communication of Protected Subject Matters

Sociedad General de Autores y Editores de España (SGAE) v. Rafael Hoteles SA

Case C-306/05, Judgment of the Court (Third Chamber), 7 December 2006
[ECLI:EU:C:2006:764]

(...) Legal context

Applicable international law

3 The Agreement on Trade-Related Aspects of Intellectual Property Rights ('the TRIPs Agreement'), as set out in Annex 1C to the Marrakesh Agreement establishing the World Trade Organisation, was approved on behalf of the European Community 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).

4 Article 9(1) of the TRIPs Agreement provides:

'Members shall comply with Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto. However, Members shall not have rights or obligations under this Agreement in respect of the rights conferred under Article 6bis of that Convention or of the rights derived therefrom.'

5 Article 11 of the Berne Convention for the Protection of Literary and Artistic Works (Paris Act of 24 July 1971), as amended on 28 September 1979 ('the Berne Convention') provides:

'1. Authors of dramatic, dramatico-musical and musical works shall enjoy the exclusive right of authorising:

- (i) the public performance of their works, including such public performance by any means or process;*
- (ii) any communication to the public of the performance of their works.*

2. Authors of dramatic or dramatico-musical works shall enjoy, during the full term of their rights in the original works, the same rights with respect to translations thereof.'

6 Article 11bis(1) of the Berne Convention provides:

‘Authors of literary and artistic works shall enjoy the exclusive right of authorising:

- (i) the broadcasting of their works or the communication thereof to the public by any other means of wireless diffusion of signs, sounds or images;*
- (ii) any communication to the public by wire or by rebroadcasting of the broadcast of the work, when this communication is made by an organization other than the original one;*
- (iii) the public communication by loudspeaker or any other analogous instrument transmitting, by signs, sounds or images, the broadcast of the work.’*

7 The World Intellectual Property Organisation (WIPO) adopted in Geneva, on 20 December 1996, the WIPO Performances and Phonograms Treaty and the WIPO Copyright Treaty. Those two treaties were approved on behalf of the Community by Council Decision 2000/278/EC of 16 March 2000.

8 Article 8 of the WIPO Copyright Treaty provides:

‘Without prejudice to the provisions of Articles 11(1)(ii), 11bis(1)(i) and (ii), 11ter(1)(ii), 14(1)(ii) and 14bis(1) of the Berne Convention, 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.’

9 Joint declarations concerning the WIPO Copyright Treaty were adopted by the Diplomatic Conference on 20 December 1996.

10 The joint declaration concerning Article 8 of that Treaty provides:

‘It is understood that the mere provision of physical facilities for enabling or making a communication does not in itself amount to communication within the meaning of this Treaty or the Berne Convention. It is further understood that nothing in Article 8 precludes a Contracting Party from applying Article 11bis(2).’

Community legislation

11 The ninth recital in the preamble to Directive 2001/29 states:

‘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. Intellectual property has therefore been recognised as an integral part of property.'

12 The 10th recital in the preamble to that directive states:

'If authors or performers are to continue their creative and artistic work, they have to receive an appropriate reward for the use of their work, as must producers in order to be able to finance this work. The investment required to produce products such as phonograms, films or multimedia products, and services such as "on-demand" services, is considerable. Adequate legal protection of intellectual property rights is necessary in order to guarantee the availability of such a reward and provide the opportunity for satisfactory returns on this investment.'

13 The 15th recital in the preamble to that directive states:

'The Diplomatic Conference held under the auspices of the [WIPO] in December 1996 led to the adoption of two new Treaties, the [WIPO Copyright Treaty] and the [WIPO Performances and Phonograms Treaty], dealing respectively with the protection of authors and the protection of performers and phonogram producers. Those Treaties update the international protection for copyright and related rights significantly, not least with regard to the so-called "digital agenda", and improve the means to fight piracy world-wide. The Community and a majority of Member States have already signed the Treaties and the process of making arrangements for the ratification of the Treaties by the Community and the Member States is under way. This Directive also serves to implement a number of the new international obligations.'

14 The 23rd recital in the preamble to that directive states:

'This Directive should harmonise further the author's right of communication to the public. This right should be understood in a broad sense covering all communication to the public not present at the place where the communication originates. This right should cover any such transmission or retransmission of a work to the public by wire or wireless means, including broadcasting. This right should not cover any other acts.'

15 The 27th recital in the preamble to Directive 2001/29 states:

'The mere provision of physical facilities for enabling or making a communication does not in itself amount to communication within the meaning of this Directive.'

16 Article 3 of that directive 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.

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.’

National legislation

17 The codified text of the Law on intellectual property, which rectifies, clarifies and harmonises the legislative provisions in force in that area (‘the LIP’), was approved by Royal Legislative Decree No 1/1996 of 12 April 1996.

18 Article 17 of the LIP provides:

‘The author has the exclusive rights of exploitation of his works regardless of their form and, inter alia, the exclusive rights of reproduction, distribution, public communication and conversion which cannot be exercised without his permission except in circumstances laid down in this Law.’

19 Article 20(1) of the LIP provides:

‘Public communication shall mean any act by which a number of persons can have access to the work without prior distribution of copies to each of those persons. Communication which takes place within a strictly domestic location which is not integrated into or connected to a distribution network of any kind shall not be classified as public.’

The main proceedings and the questions referred for a preliminary ruling

20 SGAE is the body responsible for the management of intellectual property rights in Spain.

21 SGAE took the view that the use of television sets and the playing of ambient music within the hotel owned by Rafael, during the period from June 2002 to March 2003, involved communication to the public of works belonging to the repertoire which it manages. Considering that those acts were carried out in breach of the intellectual property rights attached to the works, SGAE brought an action for compensation against Rafael before the Juzgado de Primera Instancia (Court of First Instance) No 28, Barcelona (Spain).

22 By decision of 6 June 2003, that court partially rejected the claim. It took the view that the use of television sets in the hotel's rooms did not involve communication to the public of works managed by SGAE. It considered, on the other hand, that the claim was well founded as regards the well-known existence in hotels of communal areas with television sets and where ambient music is played.

23 SGAE and Rafael both brought appeals before the Audiencia Provincial (Provincial Court) de Barcelona, which decided to stay the proceedings and to refer the following questions to the Court of Justice for a preliminary ruling:

'(1) Does the installation in hotel rooms of television sets to which a satellite or terrestrial television signal is sent by cable constitute an act of communication to the public which is covered by the harmonisation of national laws protecting copyright provided for in Article 3 of Directive [2001/29]?

(2) Is the fact of deeming a hotel room to be a strictly domestic location, so that communication by means of television sets to which is fed a signal previously received by the hotel is not regarded as communication to the public, contrary to the protection of copyright pursued by Directive [2001/29]?

(3) For the purposes of protecting copyright in relation to acts of communication to the public provided for in Directive [2001/29], can a communication that is effected through a television set inside a hotel bedroom be regarded as public because successive viewers have access to the work?'

(...) The questions

Preliminary observations

30 It should be stated at the outset that, contrary to Rafael's submissions, the situation at issue in the main proceedings does not fall within Council Directive 93/83/EEC of 27 September 1993 on the coordination of certain rules concerning

copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission, but within Directive 2001/29. The latter applies to all communications to the public of protected works, whereas Directive 93/83 only provides for minimal harmonisation of certain aspects of protection of copyright and related rights in the case of communication to the public by satellite or cable retransmission of programmes from other Member States. As the Court has already held, unlike Directive 2001/29, this minimal harmonisation does not provide information to enable the Court to reply to a question concerning a situation similar to that which is the subject of the questions referred for a preliminary ruling.

31 Next, it should be noted that the need for uniform application of Community law and the principle of equality require that where provisions of Community law make no express reference to the law of the Member States for the purpose of determining their meaning and scope, as is the case with Directive 2001/29/EC, they must normally be given an autonomous and uniform interpretation throughout the Community. It follows that the Austrian Government cannot reasonably maintain that it is for the Member States to provide the definition of ‘public’ to which Directive 2001/29 refers but does not define.

The first and third questions

32 By its first and third questions, which it is appropriate to examine together, the referring court asks, essentially, whether the distribution of a signal through television sets to customers in hotel rooms constitutes communication to the public within the meaning of Article 3(1) of Directive 2001/29, and whether the installation of television sets in hotel rooms constitutes, in itself, an act of that nature.

33 In that respect, it should be noted that that Directive does not define ‘communication to the public’.

34 According to settled case-law, in interpreting a provision of Community law it is necessary to consider not only its wording, but also the context in which it occurs and the objectives pursued by the rules of which it is part.

35 Moreover, Community legislation must, so far as possible, be interpreted in a manner that is consistent with international law, in particular where its provisions are intended specifically to give effect to an international agreement concluded by the Community.

36 It follows from the 23rd recital in the preamble to Directive 2001/29 that ‘communication to the public’ must be interpreted broadly. Such an interpretation is moreover essential to achieve the principal objective of that directive, which, as

can be seen from its ninth and tenth recitals, is to establish a high level of protection of, *inter alios*, authors, allowing them to obtain an appropriate reward for the use of their works, in particular on the occasion of communication to the public.

37 The Court has held that, in the context of this concept, the term ‘public’ refers to an indeterminate number of potential television viewers.

38 In a context such as that in the main proceedings, a general approach is required, making it necessary to take into account not only customers in hotel rooms, such customers alone being explicitly mentioned in the questions referred for a preliminary ruling, but also customers who are present in any other area of the hotel and able to make use of a television set installed there. It is also necessary to take into account the fact that, usually, hotel customers quickly succeed each other. As a general rule, a fairly large number of persons are involved, so that they may be considered to be a public, having regard to the principal objective of Directive 2001/29, as referred to in paragraph 36 of this judgment.

39 In view, moreover, of the cumulative effects of making the works available to such potential television viewers, the latter act could become very significant in such a context. It matters little, accordingly, that the only recipients are the occupants of rooms and that, taken separately, they are of limited economic interest for the hotel.

40 It should also be pointed out that a communication made in circumstances such as those in the main proceedings constitutes, according to Article 11*bis*(1)(ii) of the Berne Convention, a communication made by a broadcasting organisation other than the original one. Thus, such a transmission is made to a public different from the public at which the original act of communication of the work is directed, that is, to a new public.

41 As is explained in the Guide to the Berne Convention, an interpretative document drawn up by the WIPO which, without being legally binding, nevertheless assists in interpreting that Convention, when the author authorises the broadcast of his work, he considers only direct users, that is, the owners of reception equipment who, either personally or within their own private or family circles, receive the programme. According to the Guide, if reception is for a larger audience, possibly for profit, a new section of the receiving public hears or sees the work and the communication of the programme via a loudspeaker or analogous instrument no longer constitutes simple reception of the programme itself but is an independent act through which the broadcast work is communicated to a new public. As the Guide makes clear, such public reception falls within the scope of the author’s exclusive authorisation right.

42 The clientele of a hotel forms such a new public. The transmission of the broadcast work to that clientele using television sets is not just a technical means to ensure or improve reception of the original broadcast in the catchment area. On the contrary, the hotel is the organisation which intervenes, in full knowledge of the consequences of its action, to give access to the protected work to its customers. In the absence of that intervention, its customers, although physically within that area, would not, in principle, be able to enjoy the broadcast work.

43 It follows from Article 3(1) of Directive 2001/29 and Article 8 of the WIPO Copyright Treaty that for there to be communication to the public it is sufficient that the work is made available to the public in such a way that the persons forming that public may access it. Therefore, it is not decisive, contrary to the submissions of Rafael and Ireland, that customers who have not switched on the television have not actually had access to the works.

44 Moreover, it is apparent from the documents submitted to the Court that the action by the hotel by which it gives access to the broadcast work to its customers must be considered an additional service performed with the aim of obtaining some benefit. It cannot be seriously disputed that the provision of that service has an influence on the hotel's standing and, therefore, on the price of rooms. Therefore, even taking the view, as does the Commission of the European Communities, that the pursuit of profit is not a necessary condition for the existence of a communication to the public, it is in any event established that the communication is of a profit-making nature in circumstances such as those in the main proceedings.

45 With reference to the question whether the installation of television sets in hotel rooms constitutes, in itself, a communication to the public within the meaning of Article 3(1) of Directive 2001/29, it should be pointed out that the 27th recital in the preamble to that directive states, in accordance with Article 8 of the WIPO Copyright Treaty, that '[t]he mere provision of physical facilities for enabling or making a communication does not in itself amount to communication within the meaning of [that] Directive.'

46 While the mere provision of physical facilities, usually involving, besides the hotel, companies specialising in the sale or hire of television sets, does not constitute, as such, a communication within the meaning of Directive 2001/29, the installation of such facilities may nevertheless make public access to broadcast works technically possible. Therefore, if, by means of television sets thus installed, the hotel distributes the signal to customers staying in its rooms, then communication to the public takes place, irrespective of the technique used to transmit the signal.

47 Consequently, the answer to the first and second questions is that, while the mere provision of physical facilities does not as such amount to a communication within the meaning of Directive 2001/29, the distribution of a signal by means of television sets by a hotel to customers staying in its rooms, whatever technique is used to transmit the signal, constitutes communication to the public within the meaning of Article 3(1) of that directive.

The second question

48 By its second question, the referring court asks, essentially, whether the private nature of hotel rooms precludes the communication of a work to those rooms by means of television sets from constituting communication to the public within the meaning of Article 3(1) of Directive 2001/29.

49 In that respect, Ireland submits that communication or making available of works in the private context of hotel rooms should be distinguished from the same acts which take place in public areas of the hotel. This argument cannot however be accepted.

50 It is apparent from both the letter and the spirit of Article 3(1) of Directive 2001/29 and Article 8 of the WIPO Copyright Treaty – both of which require authorisation by the author not for retransmissions in a public place or one which is open to the public but for communications by which the work is made accessible to the public – that the private or public nature of the place where the communication takes place is immaterial.

51 Moreover, according to the provisions of Directive 2001/29 and of the WIPO Copyright Treaty, the right of communication to the public covers the making available to the public of works in such a way that they may access them from a place and at a time individually chosen by them. That right of making available to the public and, therefore, of communication to the public would clearly be meaningless if it did not also cover communications carried out in private places.

52 In support of the argument concerning the private nature of hotel rooms, Ireland also invokes the European Convention for the Protection of Human Rights and Fundamental Freedoms, signed in Rome on 4 November 1950 ('the ECHR'), and in particular its Article 8, which prohibits any arbitrary or disproportionate interference by a public authority in the sphere of private activity. However, this argument cannot be accepted either.

53 In that respect, it should be pointed out that Ireland does not make clear who, in a context such as that of the main proceedings, would be the victim of such

an arbitrary or disproportionate intervention. Ireland can hardly have in mind the customers who benefit from the signal which they receive and who are under no obligation to pay the authors. Nor can the victim be the hotel since, even though it must be concluded that the hotel is obliged to make such payment, it cannot claim to be a victim of an infringement of Article 8 of the ECHR in so far as the rooms, once made available to its customers, cannot be considered as coming within its private sphere.

54 Having regard to all of the foregoing considerations, the answer to the second question is that the private nature of hotel rooms does not preclude the communication of a work by means of television sets from constituting communication to the public within the meaning of Article 3(1) of Directive 2001/29. (...)

THINK IT OVER!

1. The conceptual elements of “public” are clearly elaborated by the ECJ. Do you agree with them? One part of this approach deserves special attention though. The *theory of successive publicity* is generally based on the premise that hotel rooms are occupied by a fairly large number of visitors who follow each other in the given room. The concept works well as long as the right of communication to the public is managed collectively by collective rights management organizations. Where such representation is missing, the standing of plaintiff is heavily questionable. In other words, how can copyright holders prove that the guests of the hotel room watch the protected subject matters of the same copyright holder?

2. The decision stresses in para. 40 that “a communication made in circumstances such as those in the main proceedings constitutes, according to Article 11 bis(1)(ii) of the Berne Convention, a communication made by a broadcasting organisation other than the original one. Thus, such a transmission is made to a public different from the public at which the original act of communication of the work is directed, that is, to a new public.” The referred Article of the Berne Convention states that “Authors of literary and artistic works shall enjoy the exclusive right of authorizing: (...) any communication to the public by wire or by rebroadcasting of the broadcast of the work, when this communication is made by an organization other than the original one”. Do you think the ECJ correctly interpreted and applied this Article? Is the “novelty” of the audience a conceptual element of communication to the public under the Berne Convention? Importantly, *the ECJ’s above “new public theory” had far reaching consequences*, and was later developed into an autonomous concept of EU copyright law. It was heavily used by the ECJ in digital copyright cases, and provided the means to keep linking outside of the scope of the communication to the public right as long as the content that the user linked to was originally made available by the rightholder.

3. In para. 44 the ECJ argued that “even taking the view, as does the Commission of the European Communities, that the pursuit of profit is not a necessary condition for the existence of a communication to the public, it is in any event established that the communication is of a profit-making nature in circumstances such as those in the main proceedings.” Later, in the *Del Corso* and the *TVCatchup* rulings the ECJ stated that the profit making nature is not conclusive in classifying the dissemination of signals to recipients as communication to the public. *Do you think any difference exists between for-profit and not-for-profit communications?*

FURTHER CASE LAW

SGAE v. SOUTH PARADISE S. A., Supreme Court (1st Section), Judgement 439 / 2003, 10 May 2003 (ROJ: STS 3175/2003 – ECLI:ES:TS:2003:3175)

Final decision in Rafael Hoteles: Barcelona Appellation Court (15th Section), Judgement 105 / 2007, 14 February 2007 (ROJ: SAP B 3468/2007 – ECLI:ES:APB:2007:3468)

Case C-135/10 – Società Consortile Fonografici (SCF) v Marco Del Corso, Judgment of the Court (Third Chamber), 15 March 2012, ECLI:EU:C:2012:140

Case C-607/11 – ITV Broadcasting Ltd. and Others v. TVCatchup Ltd., Judgment of the Court (Fourth Chamber), 7 March 2013, ECLI:EU:C:2013:147

SGAE and AEGI v. ARANUSAR DONOSTI, S. L., San Sebastián-Donostia Commercial Court n° 1 Judgement 265 / 2016, 5 September 2016 (ROJ: SJM SS 4052/2016 – ECLI:ES:JMSS:2016:4052)

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In English

BATEMAN, Anne: The Use of Televisions in Hotel Rooms, *European Intellectual Property Review*, Issue 1/2007, p. 22–26.

In Hungarian

FALUDI GÁBOR – GRAD-GYENGE ANIKÓ: A nyilvánossághoz közvetítési (előadási) jog értelmezése az Európai Bíróság gyakorlatában, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2012/1. szám, p. 77–93.

In French

EDELMAN, Bernard: Vers une définition du droit de communication au public, *Recueil Le Dalloz* 2007: p. 1236–1239.

POLLAUD-DULIAN, Frédéric: Propriétés incorporelles. Propriété littéraire et artistique, *Revue trimestrielle de droit commercial et de droit économique* 2007: p. 85-88.

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In Spanish

CARBALLO-CALERO, Fernández: «Comunicación pública en el ámbito de los establecimientos hoteleros: comentario a la sentencia del TJCE, Sala Tercera, de 7 de diciembre de 2006» *Actas de derecho industrial y derecho de autor*, tomo 27, 2006-2007, p. 679–694.

ITV Broadcasting Ltd. v TVCatchup Ltd.

Case C-607/11, Judgment of the Court (Fourth Chamber), 7 March 2013
[ECLI:EU:C:2013:147]

(...) Legal context*European Union law*

3 Recitals 23 and 27 in the preamble to Directive 2001/29 state:

‘(23) This Directive should harmonise further the author’s right of communication to the public. This right should be understood in a broad sense covering all communication to the public not present at the place where the communication originates. This right should cover any such transmission or retransmission of a work to the public by wire or wireless means, including broadcasting. This right should not cover any other acts.

(27) The mere provision of physical facilities for enabling or making a communication does not in itself amount to communication within the meaning of this Directive.’

4 Article 3 of that directive, entitled ‘Right of communication to the public of works and right of making available to the public other subject-matter’, 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.’

5 Article 2 of Council Directive 93/83/EEC of 27 September 1993 on the coordination of certain rules concerning copyright and rights related to copyright

applicable to satellite broadcasting and cable retransmission (OJ 1993 L 248, p. 15) provides:

‘Member States shall provide an exclusive right for the author to authorise the communication to the public by satellite of copyright works ...’.

6 Article 8(1) of that directive states:

‘Member States shall ensure that when programmes from other Member States are retransmitted by cable in their territory the applicable copyright and related rights are observed and that such retransmission takes place on the basis of individual or collective contractual agreements between copyright owners, holders of related rights and cable operators.’

English law

7 Section 20 of the Copyright, Designs and Patents Act 1988, in the version applicable to the facts in the main proceedings, entitled ‘Infringement by communication to the public’, provides:

‘1. The communication to the public of the work is an act restricted by the copyright in –

- (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 communication to the public by electronic transmission, and in relation to a work include –

- (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.’*

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

8 The claimants in the main proceedings are commercial television broadcasters who own copyright under national law in the television broadcasts themselves and in films and other items which are included in their broadcasts. They are funded by advertising carried in their broadcasts.

9 TVC offers an internet television broadcasting service. The service permits its users to receive, via the internet, ‘live’ streams of free-to-air television broadcasts, including television broadcasts transmitted by the claimants in the main proceedings.

10 TVC ensures that those using its service can obtain access only to content which they are already legally entitled to watch in the United Kingdom by virtue of their television licence. The terms to which users must agree thus include the possession of a valid TV licence and a restriction of use of TVC services to the United Kingdom. The TVC website has the facility to authenticate the user's location and to refuse access where the conditions imposed on users are not satisfied.

11 The TVC service is funded by advertising. Audiovisual advertising is shown before the user is able to view the live stream. The advertisements already contained in the original broadcasts are left unchanged and sent to the user as part of the stream. There is also 'in-skin' advertising, which appears on the user's computer or other equipment.

12 For its activities, TVC uses four groups of servers, namely, (i) acquisition, (ii) encoding, (iii) origin and (iv) edge servers.

13 The input signals used by TVC are the normal terrestrial and satellite broadcast signals transmitted by the claimants in the main proceedings. The signals are captured via an aerial and then passed to the acquisition servers, which extract individual video streams from the received signal without altering them. The encoding servers then convert the incoming streams into a different compression standard. Next, the origin servers prepare streams of video for sending over the internet in a variety of formats. Beyond that point, the channels offered by TVC are processed further only if at least one TVC subscriber has requested that channel. If there is no request for a given channel, the signal is discarded.

14 Edge servers connect with a user's computer or mobile telephone using the internet. When an edge server receives a request for a channel from a user, then, unless it is already streaming that channel to a different user, the edge server connects to the origin server which streams that channel. The software on the edge server creates a separate stream for each user who requests a channel through it. An individual packet of data leaving the edge server is thus addressed to an individual user, not to a class of users.

15 The streams provided by the edge servers can be in a variety of different formats. The formats used are: Adobe Flash streams (for computers), HTTP streams (for Apple mobile devices) and RTSP streams (for Android and Blackberry mobile telephones).

16 The claimants in the main proceedings instituted proceedings against TVC before the High Court of Justice (England and Wales) (Chancery Division) for breach of their copyright in their broadcasts and films, alleging, inter alia, that

there is a communication of the works to the public prohibited by section 20 of the Copyright, Designs and Patents Act 1988, in the version applicable to the facts in the main proceedings, and by Article 3(1) of Directive 2001/29.

17 The High Court takes the view that it is not clear from the judgments in Case C-306/05 *SGAE* and in Joined Cases C-431/09 and C-432/09 *Airfield NV and Canal Digitaal* whether there is a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29 in the case where an organisation such as TVC, in full knowledge of the consequences of its acts and in order to attract an audience to its own transmissions and advertisements, streams over the internet broadcasts to members of the public who would have been entitled to access the original broadcast signal using their own television sets or laptops in their own homes.

18 In those circumstances the High Court of Justice (England and Wales) (Chancery Division) decided to stay the proceedings and to refer the following questions to the Court for a preliminary ruling:

‘1. Does the right to authorise or prohibit a “communication to the public of their works by wire or wireless means” in Article 3(1) of [Directive 2001/29] extend to a case where:

(a) Authors authorise the inclusion of their works in a terrestrial free-to-air television broadcast which is intended for reception either throughout the territory of a Member State or within a geographical area within a Member State;

(b) A third party ([that is to say,] an organisation other than the original broadcaster) provides a service whereby individual subscribers within the intended area of reception of the broadcast who could lawfully receive the broadcast on a television receiver in their own homes may log on to the third party’s server and receive the content of the broadcast by means of an internet stream?

2. Does it make any difference to the answer to the above question if:

(a) The third party’s server allows only a “one-to-one” connection for each subscriber whereby each individual subscriber establishes his or her own internet connection to the server and every data packet sent by the server onto the internet is addressed to only one individual subscriber?

(b) The third party’s service is funded by advertising which is presented “pre-roll” ([that is to say,] during the period of time after a subscriber logs on but before he or she begins to receive the broadcast content) or “in-skin” ([that is to say,] within the frame of the viewing software which displays the received programme on the subscriber’s viewing device but outside the programme picture) but the original advertisements contained within the broadcast are presented to the subscriber at the point where they are inserted in the programme by the broadcaster?

- (c) *The intervening organisation is:*
- (i) *providing an alternative service to that of the original broadcaster, thereby acting in direct competition with the original broadcaster for viewers; or*
 - (ii) *acting in direct competition with the original broadcaster for advertising revenues?'*

Consideration of the questions referred

Question 1 and Question 2(a)

19 By Question 1 and Question 2(a), the referring court asks, in essence, whether the concept of ‘communication to the public’, within the meaning of Article 3(1) of Directive 2001/29, must be interpreted as meaning that it covers a retransmission of the works included in a terrestrial television broadcast:

- where the retransmission is made by an organisation other than the original broadcaster,
- by means of an internet stream made available to the subscribers of that other organisation who may receive the retransmission by logging on to its server,
- on the assumption that those subscribers are within the area of reception of the terrestrial television broadcast and may lawfully receive the broadcast on a television receiver.

20 First of all, it is to be noted that the principal objective of Directive 2001/29 is to establish a high level of protection of authors, allowing them to obtain an appropriate reward for the use of their works, including on the occasion of communication to the public. It follows that ‘communication to the public’ must be interpreted broadly, as recital 23 in the preamble to the directive indeed expressly states.

21 In the first place, it is necessary to determine the meaning of the concept of ‘communication’ and reply to the question whether the activity at issue in the main proceedings comes within its scope.

22 In that connection, the Court notes that 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.

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.

31 In the second place, in order to be categorised as a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29, the protected works must also in fact be communicated to a ‘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.

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.

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.

37 However, 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, Football Association Premier League and Others*, and *Airfield and Canal Digitaal*. 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*.

40 In the light of the foregoing, the answer to Question 1 and Question 2(a) is that the concept of ‘communication to the public’, within the meaning of Article 3(1) of Directive 2001/29, must be interpreted as meaning that it covers a retransmission of the works included in a terrestrial television broadcast

- where the retransmission is made by an organisation other than the original broadcaster,
- by means of an internet stream made available to the subscribers of that other organisation who may receive that retransmission by logging on to its server,
- even though those subscribers are within the area of reception of that terrestrial television broadcast and may lawfully receive the broadcast on a television receiver.

Question 2(b)

41 By Question 2(b), the referring court asks, in essence, whether the answer to Question 1 is influenced by the fact that a retransmission, such as that at issue in the main proceedings, is funded by advertising and is therefore of a profit-making nature.

42 In that connection, the Court has indeed held that it is not irrelevant that a ‘communication’ within the meaning of Article 3(1) of Directive 2001/29 is of a profit-making nature. However, it has acknowledged that a profit-making nature is not necessarily an essential condition for the existence of a communication to the public.

43 Consequently, a profit-making nature does not determine conclusively whether a retransmission, such as that at issue in the main proceedings, is to be categorised as a ‘communication’ within the meaning of Article 3(1) of Directive 2001/29.

44 The answer to Question 2(b) is therefore that the answer to Question 1 is not influenced by the fact that a retransmission, such as that at issue in the main proceedings, is funded by advertising and is therefore of a profit-making nature.

Question 2(c)

45 By Question 2(c), the referring court asks in, essence, whether the answer to Question 1 is influenced by the fact that a retransmission, such as that at issue in the main proceedings, is made by an organisation which is acting in direct competition with the original broadcaster.

46 In that connection, it suffices to note that it follows neither from Directive 2001/29 nor from the case-law of the Court that a competitive relationship between the organisations making real-time broadcasts of works protected by copyright or subsequent retransmissions of those works is relevant for the purpose of categorising a transmission as a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29.

47 Consequently, the answer to Question 2(c) is that the answer to Question 1 is not influenced by the fact that a retransmission, such as that at issue in the main proceedings, is made by an organisation which is acting in direct competition with the original broadcaster. (...)

THINK IT OVER!

1. The ECJ – among many other cases – reaffirmed its general understanding that the public means an indeterminate and the same time a fairly large number of users. In *Rafael Hoteles*, the ECJ found that successive users of hotel rooms form publicity. *TVCatchup* is important for us as it clarified how the concept of public works in an internet environment. In para. 34 the ECJ noted that “it is irrelevant whether the potential recipients access the communicated works through a one-to-one connection”. Here, the ECJ correctly pointed to the fact that the ***making available of protected subject matter via the internet necessarily allows an indeterminate and fairly large number of individuals to access the same material***, even if through “one-to-one connections”.

2. According to para. 39 of the ruling, “the transmission of works included in a terrestrial broadcast and the making available of those works over the internet (...) 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.” Recalling Article 11bis(1)(ii) of the Berne Convention, no such requirement forms a part of the concept of communication to the public under international copyright law. Indeed, ***the “theory of specific technical means”*** seems to work well only as long as the use relates to the making available of television signals via the internet, since communication of TV signals and their making available via the internet is done necessarily under different technological conditions. The stretching of the boundaries of the right of communication to the public with the theory of specific technical means turned to be fatal in cases, however, where the initial and the secondary uses were equally conducted via the internet. Compare to the ***Svensson*** and the following rulings of the ECJ on linking.

FURTHER CASE LAW

Case C-466/12 – Nils Svensson and Others v. Retriever Sverige AB, Judgment of the Court (Fourth Chamber), 13 February 2014, ECLI:EU:C:2014:76

Case C-279/13 – C More Entertainment AB contre Linus Sandberg, Judgment of the Court (Ninth Chamber), 26 March 2015, ECLI:EU:C:2015:199

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CASTETS-RENARD, Céline: L'interprétation autonome et systémique du droit d'auteur européen par la CJUE: et maintenant?, *Droit de l'immatériel: informatique, médias, communication*, 2013 n° 93, p. 10-15.

COSTES, Lionel – LALOT, Laure: Retransmission d'oeuvres télévisuelles en ligne: les précisions de la CJUE, *Droit de l'immatériel: informatique, médias, communication*, 2013 n° 92, p. 18.

American Broadcasting Companies, Inc., et al. v. Aereo, Inc.

134 S.Ct. 2498 (2014)

Justice BREYER,

(...) I

A

For a monthly fee, Aereo offers subscribers broadcast television programming over the Internet, virtually as the programming is being broadcast. Much of this programming is made up of copyrighted works. Aereo neither owns the copyright in those works nor holds a license from the copyright owners to perform those works publicly.

Aereo's system is made up of servers, transcoders, and thousands of dime-sized antennas housed in a central warehouse. It works roughly as follows: First, when a subscriber wants to watch a show that is currently being broadcast, he visits Aereo's website and selects, from a list of the local programming, the show he wishes to see.

Second, one of Aereo's servers selects an antenna, which it dedicates to the use of that subscriber (and that subscriber alone) for the duration of the selected show. A server then tunes the antenna to the over-the-air broadcast carrying the show. The antenna begins to receive the broadcast, and an Aereo transcoder translates the signals received into data that can be transmitted over the Internet.

Third, rather than directly send the data to the subscriber, a server saves the data in a subscriber-specific folder on Aereo's hard drive. In other words, Aereo's system creates a subscriber-specific copy – that is, a “personal” copy – of the subscriber's program of choice.

Fourth, once several seconds of programming have been saved, Aereo's server begins to stream the saved copy of the show to the subscriber over the Internet. (The subscriber may instead direct Aereo to stream the program at a later time, but that aspect of Aereo's service is not before us.) The subscriber can watch the streamed program on the screen of his personal computer, tablet, smart phone, Internet-connected television, or other Internet-connected device. The streaming continues, a mere few seconds behind the over-the-air broadcast, until the subscriber has received the entire show.

Aereo emphasizes that the data that its system streams to each subscriber are the data from his own personal copy, made from the broadcast signals received by the particular antenna allotted to him. Its system does not transmit data saved in one subscriber's folder to any other subscriber. When two subscribers wish to watch the same program, Aereo's system activates two separate antennas and saves two separate copies of the program in two separate folders. It then streams the show to the subscribers through two separate transmissions – each from the subscriber's personal copy.

B

Petitioners are television producers, marketers, distributors, and broadcasters who own the copyrights in many of the programs that Aereo's system streams to its subscribers. They brought suit against Aereo for copyright infringement in Federal District Court. They sought a preliminary injunction, arguing that Aereo was infringing their right to “perform” their works “publicly,” as the Transmit Clause defines those terms.

The District Court denied the preliminary injunction. Relying on prior Circuit precedent, a divided panel of the Second Circuit affirmed. In the Second Circuit's view, Aereo does not perform publicly within the meaning of the Transmit Clause because it does not transmit “to the public.” Rather, each time Aereo streams a

program to a subscriber, it sends a *private* transmission that is available only to that subscriber. The Second Circuit denied rehearing en banc, over the dissent of two judges. We granted certiorari.

II

This case requires us to answer two questions: First, in operating in the manner described above, does Aereo “perform” at all? And second, if so, does Aereo do so “publicly”? We address these distinct questions in turn.

Does Aereo “perform”? Phrased another way, does Aereo “transmit ... a performance” when a subscriber watches a show using Aereo’s system, or is it only the subscriber who transmits? In Aereo’s view, it does not perform. It does no more than supply equipment that “emulate[s] the operation of a home antenna and [digital video recorder (DVR)].” Like a home antenna and DVR, Aereo’s equipment simply responds to its subscribers’ directives. So it is only the subscribers who “perform” when they use Aereo’s equipment to stream television programs to themselves.

Considered alone, the language of the Act does not clearly indicate when an entity “perform[s]” (or “transmit[s]”) and when it merely supplies equipment that allows others to do so. But when read in light of its purpose, the Act is unmistakable: An entity that engages in activities like Aereo’s performs.

A

History makes plain that one of Congress’ primary purposes in amending the Copyright Act in 1976 was to overturn this Court’s determination that community antenna television (CATV) systems (the precursors of modern cable systems) fell outside the Act’s scope. In *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390 (1968), the Court considered a CATV system that carried local television broadcasting, much of which was copyrighted, to its subscribers in two cities. The CATV provider placed antennas on hills above the cities and used coaxial cables to carry the signals received by the antennas to the home television sets of its subscribers. The system amplified and modulated the signals in order to improve their strength and efficiently transmit them to subscribers. A subscriber “could choose any of the ... programs he wished to view by simply turning the knob on his own television set.” The CATV provider “neither edited the programs received nor originated any programs of its own.”

Asked to decide whether the CATV provider infringed copyright holders’ exclusive right to perform their works publicly, the Court held that the provider did not

“perform” at all. The Court drew a line: “Broadcasters perform. Viewers do not perform.” And a CATV provider “falls on the viewer’s side of the line.”

The Court reasoned that CATV providers were unlike broadcasters:

“Broadcasters select the programs to be viewed; CATV systems simply carry, without editing, whatever programs they receive. Broadcasters procure programs and propagate them to the public; CATV systems receive programs that have been released to the public and carry them by private channels to additional viewers.”

Instead, CATV providers were more like viewers, for “the basic function [their] equipment serves is little different from that served by the equipment generally furnished by” viewers. “Essentially,” the Court said, “a CATV system no more than enhances the viewer’s capacity to receive the broadcaster’s signals [by] provid[ing] a well-located antenna with an efficient connection to the viewer’s television set.” Viewers do not become performers by using “amplifying equipment,” and a CATV provider should not be treated differently for providing viewers the same equipment.

In Teleprompter, the Court considered the copyright liability of a CATV provider that carried broadcast television programming into subscribers’ homes from hundreds of miles away. Although the Court recognized that a viewer might not be able to afford amplifying equipment that would provide access to those distant signals, it nonetheless found that the CATV provider was more like a viewer than a broadcaster. It explained: “The reception and rechanneling of [broadcast television signals] for simultaneous viewing is essentially a viewer function, irrespective of the distance between the broadcasting station and the ultimate viewer.”

The Court also recognized that the CATV system exercised some measure of choice over what to transmit. But that fact did not transform the CATV system into a broadcaster. A broadcaster exercises significant creativity in choosing what to air, the Court reasoned. In contrast, the CATV provider makes an initial choice about which broadcast stations to retransmit, but then ““simply carr[ies], without editing, whatever programs [it] receive[s].””

B

In 1976 Congress amended the Copyright Act in large part to reject the Court’s holdings in *Fortnightly* and *Teleprompter*. Congress enacted new language that erased the Court’s line between broadcaster and viewer, in respect to “perform [ing]” a work. The amended statute clarifies that to “perform” an audiovisual work means “to show its images in any sequence or to make the sounds accompanying it audible.” § 101. Under this new language, *both* the broadcaster *and* the viewer

of a television program “perform,” because they both show the program’s images and make audible the program’s sounds.

Congress also enacted the Transmit Clause, which specifies that an entity performs publicly when it “transmit[s] ... a performance ... to the public.” § 101. Cable system activities, like those of the CATV systems in *Fortnightly* and *Teleprompter*, lie at the heart of the activities that Congress intended this language to cover. The Clause thus makes clear that an entity that acts like a CATV system itself performs, even if when doing so, it simply enhances viewers’ ability to receive broadcast television signals.

Congress further created a new section of the Act to regulate cable companies’ public performances of copyrighted works. Section 111 creates a complex, highly detailed compulsory licensing scheme that sets out the conditions, including the payment of compulsory fees, under which cable systems may retransmit broadcasts.

Congress made these three changes to achieve a similar end: to bring the activities of cable systems within the scope of the Copyright Act.

C

This history makes clear that Aereo is not simply an equipment provider. Rather, Aereo, and not just its subscribers, “perform[s]” (or “transmit[s]”). Aereo’s activities are substantially similar to those of the CATV companies that Congress amended the Act to reach. Aereo sells a service that allows subscribers to watch television programs, many of which are copyrighted, almost as they are being broadcast. In providing this service, Aereo uses its own equipment, housed in a centralized warehouse, outside of its users’ homes. By means of its technology (antennas, transcoders, and servers), Aereo’s system “receive[s] programs that have been released to the public and carr[ies] them by private channels to additional viewers.” It “carr[ies] ... whatever programs [it] receive[s],” and it offers “all the programming” of each over-the-air station it carries.

Aereo’s equipment may serve a “viewer function”; it may enhance the viewer’s ability to receive a broadcaster’s programs. It may even emulate equipment a viewer could use at home. But the same was true of the equipment that was before the Court, and ultimately before Congress, in *Fortnightly* and *Teleprompter*.

We recognize, and Aereo and the dissent emphasize, one particular difference between Aereo’s system and the cable systems at issue in *Fortnightly* and *Teleprompter*. The systems in those cases transmitted constantly; they sent continuous programming to each subscriber’s television set. In contrast, Aereo’s

system remains inert until a subscriber indicates that she wants to watch a program. Only at that moment, in automatic response to the subscriber's request, does Aereo's system activate an antenna and begin to transmit the requested program.

This is a critical difference, says the dissent. It means that Aereo's subscribers, not Aereo, "selec[t] the copyrighted content" that is "perform[ed]", and for that reason they, not Aereo, "transmit" the performance. Aereo is thus like "a copy shop that provides its patrons with a library card." A copy shop is not directly liable whenever a patron uses the shop's machines to "reproduce" copyrighted materials found in that library. And by the same token, Aereo should not be directly liable whenever its patrons use its equipment to "transmit" copyrighted television programs to their screens.

In our view, however, the dissent's copy shop argument, in whatever form, makes too much out of too little. Given Aereo's overwhelming likeness to the cable companies targeted by the 1976 amendments, this sole technological difference between Aereo and traditional cable companies does not make a critical difference here. The subscribers of the Fortnightly and Teleprompter cable systems also selected what programs to display on their receiving sets. Indeed, as we explained in *Fortnightly*, such a subscriber "could choose any of the ... programs he wished to view by simply turning the knob on his own television set." The same is true of an Aereo subscriber. Of course, in *Fortnightly* the television signals, in a sense, lurked behind the screen, ready to emerge when the subscriber turned the knob. Here the signals pursue their ordinary course of travel through the universe until today's "turn of the knob" – a click on a website – activates machinery that intercepts and reroutes them to Aereo's subscribers over the Internet. But this difference means nothing to the subscriber. It means nothing to the broadcaster. We do not see how this single difference, invisible to subscriber and broadcaster alike, could transform a system that is for all practical purposes a traditional cable system into "a copy shop that provides its patrons with a library card."

In other cases involving different kinds of service or technology providers, a user's involvement in the operation of the provider's equipment and selection of the content transmitted may well bear on whether the provider performs within the meaning of the Act. But the many similarities between Aereo and cable companies, considered in light of Congress' basic purposes in amending the Copyright Act, convince us that this difference is not critical here. We conclude that Aereo is not just an equipment supplier and that Aereo "perform[s]."

III

Next, we must consider whether Aereo performs petitioners' works "publicly," within the meaning of the Transmit Clause. Under the Clause, an entity performs a work publicly when it "transmit[s] ... a performance ... of the work ... to the public." Aereo denies that it satisfies this definition. It reasons as follows: First, the "performance" it "transmit[s]" is the performance created by its act of transmitting. And second, because each of these performances is capable of being received by one and only one subscriber, Aereo transmits privately, not publicly. Even assuming Aereo's first argument is correct, its second does not follow.

We begin with Aereo's first argument. What performance does Aereo transmit? Under the Act, "[t]o 'transmit' a performance ... is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent." And "[t]o 'perform' ... an audiovisual work means 'to show its images in any sequence or to make the sounds accompanying it audible.'"

Petitioners say Aereo transmits a *prior* performance of their works. Thus when Aereo retransmits a network's prior broadcast, the underlying broadcast (itself a performance) is the performance that Aereo transmits. Aereo, as discussed above, says the performance it transmits is the *new* performance created by its act of transmitting. That performance comes into existence when Aereo streams the sounds and images of a broadcast program to a subscriber's screen.

We assume *arguendo* that Aereo's first argument is correct. Thus, for present purposes, to transmit a performance of (at least) an audiovisual work means to communicate contemporaneously visible images and contemporaneously audible sounds of the work. When an Aereo subscriber selects a program to watch, Aereo streams the program over the Internet to that subscriber. Aereo thereby "communicate[s]" to the subscriber, by means of a "device or process," the work's images and sounds. And those images and sounds are contemporaneously visible and audible on the subscriber's computer (or other Internet-connected device). So under our assumed definition, Aereo transmits a performance whenever its subscribers watch a program.

But what about the Clause's further requirement that Aereo transmit a performance "to the public"? As we have said, an Aereo subscriber receives broadcast television signals with an antenna dedicated to him alone. Aereo's system makes from those signals a personal copy of the selected program. It streams the content of the copy to the same subscriber and to no one else. One and only one subscriber has the ability to see and hear each Aereo transmission. The fact that each transmission

is to only one subscriber, in Aereo’s view, means that it does not transmit a performance “to the public.”

In terms of the Act’s purposes, these differences do not distinguish Aereo’s system from cable systems, which do perform “publicly.” Viewed in terms of Congress’ regulatory objectives, why should any of these technological differences matter? They concern the behind-the-scenes way in which Aereo delivers television programming to its viewers’ screens. They do not render Aereo’s commercial objective any different from that of cable companies. Nor do they significantly alter the viewing experience of Aereo’s subscribers. Why would a subscriber who wishes to watch a television show care much whether images and sounds are delivered to his screen via a large multisubscriber antenna or one small dedicated antenna, whether they arrive instantaneously or after a few seconds’ delay, or whether they are transmitted directly or after a personal copy is made? And why, if Aereo is right, could not modern CATV systems simply continue the same commercial and consumer-oriented activities, free of copyright restrictions, provided they substitute such new technologies for old? Congress would as much have intended to protect a copyright holder from the unlicensed activities of Aereo as from those of cable companies.

The text of the Clause effectuates Congress’ intent. Aereo’s argument to the contrary relies on the premise that “to transmit ... a performance” means to make a single transmission. But the Clause suggests that an entity may transmit a performance through multiple, discrete transmissions. That is because one can “transmit” or “communicate” something through a *set* of actions. Thus one can transmit a message to one’s friends, irrespective of whether one sends separate identical e-mails to each friend or a single e-mail to all at once. So can an elected official communicate an idea, slogan, or speech to her constituents, regardless of whether she communicates that idea, slogan, or speech during individual phone calls to each constituent or in a public square.

The fact that a singular noun (“a performance”) follows the words “to transmit” does not suggest the contrary. One can sing a song to his family, whether he sings the same song one-on-one or in front of all together. Similarly, one’s colleagues may watch a performance of a particular play – say, this season’s modern-dress version of “Measure for Measure” – whether they do so at separate or at the same showings. By the same principle, an entity may transmit a performance through one or several transmissions, where the performance is of the same work.

The Transmit Clause must permit this interpretation, for it provides that one may transmit a performance to the public “whether the members of the public capable of receiving the performance ... receive it ... at the same time or at different

times.” Were the words “to transmit ... a performance” limited to a single act of communication, members of the public could not receive the performance communicated “at different times.” Therefore, in light of the purpose and text of the Clause, we conclude that when an entity communicates the same contemporaneously perceptible images and sounds to multiple people, it transmits a performance to them regardless of the number of discrete communications it makes.

We do not see how the fact that Aereo transmits via personal copies of programs could make a difference. The Act applies to transmissions “by means of any device or process.” And retransmitting a television program using user-specific copies is a “process” of transmitting a performance. A “cop[y]” of a work is simply a “material objec[t] ... in which a work is fixed ... and from which the work can be perceived, reproduced, or otherwise communicated.” So whether Aereo transmits from the same or separate copies, it performs the same work; it shows the same images and makes audible the same sounds. Therefore, when Aereo streams the same television program to multiple subscribers, it “transmit[s] ... a performance” to all of them.

Moreover, the subscribers to whom Aereo transmits television programs constitute “the public.” Aereo communicates the same contemporaneously perceptible images and sounds to a large number of people who are unrelated and unknown to each other. This matters because, although the Act does not define “the public,” it specifies that an entity performs publicly when it performs at “any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered.” The Act thereby suggests that “the public” consists of a large group of people outside of a family and friends.

Neither the record nor Aereo suggests that Aereo’s subscribers receive performances in their capacities as owners or possessors of the underlying works. This is relevant because when an entity performs to a set of people, whether they constitute “the public” often depends upon their relationship to the underlying work. When, for example, a valet parking attendant returns cars to their drivers, we would not say that the parking service provides cars “to the public.” We would say that it provides the cars to their owners. We would say that a car dealership, on the other hand, does provide cars to the public, for it sells cars to individuals who lack a pre-existing relationship to the cars. Similarly, an entity that transmits a performance to individuals in their capacities as owners or possessors does not perform to “the public,” whereas an entity like Aereo that transmits to large numbers of paying subscribers who lack any prior relationship to the works does so perform.

Finally, we note that Aereo’s subscribers may receive the same programs at different times and locations. This fact does not help Aereo, however, for the Transmit Clause

expressly provides that an entity may perform publicly “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.” In other words, “the public” need not be situated together, spatially or temporally. For these reasons, we conclude that Aereo transmits a performance of petitioners’ copyrighted works to the public, within the meaning of the Transmit Clause.

IV

Aereo and many of its supporting *amici* argue that to apply the Transmit Clause to Aereo’s conduct will impose copyright liability on other technologies, including new technologies, that Congress could not possibly have wanted to reach. We agree that Congress, while intending the Transmit Clause to apply broadly to cable companies and their equivalents, did not intend to discourage or to control the emergence or use of different kinds of technologies. But we do not believe that our limited holding today will have that effect.

For one thing, the history of cable broadcast transmissions that led to the enactment of the Transmit Clause informs our conclusion that Aereo “perform [s],” but it does not determine whether different kinds of providers in different contexts also “perform.” For another, an entity only transmits a performance when it communicates contemporaneously perceptible images and sounds of a work.

Further, we have interpreted the term “the public” to apply to a group of individuals acting as ordinary members of the public who pay primarily to watch broadcast television programs, many of which are copyrighted. We have said that it does not extend to those who act as owners or possessors of the relevant product. And we have not considered whether the public performance right is infringed when the user of a service pays primarily for something other than the transmission of copyrighted works, such as the remote storage of content. In addition, an entity does not transmit to the public if it does not transmit to a substantial number of people outside of a family and its social circle.

We also note that courts often apply a statute’s highly general language in light of the statute’s basic purposes. Finally, the doctrine of “fair use” can help to prevent inappropriate or inequitable applications of the Clause.

We cannot now answer more precisely how the Transmit Clause or other provisions of the Copyright Act will apply to technologies not before us. We agree with the Solicitor General that “[q]uestions involving cloud computing, [remote storage] DVRs, and other novel issues not before the Court, as to which ‘Congress has not plainly marked [the] course,’ should await a case in which they are squarely

presented.” And we note that, to the extent commercial actors or other interested entities may be concerned with the relationship between the development and use of such technologies and the Copyright Act, they are of course free to seek action from Congress.

In sum, having considered the details of Aereo’s practices, we find them highly similar to those of the CATV systems in *Fortnightly* and *Teleprompter*. And those are activities that the 1976 amendments sought to bring within the scope of the Copyright Act. Insofar as there are differences, those differences concern not the nature of the service that Aereo provides so much as the technological manner in which it provides the service. We conclude that those differences are not adequate to place Aereo’s activities outside the scope of the Act.

For these reasons, we conclude that Aereo “perform[s]” petitioners’ copyrighted works “publicly,” as those terms are defined by the Transmit Clause. We therefore reverse the contrary judgment of the Court of Appeals, and we remand the case for further proceedings consistent with this opinion.

It is so ordered. (...)

THINK IT OVER!

1. One of the reasons why the whole Aereo dispute arose is that the US Copyright Act protects economic rights that were developed earlier than internet was launched. The right of public performance is historically treated as a form of presenting works to the audience in situ. Since the 1990s US federal courts had to rule on the dissemination of works via the internet, and they have reached a consensus that these acts fit into the concept of public performance. This interpretation did not necessarily run against the WCT, as under the “umbrella solution” signatories of the WCT are free to select the economic right that covers making available protected subject matter via the internet. It is undeniable, however, that *the terminology that the US Copyright Act uses is slightly misleading* that is clearly mirrored by Aereo’s understanding of the right of performance and the concept of public. *Do you think that the case would be solved differently under EU’s copyright law?* Compare to the ECJ ruling in *ITV v. TVCatchup*.

FURTHER CASE LAW

Rogers Communications Inc. v. Society of Composers, Authors and Music Publishers of Canada, 2012 SCC 35, [2012] 2 R.C.S. 283.

Case C-607/11 – ITV Broadcasting Ltd. and Others v. TVCatchup Ltd., Judgment of the Court (Fourth Chamber), 7 March 2013, ECLI:EU:C:2013:147

Fox Broadcasting Corporation v. Dish Network LLC, 160 F.Supp.3d 1139 (C.D. Cal. 2015)

Perfect 10, Inc., v. Giganews, Inc., et al., 847 F.3d 657 (2017)

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STERLING, William E.: ABC, Inc. v. Aereo, Inc., *Boston University Journal of Science and Technology Law*, Summer 2015, p. 439-446.

VCAST Limited v RTI SpA

Case C265/16, Judgment of the Court (Third Chamber), 29 November 2017 [ECLI:EU:C:2017:913]

(...)

Legal context

EU law

Directive 2000/31

3 Article 3(2) of Directive 2000/31 reads as follows:

'Member States may not, for reasons falling within the coordinated field, restrict the freedom to provide information society services from another Member State.'

4 Article 3(3) of Directive 2000/31 provides that, inter alia, Article 3(2) of that directive does not apply to the fields referred to the annex to that directive, that annex concerning, inter alia, copyright and related rights.

Directive 2001/29

5 According to recital 1 of Directive 2001/29:

'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.'

6 Recital 23 of that directive states:

'This Directive should harmonise further the author's right of communication to the public. This right should be understood in a broad sense covering all communication to the public not present at the place where the communication originates. This right should cover any such transmission or retransmission of a work to the public by wire or wireless means, including broadcasting. This right should not cover any other acts.'

7 Article 2 of that directive provides:

'Member States shall provide for the exclusive right to authorise or prohibit direct or indirect, temporary or permanent reproduction by any means and in any form, in whole or in part:

- (a) for authors, of their works;*
- (b) for performers, of fixations of their performances;*
- (c) for phonogram producers, of their phonograms;*
- (d) for the producers of the first fixations of films, in respect of the original and copies of their films;*
- (e) for broadcasting organisations, of fixations of their broadcasts, whether these broadcasts are transmitted by wire or over the air, including by cable or satellite.'*

8 Article 3(1) of Directive 2001/29 reads as follows:

'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.'

9 Article 5(2)(b) of that directive provides:

'Member States may provide for exceptions or limitations to the reproduction right provided for in Article 2 in the following cases:

...

(b) in respect of reproductions on any medium made by a natural person for private use and for ends that are neither directly nor indirectly commercial, on condition that the rightholders receive fair compensation which takes account of the application or non-application of technological measures referred to in Article 6 to the work or subject-matter concerned'.

10 According to Article 5(5) of that directive:

'The exceptions and limitations provided for in paragraphs 1, 2, 3 and 4 shall only be applied in certain special cases which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.'

Italian law

11 Article 5(2)(b) of Directive 2001/29 was transposed into Italian law in Article 71 sexies of Legge n. 633 — Protezione del diritto d'autore e di altri diritti connessi al suo esercizio (Law No 633 on the protection of copyright and other rights relating to its exercise) of 22 April 1941 in the version in force on the date of the facts at issue in the main proceedings ('the Law on copyright'). That Article 71 sexies, which is contained in Section II of that law, entitled 'Private reproduction for personal use', provides:

'1. The private reproduction of phonograms and videograms on any media made by natural persons for personal use only shall be permitted, provided that it is not for profit or ends that are directly or indirectly commercial, in compliance with the technical measures referred to in Article 102 quater.

2. The reproduction referred to in paragraph 1 may not be carried out by a third party. The provision of services for the reproduction of phonograms and videograms by a natural person for personal use shall constitute a reproduction activity covered by the provisions in Articles 13, 72, 78 bis, 79 and 80.

...'

12 Article 71 septies of the Law on copyright provides:

'1. The authors and producers of phonograms, and the original producers of audiovisual works, the performers and producers of videograms, and

their successors in title, shall be entitled to compensation for the private copying of phonograms and videograms referred to in Article 71 sexies. In respect of devices designed solely for the analogue or digital recording of phonograms or videograms, that compensation shall consist of a percentage of the price paid by the final purchaser to the retailer which, in respect of multipurpose devices, shall be calculated on the basis of the price of a device with characteristics equivalent to those of the internal component designed to record or, where that is not possible, of a fixed amount for each device. In respect of audio and video recording media, such as analogue media, digital media and internal or removable memory designed for recording phonograms or videograms, the compensation shall consist of a sum corresponding to the recording capacity provided by those media. In respect of remote video recording systems, the compensation referred to in this paragraph shall be due from the person who provides the service and correspond to the remuneration obtained for providing that service.

2. The compensation referred to in paragraph 1 shall be set, in accordance with Community law and having regard, in any event, to the reproduction rights, by a decree of the Minister for Cultural Heritage and Activities to be adopted by 31 December 2009, after consultation with the trade associations which represent the majority of the manufacturers of the devices and media and media referred to in paragraph 1. In setting the compensation, account shall be taken of the application or non-application of the technological measures referred to in Article 102 quater and the different effect of digital copying in comparison with analogue copying. The decree shall be updated every three years.

... ? .

13 Article 102 quater of the Law on copyright provides:

'1. Rightholders of any copyright or of any related right as well as of the right under paragraph 3 of Article 102 bis may apply to protected works or objects effective technological protection measures, including any technology, device or component that, in the normal course of its operation, is designed to prevent or restrict acts which are not authorised by the rightholders.

2. Technological protection measures shall be deemed effective where the use of the protected work or object is controlled by the rightholders through the application of an access control or protection process, such as encryption, scrambling or other transformation of the work or the protected work, or if that use is limited by a copy control mechanism which achieves the objective of protection.

3. The present article shall not affect the application of the provisions concerning computer programs referred to in Title I, Chapter IV, Part VI.'

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

14 VCAST is a company incorporated under UK law which makes available to its customers via the Internet a video recording system, in storage space within the cloud, for terrestrial programmes of Italian television organisations, among which are those of RTI.

15 It is apparent from the order for reference that, in practice, the user selects a programme on the VCAST website, which includes all the programming from the television channels covered by the service provided by that company. The user can specify either a certain programme or a time slot. The system operated by VCAST then picks up the television signal using its own antennas and records the time slot for the selected programme in the cloud data storage space indicated by the user. That storage space is purchased by the user from another provider.

16 VCAST brought proceedings against RTI before the specialised chamber for company law of the Tribunale di Torino (District Court, Turin, Italy), seeking a declaration of the lawfulness of its activity.

17 In the course of proceedings, by an order for reference of 30 October 2015, that court upheld in part the application for interim measures submitted by RTI and prohibited VCAST, in essence, from pursuing its activity.

18 Taking the view that the resolution of the case in the main proceedings depended in part on the interpretation of EU law, in particular on Article 5(2) (b) of Directive 2001/29, the Tribunale di Torino (District Court, Turin) decided to stay the proceedings and to refer the following questions to the Court for a preliminary ruling:

(1) Are national rules prohibiting a commercial undertaking from providing private individuals with so-called cloud computing services for the remote video recording of private copies of works protected by copyright, by means of that commercial undertaking's active involvement in the recording, without the rightholder's consent, compatible with EU law, in particular with Article 5(2) (b) of Directive 2001/29 (as well as Directive 2000/31 and the founding Treaty)?

(2) Are national rules which allow a commercial undertaking to provide private individuals with so-called cloud computing services for the remote video recording of private copies of works protected by copyright, even where the active involvement of that commercial undertaking in the recording is entailed, and even without the rightholder's consent, against a flat-rate compensation in favour of the rightholder, in essence subjecting the services

to a compulsory licensing system, compatible with EU law, in particular with Article 5(2)(b) of Directive 2001/29 (as well as Directive 2000/31 and the founding Treaty)?'

Consideration of the questions referred

(...)

The Court's reply

30 Under Article 5(2)(b) of Directive 2001/29, Member States may provide for exceptions or limitations to the reproduction right in respect of reproductions on any medium made by a natural person for private use and for ends that are neither directly nor indirectly commercial.

31 Moreover, Article 5(5) of that directive states that the exceptions and limitations provided for, inter alia, in Article 5(2) of that directive will only be applied in certain special cases which do not conflict with a normal exploitation of the work or other subject matter and do not unreasonably prejudice the legitimate interests of the rightholder.

32 Concerning Article 5(2)(b) of Directive 2001/29, it must be pointed out that, according to the settled case-law of the Court, the provisions of a directive which derogate from a general principle established by that directive must be interpreted strictly. It follows that Article 5(2)(b) must be given such an interpretation.

33 The Court has also held that copying by natural persons acting in a private capacity must be regarded as an act likely to cause harm to the rightholder concerned, where it is done without seeking prior authorisation from that rightholder.

34 In addition, the Court has held that, while Article 5(2)(b) of Directive 2001/29 must be understood as meaning that the private copying exception prohibits the rightholder from relying on his exclusive right to authorise or prohibit reproductions with regard to persons who make private copies of his works, that provision must not be understood as requiring, beyond that express limitation, the copyright holder to tolerate infringements of his rights which may accompany the making of private copies.

35 Last, it follows from the case-law that, in order to rely on Article 5(2)(b), it is not necessary that the natural persons concerned possess reproduction equipment, devices or media. They may also have copying services provided by a third party, which is the factual precondition for those natural persons to obtain private copies.

36 The question whether a service such as that at issue in the main proceedings, the relevant elements of which are set out in paragraphs 14 and 15 of the present judgment, is covered by Article 5(2)(b) of Directive 2001/29 should be considered in the light of the case-law cited above.

37 In that regard, it should be pointed out that the provider of that service does not merely organise the reproduction, but also provides access to the programmes of certain television channels that can be recorded remotely, with a view to reproducing them. Thus, it is the individual customers who choose which programmes are to be recorded.

38 In that regard, the service at issue in the main proceedings has a dual functionality, consisting in ensuring both the reproduction and the making available of the works and subject matter concerned.

39 However, although the private copy exception means that the rightholder must abstain from exercising his exclusive right to authorise or prohibit private copies made by natural persons under the conditions provided for in Article 5(2)(b) of Directive 2001/29, the requirement for a strict interpretation of that exception implies that that rightholder is not deprived of his right to prohibit or authorise access to the works or the subject matter of which those same natural persons wish to make private copies.

40 It follows from Article 3 of Directive 2001/29 that any communication to the public, including the making available of a protected work or subject matter, requires the rightholder's consent, given that, as is apparent from recital 23 of that directive, the right of communication of works to the public should be understood in a broad sense covering any transmission or retransmission of a work to the public by wire or wireless means, including broadcasting.

41 In that respect, the Court has already held 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'.

42 That said, it must be stated, first, that the concept of an 'act of communication' refers to any transmission of the protected works, irrespective of the technical means or process used.

43 Moreover, every 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.

44 Second, in order to fall within the concept of ‘communication to the public’, within the meaning of Article 3(1) of Directive 2001/29, it is also necessary, as noted in paragraph 41 of the present judgment, that the protected works actually be communicated to a ‘public’.

45 In that connection, it follows from the Court’s case-law that the term ‘public’ refers to an indeterminate number of potential recipients and implies, moreover, a fairly large number of persons.

46 In the present case, the service provider at issue in the main proceedings records programmes broadcast and makes them available to its customers via the Internet.

47 In the first place, it is evident that the sum of the persons targeted by that provider constitutes a ‘public’ within the meaning of the case-law cited in paragraph 45 of the present judgment.

48 In the second place, the original transmission made by the broadcasting organisation, on the one hand, and that made by the service provider at issue in the main proceedings, on the other, are made under specific technical conditions, using a different means of transmission for the protected works, and each is intended for its public.

49 The transmissions referred to thus constitute communications to different publics, and each of them must therefore receive the consent of the rightholders concerned.

50 In those circumstances, it is no longer necessary to examine whether the publics targeted by those communications are identical or whether the public targeted by the service provider at issue in the main proceedings constitutes a new public.

51 It follows that, without the rightholder’s consent, the making of copies of works by means of a service such as that at issue in the main proceedings could undermine the rights of that rightholder.

52 Accordingly, such a remote recording service cannot fall within the scope of Article 5(2)(b) of Directive 2001/29.

53 In those circumstances, there is no longer any need to verify whether the conditions imposed by Article 5(5) of that directive have been complied with.

54 In view of all the foregoing considerations, the answer to the questions asked is that Directive 2001/29, in particular Article 5(2)(b) thereof, precludes national legislation which permits a commercial undertaking to provide private individuals with a cloud service for the remote recording of private copies of works protected

by copyright, by means of a computer system, by actively involving itself in the recording, without the rightholder's consent.

THINK IT OVER!

1. The tensions around the home recording of television programs were relatively easy to solve as long as end-users relied on video tape recorders. Back in 1984 the US Supreme Court declared such activity as fair use in the *Betamax (Sony v. Universal)* decision. Since the 1980s, European legislators (first in Germany, Austria and Hungary) opted for the introduction of a private copying levy for such acts. Concerns arose around the legality of such recordings as soon as end-users relied on the services that provided storage on and accessing possibilities from remote servers. The Hungarian Copyright Expert Borard has for example concluded in *expert opinion 31/07/1* that the recording of television signal via an IPTV service is lawful only as long as the end-user fully controls what is recorded and at what time. In *National Rugby League Investments v Singtel Optus (Optus TV Now)*, the Federal Court of Australia has also found that the setting up of an automated cloud-based service that fetches and stores copies of copyrighted subject matter at the user's command makes the service provider a maker of the copy, too. Further, the Court added in para. 74 that "the contractual allocation of functions and responsibilities in making a copy of copyright material may, but does not necessarily, identify the person (or persons) who 'make(s)' the copy for copyright infringement purposes. The making of the copy may be the product of the concerted action of both parties to the contract such that they together are the 'makers' of the copy." The ECJ has also confirmed in *VCAST* that the mere provision of facilities capable to create copies of protected subject matter at remote servers is not illegal per se. At the same time, the ECJ correctly noted in para. 38 that "the service at issue in the main proceedings has a dual functionality, consisting in ensuring both the reproduction and the making available of the works and subject matter concerned." In sum, ***what are the doctrinal prerequisites of creating private copies in the cloud?***

2. Following *VCAST*, what types of copying in the cloud fits into Article 5(2)(b) of Directive 2001/29? ***Where is the dividing line between providing active services for end-users and the provision of mere technical facilities?*** Compare to para. 38 et seq, especially para. 39. Compare further to the concept of "communication to the new public" developed by the ECJ.

FURTHER CASE LAW

In English

Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984)
National Rugby League Investments Pty Limited v Singtel Optus Pty Ltd [2012]
FCAFC 59 (27 April 2012)

In Hungarian

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

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In English

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FALUDI GÁBOR – GRAD-GYENGE ANIKÓ: *A cloud computing-alapú szolgáltatások szerzői jogi megítéléséről*, *Infokommunikáció és jog*, 2012/3. szám, p. 105–108.

The Cartoon Network, LLLP v. CSC Holdings, Inc.

536 F.3d 121 (2nd 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 Home, Inc.*, 749 F.2d 154 (3rd 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.

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Nils Svensson and Others v. Retriever Sverige AB

Case C-466/12, Judgment of the Court (Fourth Chamber), 13 February 2014 [ECLI:EU:C:2014:76]

(...) 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 is 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, the ECJ’s order in the *BestWater* case, where the judges sidestepped this material issue. It is nevertheless important to know that at least three domestic courts (in Germany, the UK and Poland) have refused to follow the latter *BestWater* interpretation.

3. In its other preliminary ruling in the TVCatchup case the ECJ 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 ECJ’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?***

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GS Media BV v Sanoma Media Netherlands BV and Others

Case C-160/15, Judgment of the Court (Second Chamber), 8 September 2016 [ECLI:EU:C:2016:644]

Legal context

3 Recitals 3, 4, 9, 10, 23 and 31 of Directive 2001/29 state:

‘(3) The proposed harmonisation will help to implement the four freedoms of the internal market and relates to compliance with the fundamental principles of law and especially of property, including intellectual property, and freedom of expression and the public interest.

(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. ...

...

(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. ...

(10) If authors or performers are to continue their creative and artistic work, they have to receive an appropriate reward for the use of their work, as must producers in order to be able to finance this work. ... Adequate legal protection of intellectual property rights is necessary in order to guarantee the availability of such a reward and provide the opportunity for satisfactory returns on this investment.

...

(23) This Directive should harmonise further the author's right of communication to the public. This right should be understood in a broad sense covering all communication to the public not present at the place where the communication originates. ...

...

(31) A fair balance of rights and interests between the different categories of rightholders, as well as between the different categories of rightholders and users of protected subject-matter must be safeguarded. The existing exceptions and limitations to the rights as set out by the Member States have to be reassessed in the light of the new electronic environment. ...'

4 Article 3 of that directive 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.'

5 According to Article 5(3) and (5) of that directive:

'3. Member States may provide for exceptions or limitations to the rights provided for in Articles 2 and 3 in the following cases:

...

c) reproduction by the press, communication to the public or making available of published articles on current economic, political or religious topics or of broadcast works or other subject-matter of the same character, in cases where such use is not expressly reserved, and as long as the source, including

the author's name, is indicated, or use of works or other subject-matter in connection with the reporting of current events, to the extent justified by the informatory purpose and as long as the source, including the author's name, is indicated, unless this turns out to be impossible;

...

5. The exceptions and limitations provided for in paragraphs 1, 2, 3 and 4 shall only be applied in certain special cases which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.'

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

6 At the request of Sanoma, which is the publisher of *Playboy* magazine, on 13 and 14 October 2011 the photographer, Mr C. Hermès, took the photos at issue, which were to be published in the December 2011 edition of that magazine. In that context, Mr Hermès granted Sanoma authorisation, on an exclusive basis, to publish those photos. He also granted Sanoma authorisation to exercise the rights and powers arising from his copyright.

7 GS Media operates the website *GeenStijl*, which includes, according to information provided by that website, 'news, scandalous revelations and investigative journalism with lighthearted items and wacky nonsense' and which is viewed daily by more than 230 000 visitors, making it one of the 10 most visited websites in the area of news in the Netherlands.

8 On 26 October 2011, the editors of the *GeenStijl* website received a message from a person using a pseudonym, which included a hyperlink to an electronic file hosted on the website *Filefactory.com* ('the *Filefactory* website'), located in Australia and dedicated to data storage. That electronic file contained the photos at issue.

9 On the same day, Sanoma asked GS Media's parent company to prevent the photos at issue being published on the *GeenStijl* website.

10 On 27 October 2011, an article relating to those photos of Ms Dekker, entitled '...! Nude photos of ... [Ms] Dekker', was published on the *GeenStijl* website, which included part of one of the photos at issue, and which ended with the following words: 'And now the link with the pics you've been waiting for.' By clicking on a hyperlink accompanying that text, users were directed to the *Filefactory* website, on which another hyperlink allowed them to download 11 electronic files each containing one of those photos.

11 On the same day, Sanoma sent GS Media's parent company an email demanding that it confirm that the hyperlink to the photos at issue had been removed from the GeenStijl website. GS Media failed to respond to that demand.

12 However, at Sanoma's request, the photos at issue appearing on the Filefactory website were removed.

13 By letter of 7 November 2011, counsel for Sanoma and Others demanded that GS Media remove from the GeenStijl website the article of 27 October 2011, including the hyperlink, the photographs it contained and the reactions of users published on the same page of that website.

14 On the same day, an article about the dispute between GS Media and Sanoma and Others about the photos at issue was published on the GeenStijl website. That article ended with the following sentence: 'Update: Not yet seen the nude pics of [Ms. Dekker]? They are HERE.' That announcement was, once again, accompanied by a hyperlink to access the website Imageshack.us where one or more of the relevant photographs could be viewed. The operator of that website, however, also subsequently complied with Sanoma's request to remove them.

15 A third article, entitled 'Bye Bye Wave Wave Playboy', again contained a hyperlink to the photos at issue, appeared on 17 November 2011 on the GeenStijl website. Forum users of that website then posted new links to other websites where the photos at issue could be viewed.

16 In December 2011, the photos at issue were published in *Playboy* magazine.

17 Sanoma and Others brought an action before the rechtbank Amsterdam (Amsterdam District Court, Netherlands), claiming, in particular, that by posting hyperlinks and a cutout of one of the photos at issue on the GeenStijl website, GS Media had infringed Mr Hermès' copyright and acted unlawfully towards Sanoma and Others. The rechtbank Amsterdam (Amsterdam District Court) largely upheld that action.

18 The Gerechtshof Amsterdam (Amsterdam Court of Appeal, the Netherlands) set aside that decision, finding that, by posting the hyperlinks on the GeenStijl website, GS Media had not infringed Mr Hermès' copyright, since the photos at issue had already been made public before they were posted on the Filefactory website. In contrast, it found that, by posting those links, GS Media acted unlawfully toward Sanoma and Others, as visitors to that website accordingly were encouraged to view the photos at issue which were illegally posted on the Filefactory website. Without those hyperlinks, those photos would not have been easy to find. In addition, the Gerechtshof Amsterdam (Amsterdam Court of Appeal) held that, by

posting a cutout of one of the photos at issue on the GeenStijl website, GS Media had infringed Mr Hermès' copyright.

19 GS Media brought an appeal against that judgment before the referring court, the Hoge Raad der Nederlanden (Supreme Court of the Netherlands).

20 Sanoma and Others brought a cross-appeal, in which they refer in particular to the judgment of *Svensson and Others*, claiming that the fact of making a hyperlink available to internet users to a website on which a work has been posted without the consent of the latter's copyright holder constitutes a communication to the public. Sanoma and Others submit, moreover, that access to the photos at issue on the Filefactory website was protected by restrictions within the meaning of that judgment which internet users could circumvent through the intervention of GS Media and its GeenStijl website, so that those photos have been made available to a wider public than the public which would normally have accessed those photos on the Filefactory website.

21 In the context of examining that cross-appeal, the referring court considers that it cannot be inferred with sufficient certainty either from the judgment of *Svensson and Others* or from the order of *BestWater* whether there is a 'communication to the public' if the work has in fact previously been published, but without the consent of the copyright holder.

22 On the one hand, it follows from that case-law of the Court that it must be established whether the intervention at issue enables a public to be reached which cannot be considered to have been included in the public for which the rightholder had previously given his consent, which is consistent with his exclusive right to exploit the work. On the other hand, if a work is already available on the internet for the general public, posting a hyperlink to the website on which the work is already posted will result in virtually no new public being reached. Furthermore, the fact that there are many works on the internet that have been communicated to the public without the rightholder's consent must also be taken into account. For the operator of a website it will not always be easy to check, if he intends to post a hyperlink to a website on which a work appears, that the rightholder has consented to the earlier posting of that work.

23 The referring court further observes, moreover, that the cross-appeal also raises the question of the conditions that must be met if they are to constitute 'restrictions' within the meaning of the judgment of *Svensson and Others*. That court points out, in that regard, that the photos at issue were not impossible to find on the internet before GS Media posted the hyperlink on the GeenStijl website, without however

being easy to find, so the fact of posting that link on its site greatly facilitated access to those photos.

24 In those circumstances, the Hoge Raad der Nederlanden (Supreme Court of the Netherlands) decided to stay the proceedings and to refer the following questions to the Court of Justice for a preliminary ruling:

‘1. (a) If anyone other than the copyright holder refers by means of a hyperlink on a website controlled by him to a website which is managed by a third party and is accessible to the general internet public, on which the work has been made available without the consent of the rightholder, does that constitute a “communication to the public” within the meaning of Article 3(1) of Directive 2001/29?

(b) Does it make any difference if the work was also not previously communicated, with the rightholder’s consent, to the public in some other way?

(c) Is it important whether the ‘hyperlinker’ is or ought to be aware of the lack of consent by the rightholder for the placement of the work on the third party’s website mentioned in 1(a) above and, as the case may be, of the fact that the work has also not previously been communicated, with the rightholder’s consent, to the public in some other way?

2. (a) If Question 1 is answered in the negative: If the answer to question 1(a) is in the negative: in that case, is there, or could there be deemed to be, a communication to the public if the website to which the hyperlink refers, and thus the work, is indeed findable for the general internet public, but not easily so, with the result that the publication of the hyperlink greatly facilitates the finding of the work?

(b) In answering question 2(a), is it important whether the “hyperlinker” is or ought to be aware of the fact that the website to which the hyperlink refers is not easily findable by the general internet public?

3. Are there other circumstances which should be taken into account when answering the question whether there is deemed to be a communication to the public if, by means of a hyperlink, access is provided to a work which has not previously been communicated to the public with the consent of the rightholder?’

Consideration of the questions referred

25 By its three questions, which should be examined together, the referring court asks, in essence, whether, and in what possible circumstances, the fact of posting, on a website, a hyperlink to protected works, freely available on another website without the consent of the copyright holder, constitutes a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29.

26 In that context, it raises the question of the relevance of the fact that the works in question have not yet been published in another way with the consent of that rightholder, that providing those hyperlinks makes it much easier to find those works, given that the website on which they are available is not easily findable by the general internet public, and that whoever posts those links knew or ought to have been aware of those facts and the fact that that rightholder did not consent to the publication of the works in question on that latter website.

27 It follows from Article 3(1) of Directive 2001/29 that Member States are to 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.

28 Under that provision, authors thus have a right which is preventive in nature and allows them to intervene, between possible users of their work and the communication to the public which such users might contemplate making, in order to prohibit such use.

29 As Article 3(1) of Directive 2001/29 does not define the concept of ‘communication to the public’, its meaning and its scope must be determined in light of the objectives pursued by that directive and of the context in which the provision being interpreted is set.

30 In that regard, it should be borne in mind that it follows from recitals 9 and 10 of Directive 2001/29 that the latter’s objective is to establish a high level of protection of authors, allowing them to obtain an appropriate reward for the use of their works, including on the occasion of communication to the public. It follows that ‘communication to the public’ must be interpreted broadly, as recital 23 of the directive indeed expressly states.

31 At the same time, it follows from recitals 3 and 31 of Directive 2001/29 that the harmonisation effected by it is to maintain, in particular in the electronic environment, a fair balance between, on one hand, the interests of copyright holders and related rights in protecting their intellectual property rights, safeguarded by Article 17(2) of the Charter of Fundamental Rights of the European Union (‘the Charter’) and, on the other, the protection of the interests and fundamental rights of users of protected objects, in particular their freedom of expression and of information, safeguarded by Article 11 of the Charter, and of the general interest.

32 As the Court has previously held, 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’.

33 The Court has, moreover, specified that the concept of ‘communication to the public’ requires an individual assessment.

34 For the purposes of such an assessment, account has to be taken of several complementary criteria, which are not autonomous and are interdependent. Since those criteria may, in different situations, be present to widely varying degrees, they must be applied both individually and in their interaction with one another.

35 Of those criteria, the Court emphasised, in the first place, the indispensable role played by the user and the deliberate nature of its intervention. The user makes an act of communication when it intervenes, in full knowledge of the consequences of its action, to give access to a protected work to its customers, and does so, in particular, where, in the absence of that intervention, its customers would not, in principle, be able to enjoy the broadcast work.

36 In the second place, it specified that the concept of the ‘public’ refers to an indeterminate number of potential viewers and implies, moreover, a fairly large number of people.

37 Moreover, it is settled case-law of the Court that, to be categorised as a ‘communication to the public’, a protected work must be communicated using specific technical means, different from those previously used or, failing that, to a ‘new public’, that is to say, to a public that was not already taken into account by the copyright holders when they authorised the initial communication to the public of their work.

38 In the third place, the Court has held that it is relevant that a ‘communication’, within the meaning of Article 3(1) of Directive 2001/29, is of a profit-making nature.

39 It is in the light, in particular, of those criteria that it is to be assessed whether, in a situation such as that at issue in the main proceedings, the fact of posting, on a website, a hyperlink to protected works, which are freely available on another website without the consent of the copyright holder, constitutes a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29.

40 In that regard, it should be recalled that, in the judgment of *Svensson and Others*, the Court interpreted Article 3(1) of Directive 2001/29 as meaning that posting hyperlinks on a website to works freely available on another website does not constitute a ‘communication to the public’ as covered by that provision. That interpretation was also adopted in the order of *BestWater International* about such links using the technique known as ‘transclusion’ (‘framing’).

41 However, it follows from the reasoning of those decisions that, by them, the Court intended to refer only to the posting of hyperlinks to works which have been made freely available on another website with the consent of the rightholder, the Court having concluded that there was no communication to the public on the ground that the act of communication in question was not made to a new public.

42 In that context, it noted that, given that the hyperlink and the website to which it refers give access to the protected work using the same technical means, namely the internet, such a link must be directed to a new public. Where that is not the case, in particular, due to the fact that the work is already freely available to all internet users on another website with the authorisation of the copyright holders, that act cannot be categorised as a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29. Indeed, as soon as and as long as that work is freely available on the website to which the hyperlink allows access, it must be considered that, where the copyright holders of that work have consented to such a communication, they have included all internet users as the public.

43 Accordingly, it cannot be inferred either from the judgment of *Svensson and Others* or from the order of *BestWater International* that posting, on a website, hyperlinks to protected works which have been made freely available on another website, but without the consent of the copyright holders of those works, would be excluded, as a matter of principle, from the concept of ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29. Rather, those decisions confirm the importance of such consent under that provision, as the latter specifically provides that every act of communication of a work to the public is to be authorised by the copyright holder.

44 GS Media, the German, Portuguese and Slovak Governments and the European Commission claim, however, that the fact of automatically categorising all posting of such links to works published on other websites as ‘communication to the public’, since the copyright holders of those works have not consented to that publication on the internet, would have highly restrictive consequences for freedom of expression and of information and would not be consistent with the right balance which Directive 2001/29 seeks to establish between that freedom and the public interest on the one hand, and the interests of copyright holders in an effective protection of their intellectual property, on the other.

45 In that regard, it should be noted that the internet is in fact of particular importance to freedom of expression and of information, safeguarded by Article 11 of the Charter, and that hyperlinks contribute to its sound operation as well as to the exchange of opinions and information in that network characterised by the availability of immense amounts of information.

46 Furthermore, it may be difficult, in particular for individuals who wish to post such links, to ascertain whether website to which those links are expected to lead, provides access to works which are protected and, if necessary, whether the copyright holders of those works have consented to their posting on the internet. Such ascertaining is all the more difficult where those rights have been the subject of sub-licenses. Moreover, the content of a website to which a hyperlink enables access may be changed after the creation of that link, including the protected works, without the person who created that link necessarily being aware of it.

47 For the purposes of the individualised assessment of the existence of a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29, it is accordingly necessary, when the posting of a hyperlink to a work freely available on another website is carried out by a person who, in so doing, does not pursue a profit, to take account of the fact that that person does not know and cannot reasonably know, that that work had been published on the internet without the consent of the copyright holder.

48 Indeed, such a person, by making that work available to the public by providing other internet users with direct access to it does not, as a general rule, intervene in full knowledge of the consequences of his conduct in order to give customers access to a work illegally posted on the internet. In addition, where the work in question was already available with unrestricted access on the website to which the hyperlink provides access, all internet users could, in principle, already have access to it even the absence of that intervention.

49 In contrast, where it is established that such a person knew or ought to have known that the hyperlink he posted provides access to a work illegally placed on the internet, for example owing to the fact that he was notified thereof by the copyright holders, it is necessary to consider that the provision of that link constitutes a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29.

50 The same applies in the event that that link allows users of the website on which it is posted to circumvent the restrictions taken by the site where the protected work is posted in order to restrict the public’s access to its own subscribers, the posting of such a link then constituting a deliberate intervention without which those users could not benefit from the works broadcast.

51 Furthermore, when the posting of hyperlinks is carried out for profit, it can be expected that the person who posted such a link carries out the necessary checks to ensure that the work concerned is not illegally published on the website to which those hyperlinks lead, so that it must be presumed that that posting has

occurred with the full knowledge of the protected nature of that work and the possible lack of consent to publication on the internet by the copyright holder. In such circumstances, and in so far as that rebuttable presumption is not rebutted, the act of posting a hyperlink to a work which was illegally placed on the internet constitutes a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29.

52 However, if there is no new public, there will be no communication to the ‘public’ within the meaning of that provision in the event that, referred to in paragraphs 40 to 42 of the present judgment, the works to which those hyperlinks allow access have been made freely available on another website with the consent of the rightholder.

53 Such an interpretation of Article 3(1) of Directive 2001/29 provides the high level of protection for authors sought by that directive. Indeed, under that directive and within the limits set by Article 5(3) thereof, copyright holders may act not only against the initial publication of their work on a website, but also against any person posting for profit a hyperlink to the work illegally published on that website and, under the conditions set out in paragraphs 49 and 50 of the present judgment, against persons having posted such links without pursuing financial gain. In that regard, it should in particular be noted that those rightholders, in all cases, have the possibility of informing such persons of the illegal nature of the publication of their work on the internet and of taking action against them if they refuse to remove that link, and those persons may not rely upon one of the exceptions listed in Article 5(3).

54 As regards the case in the main proceedings, it is undisputed that GS Media operates the *GeenStijl* website and that it provided the hyperlinks to the files containing the photos at issue, hosted on the *Filefactory* website, for profit. It is also undisputed that Sanoma had not authorised the publication of those photos on the internet. Moreover, it appears to follow from the presentation of the facts, as they result from the order for reference, that GS Media was aware of that latter fact and that it cannot therefore rebut the presumption that the posting of those links occurred in full knowledge of the illegal nature of that publication. In those circumstances, it appears that, subject to the checks to be made by the referring court, by posting those links, GS Media effected a ‘communication to the public’, within the meaning of Article 3(1) of Directive 2001/29, and it is unnecessary to assess in that context the other circumstances referred to by that court, referred to in paragraph 26 of the present judgment.

55 Having regard to the foregoing considerations, the answer to the questions raised is that Article 3(1) of Directive 2001/29 must be interpreted as meaning

that, in order to establish whether the fact of posting, on a website, hyperlinks to protected works, which are freely available on another website without the consent of the copyright holder, constitutes a ‘communication to the public’ within the meaning of that provision, it is to be determined whether those links are provided without the pursuit of financial gain by a person who did not know or could not reasonably have known the illegal nature of the publication of those works on that other website or whether, on the contrary, those links are provided for such a purpose, a situation in which that knowledge must be presumed. (...)

THINK IT OVER!

1. In *Svensson*, the ECJ discussed – although in a very reformatory way – whether copyright protected journal articles that were originally published online by the Göteborgs Posten can be hyperlinked. In *BestWater*, the ECJ sidestepped the important fact that the video embedded by the defendant was unlawfully uploaded to YouTube. In *GS Media*, the ECJ could not further evade discussing the issue of the lawfulness of the protected photographs. The Court tried to provide a balanced answer by differentiating between non-profit and for-profit uses, and concluded that the subjective knowledge of the user is relevant in determining his liability. The introduction of such a concept of subjective liability into European copyright law received open criticism among scholars. This is mainly due to the fact that liability has generally been objective in all domestic copyright systems of the European Union Member States. (Subjective knowledge can, however, be relevant when it comes to damages.) ***Can you criticize the ECJ’s logic based on the Court’s earlier case law related to commercial and non-commercial communication to the public?*** Compare to what the ECJ stated in *Del Corso* and *TVCatchup* with respect to the relevance of the users’ commercial aims.

2. The ECJ’s arguments have since been refuted by at least the German Federal Supreme Court (BGH) in the *Vorschaubilder III* case. There the BGH concluded that the preliminary ruling of the ECJ in *GS Media* ***does not apply to Google Images because of the particular importance of search services for the functioning of the internet.***

3. In April 2017, as a next step in the European linking saga, the ECJ concluded in *Filmspeler* (Case C-527/15) that the selling of set-top boxes with pre-installed add-ons that automatically directed end users to websites through which unlawful materials were accessible constituted communication to the public. ***Is this kind of interpretation still in line with the original purposes of the European Union, or is this an unnecessary stretching of the right of communication to the public?***

FURTHER CASE LAW

Case C-466/12 – Nils Svensson and Others v. Retriever Sverige AB, Judgment of the Court (Fourth Chamber), 13 February 2014, ECLI:EU:C:2014:76

Case C-348/13 – BestWater International GmbH v. Michael Mebes and Stefan Potsch, Judgment of the Court (Ninth Chamber), 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.

Case C-527/15 – Stichting Brein vs Jack Frederik Wullens, Judgment of the Court (Second Chamber), 26th April 2017, ECLI:EU:C:2017:300

BGH 21.9.2017 (I ZR 11/16) – Vorschaubilder III [not published yet]

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GRAD-GYENGE Anikó: A jogsértésért való felelősség vagy a nyilvánosságához közvetítési jog új határai, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2017/5. szám, p. 7–14.

FERGE Zsigmond: Médialejátszók és online megosztóplatformok, avagy hogyan értelmezte az Európai Bíróság a nyilvánosságához közvetítés fogalmát a Stichting Brein, szerzői jogok jogosultjainak érdekeit védő alapítvány kontra Jack Frederik Wullems-, valamint a Ziggo BV és XS4ALL Internet BV-ügyben hozott ítéletében, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2017/5. szám, p. 15–46.

Flava Works, Inc., v. Marques Rondale Gunter

689 F.3d 754 (7th 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.” (...)

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." 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 uploading. 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."

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." 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 embedding of videos. 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?***

2. Judge Posner seemed to put less emphasis on the fact that the paywall of Flava Works was circumvented when users bookmarked the videos. ***Would the case be decided similarly under EU copyright law?*** Compare to the *Svensson* ruling that confirmed that the circumvention of technical measures would make linking illegal as this way the content is communicated to a new public.

3. 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

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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 – négyszögletes dugó a hatszögletű lyukba?, *Infokommunikáció és Jog*, 2015. március (61. szám), p. 30–39.

In Spanish

VAQUERO, Juan Pablo Aparicio: «Propiedad intelectual y suministro de contenidos digitales (Copyright and supply of digital content)», *InDret*, vol. 3, 2016 (<https://ssrn.com/abstract=2832177>)

Chapter II

P2P Filesharing

Columbia Pictures Industries, Inc., et al. v. Gary Fung, et al.

710 *F.3d* 1020 (9th 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 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.” 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.”

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.*, 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. 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.”

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.” 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. 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. As the *Betamax* was “capable of commercially significant noninfringing uses,” the Court held Sony not liable for contributory copyright infringement.

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.” “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.”

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.” 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. 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.

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.

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. 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.”

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.

In *Grokster III* itself, the Court found ample evidence, of several types, to support inducement liability. 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.” 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.” 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.” 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.” 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.”

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.” 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.”

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.” 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.” Here again, however, “[t]his evidence alone would not justify an inference of unlawful intent.”

Using these *Grokster III* evidentiary categories and cautions as templates, we conclude that there is more than enough un rebutted 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.” 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. First, Fung took no steps “to develop filtering tools or other mechanisms to diminish the infringing activity” by those using his services. 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.” 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.” 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. 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.”

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.”

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. 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.

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." *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. 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 casual 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.

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.” 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.” 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. 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.”

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.”

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.” 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.”

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.” 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.”

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, 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?*
3. *What are the consequences of the the application of in rem jurisdiction for services that are provided in their entirety from outside of the United States?*

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

AXBERG, Robyn: 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.

Stichting Brein v Ziggo BV and XS4All Internet BV

Case C-610/15, Judgment of the Court (Second Chamber), 14 June 2017
[ECLI:EU:C:2017:456]

(...) Legal context

3 Recitals 9, 10, 23 and 27 of Directive 2001/29 state:

(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. Intellectual property has therefore been recognised as an integral part of property.

(10) If authors or performers are to continue their creative and artistic work, they have to receive an appropriate reward for the use of their work, as must producers in order to be able to finance this work. The investment required to produce products such as phonograms, films or multimedia products, and services such as “on-demand” services, is considerable. Adequate legal protection of intellectual property rights is necessary in order to guarantee the availability of such a reward and provide the opportunity for satisfactory returns on this investment.

...

(23) This Directive should harmonise further the author’s right of communication to the public. This right should be understood in a broad sense covering all communication to the public not present at the place where the communication originates. This right should cover any such transmission or retransmission of a work to the public by wire or wireless means, including broadcasting. This right should not cover any other acts.

...

(27) The mere provision of physical facilities for enabling or making a communication does not in itself amount to communication within the meaning of this Directive.'

4 Article 3 of that directive, entitled 'Right of communication to the public of works and right of making available to the public other subject matter', provides in paragraph 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.'

5 Article 8 of that directive, entitled 'Sanctions and remedies', provides in paragraph 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.'

6 Recital 23 of Directive 2004/48 is worded as follows:

'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/EC. Article 8(3) of Directive 2001/29/EC should therefore not be affected by this Directive.'

7 Article 11 of Directive 2004/48, entitled 'Injunctions', provides:

'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/EC.'

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

8 Stichting Brein is a Netherlands foundation which safeguards the interests of copyright holders.

9 Ziggo and XS4ALL are internet access providers. A significant number of their subscribers use the online sharing platform TPB, an indexer of BitTorrent files. BitTorrent is a protocol through which users (known as ‘peers’) can share files. The essential characteristic of BitTorrent is that it divides files for sharing into segments, thus removing the need to rely on a central server to store those files, which lessens the burden on individual servers during the sharing process. In order to be able to share files, users must first download specific software called ‘BitTorrent Client’, which is not provided by the online sharing platform TPB. ‘BitTorrent Client’ is software which allows the creation of torrent files.

10 Users (called ‘seeders’) who wish to make a file on their computer available to other users (called ‘leechers’) have to create a torrent file through their BitTorrent Client. Torrent files refer to a central server (called a ‘tracker’) which identifies the users available to share a particular torrent file as well as the underlying media file. These torrent files are uploaded by the seeders to an online sharing platform, such as TPB, which then proceeds to index them so that they can be found by the users of the online sharing platform and the works to which those torrent files refer can be downloaded onto the users’ computers in several segments through their BitTorrent Client.

11 ‘Magnet links’ are often used in place of torrent files. These links identify the content of a torrent file and refer to it through a digital fingerprint.

12 The torrent files offered on the online sharing platform TPB relate mainly to copyright-protected works, without the rightholders having given their consent to the operators or users of that platform to carry out the sharing acts in question.

13 In the context of the main proceedings, Stichting Brein’s principal request is that Ziggo and XS4ALL be ordered to block the domain names and IP addresses of the online sharing platform TPB in order to prevent the services of those internet access providers from being used to infringe the copyright and related rights of the rightholders, whose interests Stichting Brein protects.

14 The court of first instance upheld Stichting Brein’s requests. However, these were rejected on appeal.

15 The Hoge Raad der Nederlanden (Supreme Court of the Netherlands) notes that, in the present case, it has been established that the actions of the online sharing platform TPB make protected works available to the public without the rightholders' consent. It has also been established that subscribers to Ziggo and XS4ALL, through this platform, make protected works available without the rightholders' consent and thus infringe the copyright and related rights of those rightholders.

16 The Hoge Raad der Nederlanden (Supreme Court of the Netherlands) notes, however, that the Court's case-law does not allow it to reply with any certainty to the question as to whether the online sharing platform TPB also communicates works to the public within the meaning of Article 3(1) of Directive 2001/29, in particular:

- by creating and maintaining a system in which internet users connect with each other in order to be able to share, in segments, works present on their own computers;
- by operating a website from which users can download torrent files which refer to segments of those works; and
- by indexing the torrent files placed online on this website and by categorising them in such a way that the segments of those underlying works can be located and the users can download those works (as a whole) onto their computers.

17 Under those circumstances, the Hoge Raad der Nederlanden (Supreme Court of the Netherlands) decided to stay the proceedings before it and to refer the following questions to the Court for a preliminary ruling:

'(1) Is there a communication to the public within the meaning of Article 3(1) of Directive 2001/29 by the operator of a website, if no protected works are available on that website, but a system exists ... by means of which metadata on protected works which are present on the users' computers are indexed and categorised for users, so that the users can trace and upload and download the protected works on the basis thereof? (...)

Consideration of the questions referred

The first question

18 By its first question, the referring court asks, in essence, whether the concept of 'communication to the public', within the meaning of Article 3(1) of Directive 2001/29, should be interpreted as covering, in circumstances such as those at issue

in the main proceedings, the making available and management, on the internet, of a sharing platform which, by means of indexation of metadata relating to protected works and the provision of a search engine, allows users of that platform to locate those works and to share them in the context of a peer-to-peer network.

19 It follows from Article 3(1) of Directive 2001/29 that Member States are required to ensure that authors have 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.

20 Under that provision, authors thus have a right which is preventive in nature and allows them to intervene between possible users of their work and the communication to the public which such users might contemplate making, in order to prohibit such communication.

21 As Article 3(1) of Directive 2001/29 does not define the concept of ‘communication to the public’, the meaning and scope of that concept must be determined in light of the objectives pursued by that directive and the context in which the provision being interpreted is set.

22 In that regard, it should be borne in mind that it follows from recitals 9 and 10 of Directive 2001/29 that the latter’s principal objective is to establish a high level of protection for authors, allowing them to obtain an appropriate reward for the use of their works, including on the occasion of communication to the public. It follows that the concept of ‘communication to the public’ must be interpreted broadly, as recital 23 of the directive indeed expressly states.

23 The Court has also specified that the concept of ‘communication to the public’, within the meaning of Article 3(1) of Directive 2001/29, requires an individual assessment.

24 It is clear from Article 3(1) of Directive 2001/29 that the concept of ‘communication to the public’ involves two cumulative criteria, namely an ‘act of communication’ of a work and the communication of that work to a ‘public’.

25 In order to determine whether a user is making a ‘communication to the public’ within the meaning of Article 3(1) of Directive 2001/29, it is necessary to take into account several complementary criteria, which are not autonomous and are interdependent. Consequently, those criteria must be applied both individually and in their interaction with one another, since they may, in different situations, be present to widely varying degrees.

26 Amongst those criteria, the Court has emphasised, firstly, the indispensable role played by the user and the deliberate nature of his intervention. That user makes an act of communication when he intervenes, in full knowledge of the consequences of his action, to give his customers access to a protected work, particularly where, in the absence of that intervention, those customers would not be able to enjoy the broadcast work, or would be able to do so only with difficulty.

27 Secondly, it has specified that the concept of the ‘public’ refers to an indeterminate number of potential viewers and implies, moreover, a fairly large number of people.

28 The Court has also noted that, according to a settled line of case-law, in order to be categorised as a ‘communication to the public’, a protected work must be communicated using specific technical means, different from those previously used or, failing that, to a ‘new public’, that is to say, to a public that was not already taken into account by the copyright holders when they authorised the initial communication of their work to the public.

29 Finally, the Court has underlined, on numerous occasions, that the profit-making nature of a communication, within the meaning of Article 3(1) of Directive 2001/29, is not irrelevant.

30 As regards, in the first place, the question of whether making available and managing an online sharing platform, such as that at issue in the main proceedings, is an ‘act of communication’ for the purposes of Article 3(1) of Directive 2001/29, it must be noted, as recital 23 of Directive 2001/29 states, that the author’s right of communication to the public, provided for in Article 3(1), covers any transmission or retransmission of a work to the public by wire or wireless means, including broadcasting.

31 Furthermore, as is apparent from Article 3(1) of Directive 2001/29, in order 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 comprising that public may access it, from wherever and whenever they individually choose, irrespective of whether they avail themselves of that opportunity.

32 The Court has already held, in this regard, 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.

33 The Court has also held the same to be the case for the sale of a multimedia player on which there are pre-installed add-ons, available on the internet, containing hyperlinks to websites – that are freely accessible to the public – on

which copyright-protected works have been made available without the consent of the rightholders.

34 It can therefore be inferred from this case-law that, as a rule, any act by which a user, with full knowledge of the relevant facts, provides its clients with access to protected works is liable to constitute an ‘act of communication’ for the purposes of Article 3(1) of Directive 2001/29.

35 In the present case it must be found, first, as the Advocate General has noted, in essence, in point 45 of his Opinion, that it is not disputed that copyright-protected works are, by means of the online sharing platform TPB, made available to the users of that platform in such a way that they may access those works from wherever and whenever they individually choose.

36 Second, it is true, as noted by the referring court, that the works thus made available to the users of the online sharing platform TPB have been placed online on that platform not by the platform operators but by its users. However, the fact remains that those operators, by making available and managing an online sharing platform such as that at issue in the main proceedings, intervene, with full knowledge of the consequences of their conduct, to provide access to protected works, by indexing on that platform torrent files which allow users of the platform to locate those works and to share them within the context of a peer-to-peer network. In this respect, as the Advocate General stated, in essence, in point 50 of his Opinion, without the aforementioned operators making such a platform available and managing it, the works could not be shared by the users or, at the very least, sharing them on the internet would prove to be more complex.

37 The view must therefore be taken that the operators of the online sharing platform TPB, by making that platform available and managing it, provide their users with access to the works concerned. They can therefore be regarded as playing an essential role in making the works in question available.

38 Finally, the operators of the online sharing platform TPB cannot be considered to be making a ‘mere provision’ of physical facilities for enabling or making a communication, within the meaning of recital 27 of Directive 2001/29. It is clear from the order for reference that that platform indexes torrent files in such a way that the works to which the torrent files refer may be easily located and downloaded by the users of that sharing platform. Moreover, it is clear from the observations submitted to the Court that, in addition to a search engine, the online sharing platform TPB offers an index classifying the works under different categories, based on the type of the works, their genre or their popularity, within which the works made available are divided, with the platform’s operators checking to ensure that

a work has been placed in the appropriate category. In addition, those operators delete obsolete or faulty torrent files and actively filter some content.

39 In the light of the foregoing, the making available and management of an online sharing platform, such as that at issue in the main proceedings, must be considered to be an act of communication for the purposes of Article 3(1) of Directive 2001/29.

40 In the second place, in order to be categorised as a ‘communication to the public’, within the meaning of Article 3(1) of Directive 2001/29, the protected works must also in fact be communicated to a ‘public’.

41 In that regard, the Court has stated, first, that the concept of ‘public’ involves a certain *de minimis* threshold, which excludes from that concept groups of persons concerned which are too small, or insignificant. Second, in order to determine that number, the cumulative effect of making the works available to potential recipients should be taken into account. Thus, it is necessary to know not only how many persons have access to the same work at the same time, but also how many of them have access to it in succession.

42 In the present case, it is apparent from the order for reference that a large number of subscribers to Ziggo and XS4ALL have downloaded media files using the online sharing platform TPB. It is also clear from the observations submitted to the Court that this platform is used by a considerable number of persons, the operators of TPB claiming, on their online sharing platform, to have several dozens of millions of ‘peers’. In this respect, the communication at issue in the main proceedings covers, at the very least, all of the platform’s users. These users can access, at any time and simultaneously, the protected works which are shared by means of the platform. Thus, that communication is aimed at an indeterminate number of potential recipients and involves a large number of persons.

43 It follows that, by a communication such as that at issue in the main proceedings, protected works are indeed communicated to a ‘public’ within the meaning of Article 3(1) of Directive 2001/29.

44 Furthermore, with regard to the question whether those works have been communicated to a ‘new’ public within the meaning of the case-law cited in paragraph 28 of the present judgment, the Court, in its [*Svensson*] judgment (...) as well as in its [*Bestwater*] order (...), has held that such a public is a public that was not taken into account by the copyright holders when they authorised the initial communication.

45 In the present case, it is apparent from the observations submitted to the Court, first, that the operators of the online sharing platform TPB were informed that

this platform, which they make available to users and manage, provides access to works published without authorisation of the rightholders and, second, that the same operators expressly display, on blogs and forums available on that platform, their purpose to make protected works available to the users, and encourage the latter to make copies of those works. In any event, it is clear from the order for reference that the operators of the online sharing platform TPB could not be unaware that this platform provides access to works published without the consent of the rightholders, given that, as expressly highlighted by the referring court, a very large number of torrent files on the online sharing platform TPB relate to works published without the consent of the rightholders. In those circumstances, it must be held that there is communication to a ‘new public’.

46 Furthermore, there can be no dispute that the making available and management of an online sharing platform, such as that at issue in the main proceedings, is carried out with the purpose of obtaining profit therefrom, it being clear from the observations submitted to the Court that that platform generates considerable advertising revenues.

47 Therefore, it must be held that the making available and management of an online sharing platform, such as that at issue in the main proceedings, constitutes a ‘communication to the public’, within the meaning of Article 3(1) of Directive 2001/29.

48 In the light of all the foregoing considerations, the answer to the first question is that the concept of ‘communication to the public’, within the meaning of Article 3(1) of Directive 2001/29, must be interpreted as covering, in circumstances such as those at issue in the main proceedings, the making available and management, on the internet, of a sharing platform which, by means of indexation of metadata referring to protected works and the provision of a search engine, allows users of that platform to locate those works and to share them in the context of a peer-to-peer network.

(...)

THINK IT OVER

1. The final decision of the Stockholm Court of Appeals in 2010 against The Pirate Bay confirmed the operators' liability for incitement of criminal activities. Nevertheless, The Pirate Bay was taken over by new owners and the site is still running. The Ziggo case comes from the Netherlands, where Stichting Brein, a foundation representing copyright holders, requested the court to oblige ISPs to block accessing the website for their clients. In fact, the ECJ has found that the service of The Pirate Bay fits into the concept of "new theory", and thus it represents communication to the public. Such activity is illegal unless the rights holders authorized such acts.

2. 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?***

3. 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)

Supreme Court of Norway 27.1.2005 – Napster.no, *IIC – International Review of Intellectual Property and Competition Law*, Issue 1/2006, p. 120-123.

Vereinigug Buma / Stichting Stemra v. Kazaa B.V., Nr. C02/186HR, Supreme Court of the Netherlands, 19 December 2003

Stockholm District Court, B13301-06, 17 April 2009

ECtHR (Sect. V), 19 Feb. 2013, no. 40397/12, *Messrs Neij and Sunde Kolmisoppi v Sweden*

Case C527/15 – Stichting Brein v Jack Frederik Wullems, Judgment of the Court (Second Chamber), 26 April 2017, ECLI:EU:C:2017:300

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MEZEI Péter: *A fájlcsere dilemma – A perek lassúak, az internet gyors*, HVG-Orac, Budapest, 2012: p. 112–131.

FERGE Zsigmond: Médialejátszók és online megosztóplatformok, avagy hogyan értelmezte az Európai Bíróság a nyilvánosságához közvetítés fogalmát a Stichting Brein, szerzői jogok jogosultjainak érdekeit védő alapítvány kontra Jack Frederik Wullems-, valamint a Ziggo BV és XS4ALL Internet BV-ügyben hozott ítéletében, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2017/5. szám, p. 15–46

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 disks 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. 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 multiple 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? Barker 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)

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Productores de Música de España (Promusicae) v. Telefónica de España SAU

Case C-275/06, Judgment of the Court (Grand Chamber), 29 January 2008 [ECLI:EU:C:2008:54]

(...) 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:

(a) “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;

(b) “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 Nº 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 Nº 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 Nº 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 Promusicae, 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 *LSG*, 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* 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, in *Malibu Media*, 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?) In para 51 of its *Scarlet Extended* preliminary ruling, the ECJ stressed that “[i]t 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.***” Later, the German Federal Supreme Court requested a preliminary ruling on the interpretation of the EU Data Protection Directive concerning the definition of the term “personal data” therein and on the recording of dynamic IP-addresses by ISPs. In para 44 and 48 of its *Breyer* ruling, the ECJ concluded that “[t]he fact that the additional data necessary to identify the user of a website are held not by the online media services provider, but by that user’s internet service provider does not appear to be such as to exclude that dynamic IP addresses registered by the online media services provider constitute personal data within the meaning of Article 2(a) of Directive 95/46. (...) [I]t appears that the online media services provider has the means which may likely reasonably be used in order to identify the data subject, with the assistance of other persons, namely the competent authority and the internet service provider, on the basis of the IP addresses stored.

FURTHER CASE LAW

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SGAE v. Indice-web.com, Barcelona Appellation Court (15th Section), Judgement 301 / 2011, 7 July 2011 (ROJ: SAP B 4207/2011 – ECLI:ES:APB:2011:4207)

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ACI Adam BV and Others v. Stichting de ThuisKopie

Case C-435/12, Judgment of the Court (Fourth Chamber), 10 April 2014
[ECLI:EU:C:2014:254]

(...) Legal context

EU law

Directive 2001/29

3 Recitals 22, 31, 32, 35, 38 and 44 in the preamble to Directive 2001/29 state the following:

‘(22) The objective of proper support for the dissemination of culture must not be achieved by sacrificing strict protection of rights or by tolerating illegal forms of distribution of counterfeited or pirated works.

(31) A fair balance of rights and interests between the different categories of rightholders, as well as between the different categories of rightholders and users of protected subject-matter must be safeguarded.

(32) This Directive provides for an exhaustive enumeration of exceptions and limitations to the reproduction right and the right of communication to the public. Some exceptions or limitations only apply to the reproduction right, where appropriate. This list takes due account of the different legal traditions in Member States, while, at the same time, aiming to ensure a functioning internal market. Member States should arrive at a coherent application of these exceptions and limitations, which will be assessed when reviewing implementing legislation in the future.

(35) *In certain cases of exceptions or limitations, rightholders should receive fair compensation to compensate them adequately for the use made of their protected works or other subject-matter. When determining the form, detailed arrangements and possible level of such fair compensation, account should be taken of the particular circumstances of each case. When evaluating these circumstances, a valuable criterion would be the possible harm to the rightholders resulting from the act in question. In cases where rightholders have already received payment in some other form, for instance as part of a licence fee, no specific or separate payment may be due. The level of fair compensation should take full account of the degree of use of technological protection measures referred to in this Directive. In certain situations where the prejudice to the rightholder would be minimal, no obligation for payment may arise.*

(38) *Member States should be allowed to provide for an exception or limitation to the reproduction right for certain types of reproduction of audio, visual and audio-visual material for private use, accompanied by fair compensation. This may include the introduction or continuation of remuneration schemes to compensate for the prejudice to rightholders. Although differences between those remuneration schemes affect the functioning of the internal market, those differences, with respect to analogue private reproduction, should not have a significant impact on the development of the information society. Digital private copying is likely to be more widespread and have a greater economic impact. Due account should therefore be taken of the differences between digital and analogue private copying and a distinction should be made in certain respects between them.*

(44) *When applying the exceptions and limitations provided for in this Directive, they should be exercised in accordance with international obligations. Such exceptions and limitations may not be applied in a way which prejudices the legitimate interests of the rightholder or which conflicts with the normal exploitation of his work or other subject-matter. The provision of such exceptions or limitations by Member States should, in particular, duly reflect the increased economic impact that such exceptions or limitations may have in the context of the new electronic environment. Therefore, the scope of certain exceptions or limitations may have to be even more limited when it comes to certain new uses of copyright works and other subject-matter.'*

4 Article 2(a) of Directive 2001/29 provides:

'Member States shall provide for the exclusive right to authorise or prohibit direct or indirect, temporary or permanent reproduction by any means and in any form, in whole or in part:

(a) for authors, of their works'.

5 Article 5(2) and (5) of that directive provides:

‘2. Member States may provide for exceptions or limitations to the reproduction right provided for in Article 2 in the following cases:

(b) in respect of reproductions on any medium made by a natural person for private use and for ends that are neither directly nor indirectly commercial, on condition that the rightholders receive fair compensation which takes account of the application or non-application of technological measures referred to in Article 6 to the work or subject-matter concerned;

5. The exceptions and limitations provided for in paragraphs 1, 2, 3 and 4 shall only be applied in certain special cases which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.’

6 Article 6 of Directive 2001/29 provides:

‘1. Member States shall provide adequate legal protection against the circumvention of any effective technological measures, which the person concerned carries out in the knowledge, or with reasonable grounds to know, that he or she is pursuing that objective.

3. For the purposes of this Directive, the expression “technological measures” means any technology, device or component that, in the normal course of its operation, is designed to prevent or restrict acts, in respect of works or other subject-matter, which are not authorised by the rightholder of any copyright or any right related to copyright as provided for by law or the sui generis right provided for in Chapter III of [Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases (OJ 1996 L 77, p. 20)]. Technological measures shall be deemed “effective” where the use of a protected work or other subject-matter is controlled by the rightholders through application of an access control or protection process, such as encryption, scrambling or other transformation of the work or other subject-matter or a copy control mechanism, which achieves the protection objective.

4. Notwithstanding the legal protection provided for in paragraph 1, in the absence of voluntary measures taken by rightholders, including agreements between rightholders and other parties concerned, Member States shall take appropriate measures to ensure that rightholders make available to the beneficiary of an exception or limitation provided for in national law in accordance with Article 5(2)(a), (2)(c), (2)(d), (2)(e), (3)(a), (3)(b) or (3)(e) the means of benefiting from that exception or limitation, to the extent necessary to benefit from that exception or limitation and where that beneficiary has legal access to the protected work or subject-matter concerned.’

Directive 2004/48

7 Article 1 of Directive 2004/48 defines its subject-matter as follows:

‘This Directive concerns the measures, procedures and remedies necessary to ensure the enforcement of intellectual property rights. For the purposes of this Directive, the term “intellectual property rights” includes industrial property rights.’

8 Article 2 of Directive 2004/48, which relates to the scope of that directive, provides in paragraph 1:

‘Without prejudice to the means which are or may be provided for in Community or national legislation, in so far as those means may be more favourable for rightholders, the measures, procedures and remedies provided for by this Directive shall apply, in accordance with Article 3, to any infringement of intellectual property rights as provided for by Community law and/or by the national law of the Member State concerned.’

Netherlands law

9 Article 1 of the Law on copyright (‘the AW’) confers on the creator of a literary, scientific or artistic work, or his legal successors, inter alia the exclusive right to reproduce that work subject to the limitations provided for by law.

10 Article 16c(1) and (2) of the AW establishes the principle of the private copying levy. That provision is worded as follows:

‘1. The reproduction of a work or a part thereof on an item designed for the performance, representation or reproduction of a work shall not be regarded as an infringement of the copyright in that work if the reproduction is made for ends that are neither directly nor indirectly commercial and serves exclusively for the own practice, study or use of the natural person making the reproduction.

2. Payment of a fair remuneration in respect of the reproduction referred to in paragraph 1 shall be due to the creator of the work or his legal successors. The manufacturer or importer of the items referred to in paragraph 1 shall be liable for payment of the remuneration.’

11 Article 1019h of the Code of Civil Procedure, which constitutes the transposition of Article 14 of Directive 2004/48, is worded as follows:

‘In so far as is necessary, by way of derogation from Book I, Title II, Section 12, Paragraph 2 and Article 843a(1), the unsuccessful party shall be ordered to pay the reasonable and proportionate legal costs and other expenses incurred by the successful party, unless equity does not allow this.’

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

12 ACI Adam and Others are importers and/or manufacturers of blank data media such as CDs and CD-Rs.

13 Under Article 16c of the AW, ACI Adam and Others are required to pay the private copying levy, the amount of which is determined by SONT, to Thuiskopie.

14 ACI Adam and Others submit that that amount incorrectly takes into account the harm suffered, as the case may be, by copyright holders as a result of copies made from unlawful sources.

15 Consequently, ACI Adam and Others brought proceedings against Thuiskopie and SONT before the Rechtbank te 's-Gravenhage (District Court, The Hague) claiming, in essence, that the private copying levy provided for in Article 16c(2) of the AW is intended exclusively to remunerate copyright holders for acts of reproduction falling within the scope of paragraph 1 of that article, with the result that the amount of that fee should not take into account compensation for harm suffered as a result of copies of works made from unlawful sources.

16 The Rechtbank te 's-Gravenhage dismissed the application of ACI Adam and Others by judgment of 25 June 2008.

17 ACI Adam and Others appealed against that judgment before the Gerechtshof te 's-Gravenhage (Regional Court of Appeal, The Hague). By judgment of 15 November 2010, that court upheld the judgment delivered by the Rechtbank te 's-Gravenhage.

18 The referring court, before which ACI Adam and Others appealed in cassation against the judgment of the Gerechtshof te 's-Gravenhage, takes the view that Directive 2001/29 does not specify whether reproductions made from an unlawful source must be taken into account in determining the fair compensation referred to in Article 5(2)(b) of that directive.

19 In those circumstances, the Hoge Raad der Nederlanden (Supreme Court of the Netherlands) decided to stay the proceedings and to refer the following questions to the Court of Justice for a preliminary ruling:

'(1) Should Article 5(2)(b) – whether or not in conjunction with Article 5(5) – of Directive [2001/29] be interpreted as meaning that the limitation on copyright referred to therein applies to reproductions which satisfy the requirements set out in that provision, regardless of whether the copies of the works from which the reproductions were taken became available to

the natural person concerned lawfully – that is to say: without infringing the copyright of the rightholders – or does that limitation apply only to reproductions taken from works which have become available to the person concerned without infringement of copyright?

(2) a. If the answer to question 1 is that expressed at the end of the question, can the application of the “three-stage test” referred to in Article 5(5) of Directive [2001/29] form the basis for the expansion of the scope of the exception of Article 5(2), or can its application only lead to the reduction of the scope of the limitation?

b. If the answer to question 1 is that expressed at the end of the question, is a rule of national law which provides that in the case of reproductions made by a natural person for private use and without any direct or indirect commercial objective, fair compensation is payable, regardless of whether the making of those reproductions is authorised under Article 5(2) of Directive [2001/29] – and without there being any infringement by that rule of the prohibition right of the rightholder and his entitlement to damages – contrary to Article 5 of [that] Directive, or to any other rule of EU law?

In the light of the “three-stage test” of Article 5(5) of Directive [2001/29], is it important when answering that question that technological measures to combat the making of unauthorised private copies are not (yet) available?

(3) Is Directive [2004/48] applicable to proceedings such as these where – after a Member State, on the basis of Article 5(2)(b) of Directive [2001/29], has imposed the obligation to pay the fair compensation referred to in that provision on producers and importers of media which are suitable and intended for the reproduction of works, and has determined that that fair compensation should be paid to an organisation designated by that Member State which has been charged with collecting and distributing the fair compensation – those liable to pay the compensation bring an action for a declaration by the courts, in respect of certain contested circumstances which have a bearing on the determination of the fair compensation, against the organisation concerned, which defends the action?’

Consideration of the questions referred

The first and second questions

20 By its first and second questions, which it is appropriate to examine together, the referring court asks, in essence, whether EU law, in particular Article 5(2)(b) of Directive 2001/29, read in conjunction with paragraph 5 of that article, is to be interpreted as precluding national legislation, such as that at issue in the main proceedings, which does not distinguish the situation in which the source from

which a reproduction for private use is made is lawful from that in which that source is unlawful.

21 It should be noted at the outset that Article 2 of Directive 2001/29 provides that Member States are to grant authors the exclusive right to authorise or prohibit direct or indirect, temporary or permanent reproduction by any means and in any form, in whole or in part of their works, while reserving to those Member States the option, under Article 5(2) of that directive, of providing for exceptions and limitations to that right.

22 As regards the scope of those exceptions and limitations, it must be pointed out that, according to the settled case-law of the Court, the provisions of a directive which derogate from a general principle established by that directive must be interpreted strictly.

23 It follows that the different exceptions and limitations provided for in Article 5(2) of Directive 2001/29 must be interpreted strictly.

24 Furthermore, it must be pointed out that Article 5(5) of Directive 2001/29 requires that the exceptions and limitations to the reproduction right are to be applied only in certain special cases which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.

25 As is apparent from its wording, that provision of Directive 2001/29 simply specifies the conditions for the application of the exceptions and limitations to the reproduction right which are authorised by Article 5(2) of that directive, namely that those exceptions and limitations are to be applied only in certain special cases, which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder. Article 5(5) of that directive does not therefore define the substantive content of the different exceptions and limitations set out in Article 5(2) of that directive, but takes effect only at the time when they are applied by the Member States.

26 Consequently, Article 5(5) of Directive 2001/29 is not intended either to affect the substantive content of provisions falling within the scope of Article 5(2) of that directive or, *inter alia*, to extend the scope of the different exceptions and limitations provided for therein.

27 Furthermore, it is apparent from recital 44 in the preamble to Directive 2001/29 that the EU legislature meant to envisage, when Member States provide for the exceptions or limitations referred to by that directive, that the scope of those exceptions or limitations could be limited even more when it comes to certain

new uses of copyright works and other subject-matter. By contrast, neither that recital nor any other provision of that directive envisages the possibility of the scope of such exceptions or limitations being extended by the Member States.

28 In particular, under Article 5(2)(b) of Directive 2001/29, Member States may provide for an exception to the author's exclusive reproduction right in his work in respect of reproductions on any medium made by a natural person for private use and for ends that are neither directly nor indirectly commercial ('the private copying exception').

29 That provision does not address expressly the lawful or unlawful nature of the source from which a reproduction of the work may be made.

30 The wording of that provision must therefore be interpreted by applying the principle of strict interpretation, as referred to in paragraph 23 of the present judgment.

31 Such an interpretation requires Article 5(2)(b) of Directive 2001/29 to be understood as meaning that the private copying exception admittedly prohibits copyright holders from relying on their exclusive right to authorise or prohibit reproductions with regard to persons who make private copies of their works; however, it precludes that provision from being understood as requiring, beyond that limitation which is provided for expressly, copyright holders to tolerate infringements of their rights which may accompany the making of private copies.

32 Such a finding is, moreover, borne out by the context of which Article 5(2)(b) of Directive 2001/29 forms part and by its underlying objectives.

33 In that regard, first, it is apparent from recital 32 in the preamble to Directive 2001/29 that the list of exceptions provided for in Article 5 thereof has to ensure a balance between the different legal traditions in Member States and the proper functioning of the internal market.

34 It follows that the Member States have the option of introducing the different exceptions provided for in Article 5 of that directive, in accordance with their legal traditions, but that, once they have made the choice of introducing a certain exception, it must be applied coherently, so that it cannot undermine the objectives which Directive 2001/29 pursues with the aim of ensuring the proper functioning of the internal market.

35 If the Member States had the option of adopting legislation which also allowed reproductions for private use to be made from an unlawful source, the result of that would clearly be detrimental to the proper functioning of the internal market.

36 Secondly, it is apparent from recital 22 in the preamble to Directive 2001/29, that the objective of proper support for the dissemination of culture must not be achieved by sacrificing strict protection of rights or by tolerating illegal forms of distribution of counterfeited or pirated works.

37 Consequently, national legislation which makes no distinction between private copies made from lawful sources and those made from counterfeited or pirated sources cannot be tolerated.

38 Furthermore, when it is applied, national legislation, such as that at issue in the main proceedings, which does not draw a distinction according to whether the source from which a reproduction for private use is made is lawful or unlawful, may infringe certain conditions laid down by Article 5(5) of Directive 2001/29.

39 First, to accept that such reproductions may be made from an unlawful source would encourage the circulation of counterfeited or pirated works, thus inevitably reducing the volume of sales or of other lawful transactions relating to the protected works, with the result that a normal exploitation of those works would be adversely affected.

40 Secondly, the application of such national legislation may, having regard to the finding made in paragraph 31 of the present judgment, unreasonably prejudice copyright holders.

41 It is apparent from the foregoing considerations that Article 5(2)(b) of Directive 2001/29 must be interpreted as not covering the case of private copies made from an unlawful source.

42 Against the same background of Article 5(5) of Directive 2001/29, the referring court also inquires whether, in assessing whether national legislation, such as that at issue in the main proceedings, is in conformity with EU law, regard must be had to the fact that technological measures, within the meaning of Article 6 of that directive, and to which Article 5(2)(b) of that directive refers, do not, or not yet, exist at the time when that legislation is implemented.

43 In that regard, the Court has already held that the technological measures to which Article 5(2)(b) of Directive 2001/29 refers are intended to restrict acts which are not authorised by the rightholders, that is to say to ensure the proper application of that provision and thus to prevent acts which do not comply with the strict conditions imposed by that provision.

44 Furthermore, inasmuch as it is the Member States and not the rightholders which establish the private copying exception and which authorise, for the purposes of

the making of such a copy, such use of protected works or other subject-matter, it is, consequently, for the Member State which, by the establishment of that exception, has authorised the making of the private copy to ensure the proper application of that exception, and thus to restrict acts which are not authorised by the rightholders.

45 It is apparent from paragraphs 39 and 40 of the present judgment that national legislation, such as that at issue in the main proceedings, which does not distinguish the situation in which the source from which a reproduction for private use is made is lawful from that in which that source is unlawful, is not capable of ensuring the proper application of the private copying exception. The fact that no applicable technological measures to combat the making of unlawful private copies exist is not capable of calling that finding into question.

46 It follows that, in assessing whether national legislation, such as that at issue in the main proceedings, is in conformity with EU law, there is no need to take into account the fact that technological measures, within the meaning of Article 6 of Directive 2001/29, and to which Article 5(2)(b) of that directive refers, do not, or do not yet, exist.

47 Lastly, the finding which the Court reached in paragraph 41 of the present judgment is not called into question in the light of the condition of ‘fair compensation’ referred to in Article 5(2)(b) of Directive 2001/29.

48 In that regard, it must, first, be pointed out that, under that provision, Member States which decide to introduce the private copying exception into their national law are required to provide for the payment of ‘fair compensation’ to rightholders.

49 It is also important to bear in mind that an interpretation of that provision according to which Member States which have introduced the private copying exception, provided for by EU law and including, as set out in recitals 35 and 38 in the preamble to that directive, the concept of ‘fair compensation’ as an essential element, are free to determine the limits in an inconsistent and unharmonised manner which may vary from one Member State to another, would be incompatible with the objective of that directive of harmonising certain aspects of the Law on copyright and related rights in the information society and ensuring competition in the internal market is not distorted as a result of Member States’ different legislation.

50 The purpose of such compensation is, according to the case-law of the Court, to compensate authors for private copies made of their protected works without their authorisation, with the result that it must be regarded as recompense for the harm suffered by authors as a result of such unauthorised copies.

51 Accordingly, it is, in principle, for the person who has caused such harm, namely the person who has made the copy of the protected work without seeking prior authorisation from the rightholder, to make good the harm suffered by financing the compensation which will be paid to that rightholder.

52 The Court has, however, accepted that, given the practical difficulties connected with such a system of fair compensation, it is open to the Member States to establish a levy for the purposes of financing fair compensation chargeable not directly to the private persons concerned, but to those who may pass on the amount of that levy in the price charged for making reproduction equipment, devices and media available or in the price for the copying service supplied, the burden of that levy thus ultimately being borne by the private user who pays that price.

53 Secondly, it is apparent from recital 31 in the preamble to Directive 2001/29 that the levy system introduced by the Member State concerned must safeguard a fair balance between the rights and interests of authors, who are the recipients of the fair compensation, on the one hand, and those of users of protected subject-matter, on the other.

54 A private copying levy system, such as that at issue in the main proceedings, which does not, as regards the calculation of the fair compensation payable to its recipients, distinguish the situation in which the source from which a reproduction for private use has been made is lawful from that in which that source is unlawful, does not respect the fair balance referred to in the preceding paragraph.

55 Under such a system, the harm caused, and therefore the amount of the fair compensation payable to the recipients, is calculated on the basis of the criterion of the harm caused to authors both by reproductions for private use which are made from a lawful source and by reproductions made from an unlawful source. The sum thus calculated is then, ultimately, passed on in the price paid by users of protected subject-matter at the time when equipment, devices and media which enable private copies to be made are made available to them.

56 Consequently, all the users who purchase such equipment, devices and media are indirectly penalised since, by bearing the burden of the levy which is determined regardless of the lawful or unlawful nature of the source from which such reproductions are made, they inevitably contribute towards the compensation for the harm caused by reproductions for private use made from an unlawful source, which are not permitted by Directive 2001/29, and are thus led to assume an additional, non-negligible cost in order to be able to make the private copies covered by the exception provided for by Article 5(2)(b) of that directive.

57 Such a situation cannot be regarded as satisfying the condition of the fair balance to be found between, on the one hand, the rights and interests of the recipients of the fair compensation and, on the other, those of those users.

58 In the light of all of the foregoing considerations, the answer to the first and second questions is that EU law, in particular Article 5(2)(b) of Directive 2001/29, read in conjunction with paragraph 5 of that article, must be interpreted as precluding national legislation, such as that at issue in the main proceedings, which does not distinguish the situation in which the source from which a reproduction for private use is made is lawful from that in which that source is unlawful.

The third question

59 By its third question, the referring court asks, in essence, whether Directive 2004/48 is to be interpreted as meaning that it may apply to proceedings, such as those in the main proceedings, in which those liable for payment of the fair compensation bring an action before that court for a ruling against the body responsible for collecting that remuneration and distributing it to copyright holders, which defends that action.

60 It must be borne in mind that Directive 2004/48 seeks, as is apparent from Article 1 thereof, to ensure the enforcement of intellectual property rights by means of the introduction, for that purpose, of various measures, procedures and remedies within the Member States.

61 The Court has held that the provisions of Directive 2004/48 are intended to govern only the aspects of intellectual property rights related to, first, the enforcement of those rights and, secondly, to infringement of them, by requiring that there must be effective legal remedies designed to prevent, terminate or rectify any infringement of an existing intellectual property right.

62 Furthermore, it is apparent from Article 2(1) of Directive 2004/48 that the provisions thereof simply ensure the enforcement of the various rights enjoyed by persons who have acquired intellectual property rights, namely the proprietors of such rights, and cannot be interpreted as being intended to govern the various measures and procedures available to persons who are not themselves the proprietors of such rights, and which do not relate solely to an infringement of those rights.

63 Proceedings, such as those in the main proceedings, which relate to the scope of the private copying exception scheme and to its impact on the collection and distribution of the fair compensation which has to be paid by importers and/or manufacturers of blank media, in accordance with Article 5(2)(b) of Directive

2001/29, do not derive from an action brought by rightholders which seeks to prevent, terminate or rectify any infringement of an existing intellectual property right, but from an action brought by economic operators regarding the fair compensation which it is for them to pay.

64 Accordingly, Directive 2004/48 cannot apply.

65 In the light of the foregoing considerations, the answer to the third question is that Directive 2004/48 must be interpreted as not applying to proceedings, such as those in the main proceedings, in which those liable for payment of the fair compensation bring an action before the referring court for a ruling against the body responsible for collecting that remuneration and distributing it to copyright holders, which defends that action. (...)

THINK IT OVER

1. The *ACI Adam* case originates from the Netherlands. Other countries have taken pro-active steps to prevent such an application of the private copying exception. Under Article 53(1) of the German Copyright Act, ***only copies that were lawfully created or – since 2008 – were made available to the public might serve as a source for any private copying. Which concept is more acceptable from a dogmatic point of view?***

2. *ACI Adam* represents a pure dogmatic interpretation of the InfoSoc Directive, as well as a modern application of the ancient Roman doctrine of “*nemo plus iuris*”. The ruling serves as a logical follow-up to the ECJ’s case law related to the private copying levies, too. A partially similar and at the same time different conclusion was drawn by the Hungarian Copyright Expert Board in its expert opinions 17/2006 and 07/08/1. In fact, the Copyright Expert Board found that the reproduction of unlawful sources runs against the law, but – at the same time – the panel still believed that the private copying levy is still due. The latter interpretation seems to solve the practical difficulties that arise under *ACI Adam* (and the former case law, especially *Padawan*), according to which the reproduction of unauthorized materials is treated as an infringement, but end-users are still exempted to pay the levies. The paradox of this syllogism stems from the fact that the levies are indeed paid in advance, by the relevant producer or importer of the carriers.

3. Interestingly enough, the ECJ sidestepped its own logic in *BestWater*, where the Court declared the embedding of unauthorized YouTube videos legal. ***Which interpretation/ruling is more acceptable?***

FURTHER CASE LAW

SzJSzT 17/2006 – „A jogellenes forrásból történő másolás kérdése”, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2006. augusztus, p. 228–248.

SzJSzT 07/08/01 – „Szerzői művek online fájlcsereelő rendszerek segítségével megvalósuló felhasználása”, *Iparjogvédelmi és Szerzői Jogi Szemle*, 2008. augusztus, p. 109–129.

Case C-467/08 – Padawan SL v. Sociedad General de Autores y Editores de España (SGAE), Judgment of the Court (Third Chamber), 21 October 2010, ECLI:EU:C:2010:620

Case C-348/13 – BestWater International GmbH v. Michael Mebes and Stefan Potsch, Judgment of the Court (Third Chamber), 21 October 2014, ECLI:EU:C:2014:2315

RECOMMENDED READINGS

In English

FROLOVA, Kateryna: Auteurswhat? Dutch Copyright Law not Tolerated by the CJEU: ACI Adam BV and Others v Stichting de ThuisKopie and Stichting Onderhandelingen ThuisKopie vergoeding (C-435/12), *European Intellectual Property Review*, Issue 11/2014, p. 738-743.

ROSATI, Eleonora: Copyright: Private copying exception may only apply to reproductions from licensed sources, *Journal of Intellectual Property Law and Practice*, Issue 9/2014: p. 710-711.

In Hungarian

MEZEI Péter: *A fájlcsere dilemma – A perek lassúak, az internet gyors*, HVG-Orac, Budapest, 2012: p. 166-170.

MEZEI Péter – HAJDÚ Dóra: Az Európai Unió Bíróságának ACI Adam döntése a jogellenes forrásból történő másolatkészítés után fizetendő jogdíjak egyes kérdéseiről, *Európai jog*, 2014/5. szám, p. 33-47.

In French

SIMON, Denys: Droits d’auteurs et droits voisins, *Europe* 2014 Juin n° 6, p. 37-38.

The Football Association Premier League Ltd. v. British Sky Broadcasting Ltd., et al.

[2013] EWHC 2058 (Ch)

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, 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 268th most popular website in the UK in January 2013 and the 239th 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 and 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

1. In the last ten years, rights holders have succeeded in several cases to force ISPs to block different torrent indexing sites. Dutch, Belgian, Italian, Finnish, Danish and most recently British ISPs were forced to block access to The Pirate Bay, btjunkie, Newzbin, Newzbin 2, H33T or Fenopy. In the United Kingdom, the number of blocked torrent and streaming sites has passed 200 in 2015. Rights holders have also suffered major losses in the previous years. In Sweden, the Stockholm District Court denied to order a blocking order against B2 ISP in 2016. Similarly, in January 2014 the Dutch Supreme Court ordered the cease of blockade of The Pirate Bay by Ziggo and XS4ALL due to the systems inefficiency. Nevertheless, the ECJ has later confirmed in *Ziggo* that ISPs can be ordered by the domestic courts to block accessing The Pirate Bay.

2. 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)
- Case C-610/15 – Stichting Brein v Ziggo BV and XS4All Internet BV, Judgment of the Court (Second Chamber), 14 June 2017, ECLI:EU:C:2017:456

RECOMMENDED READINGS

- ALEXANDER, Rachel: FirstRow – Access Denied, *Entertainment Law Review*, Issue 8/2013, p. 280–283.
- SAVOLA, Pekka: 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>)

UPC Telekabel Wien GmbH v Constantin Film Verleih GmbH, Wega Filmproduktionsgesellschaft mbH

Case C314/12, Judgment of the Court (Fourth Chamber), 27 March 2014
[ECLI:EU:C:2014:192]

(...)

Legal context

EU law

3 Recitals 9 and 59 in the preamble to Directive 2001/29 state:

‘(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. ... Intellectual property has therefore been recognised as an integral part of property.

...

(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. ... The conditions and modalities relating to such injunctions should be left to the national law of the Member States.’

4 Article 1 of that directive, headed ‘Scope’, provides in paragraph 1:

‘This Directive concerns the legal protection of copyright and related rights in the framework of the internal market, with particular emphasis on the information society.’

5 Article 3 of the same directive, headed ‘Right of communication to the public of works and right of making available to the public other subject-matter’, provides in paragraph 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:

...

*(c) (c) for the producers of the first fixations of films, of the original and copies of their films;
...'*

6 Article 8 of Directive 2001/29, headed 'Sanctions and remedies', states in paragraph 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.'

Austrian law

7 Paragraph 18a(1) of the Law on copyright (Urheberrechtsgesetz) of 9 April 1936 (BGBl. 111/1936), as amended by the new law of 2003 on copyright (Urheberrechtsgesetz-Novelle 2003, BGBl. I, 32/2003, 'the UrhG'), reads:

'The author has the exclusive right to make the work available to the public, by wire or wireless means, in such a way which allows members of the public to access it from a place and at a time chosen by them.'

8 Paragraph 81(1) and (1a) of the UrhG state:

'(1) A person who has suffered an infringement of any exclusive rights conferred by this Law, or who fears such an infringement, shall be entitled to bring proceedings for a restraining injunction. Legal proceedings may also be brought against the proprietor of a business if the infringement is committed in the course of the activities of his business by one of his employees or by a person acting under his control, or if there is a danger that such an infringement will be committed; Paragraph 81(1a) shall apply mutatis mutandis.

(1a) If the person who has committed such an infringement, or by whom there is a danger of such an infringement being committed, uses the services of an intermediary for that purpose, the intermediary shall also be liable to an injunction under subparagraph (1). ...'

9 Paragraph 355(1) of the Code of Enforcement (Executionsordnung) states:

'Enforcement against the person obligated to desist from an activity or to tolerate the carrying out of an activity shall take place, at the time of consent to enforcement, by the imposition by the enforcement court, upon application, of a fine for any non-compliance after the obligation became executory. In the event of further non-compliance, the enforcement court shall, upon application, impose a further fine or a period of imprisonment of up to one year in total. ...'

10 It is apparent from the explanations given by the referring court in its request for a preliminary ruling that, at the stage of the enforcement procedure, the addressee of the prohibition can argue, in order to avoid liability, that he has taken all of the measures that could be expected of him in order to prevent the result prohibited.

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

11 Having established that a website was offering, without their agreement, either a download or ‘streaming’ of some of the films which they had produced, Constantin Film and Wega, two film production companies, referred the matter to the court responsible for hearing applications for interim measures with a view to obtaining, on the basis of Article 81(1a) of the UrhG, an order enjoining UPC Telekabel, an internet service provider, to block the access of its customers to the website at issue, inasmuch as that site makes available to the public, without their consent, cinematographic works over which they hold a right related to copyright.

12 By order of 13 May 2011, the Handelsgericht Wien (Commercial Court, Vienna) (Austria) prohibited UPC Telekabel from providing its customers with access to the website at issue; that prohibition was to be carried out in particular by blocking that site’s domain name and current IP (‘Internet Protocol’) address and any other IP address of that site of which UPC Telekabel might be aware.

13 In June 2011, the website at issue ceased its activity following an action of the German police forces against its operators.

14 By order of 27 October 2011, the Oberlandesgericht Wien (Higher Regional Court, Vienna) (Austria), as an appeal court, partially reversed the order of the court of first instance in so far as it had wrongly specified the means that UPC Telekabel had to introduce in order to block the website at issue and thus execute the injunction. In order to reach that conclusion, the Oberlandesgericht Wien first of all held that Article 81(1a) of the UrhG must be interpreted in the light of Article 8(3) of Directive 2001/29. It then held that, by giving its customers access to content illegally placed online, UPC Telekabel had to be regarded as an intermediary whose services were used to infringe a right related to copyright, with the result that Constantin Film and Wega were entitled to request that an injunction be issued against UPC Telekabel. However, as regards the protection of copyright, the Oberlandesgericht Wien held that UPC Telekabel could only be required, in the form of an obligation to achieve a particular result, to forbid its customers access to the website at issue, but that it had to remain free to decide the means to be used.

15 UPC Telekabel appealed on a point of law to the Oberster Gerichtshof (Supreme Court) (Austria).

16 In support of its appeal, UPC Telekabel submits inter alia that its services could not be considered to be used to infringe a copyright or related right within the meaning of Article 8(3) of Directive 2001/29 because it did not have any business relationship with the operators of the website at issue and it was not established that its own customers acted unlawfully. In any event, UPC Telekabel claims that the various blocking measures which may be introduced can all be technically circumvented and that some of them are excessively costly.

17 In those circumstances, the Oberster Gerichtshof decided to stay the proceedings and to refer the following questions to the Court of Justice for a preliminary ruling:

'(1) Is Article 8(3) of Directive 2001/29 ... to be interpreted as meaning that a person who makes protected subject-matter available on the internet without the rightholder's consent [for the purpose of Article 3(2) of Directive 2001/29] is using the services of the [internet] access providers of persons seeking access to that protected subject-matter? (...)

(3) Is it compatible with Union law, in particular with the necessary balance between the parties' fundamental rights, to prohibit in general terms an [internet] access provider from allowing its customers access to a certain website (thus without ordering specific measures) as long as the material available on that website is provided exclusively or predominantly without the rightholder's consent, if the access provider can avoid incurring coercive penalties for breach of the prohibition by showing that it had nevertheless taken all reasonable measures? (...)

Consideration of the questions referred

(...)

The first question

23 By its first question, the referring court asks, essentially, whether Article 8(3) of Directive 2001/29 must be interpreted as meaning that a person who makes protected subject-matter available to the public on a website without the agreement of the rightholder, for the purpose of Article 3(2) of that directive, is using the services of the internet service provider of the persons accessing that subject-matter, which is to be regarded as an intermediary within the meaning of Article 8(3) of Directive 2001/29.

24 As a preliminary point, it should be noted that, in the case in the main proceedings, it is common ground that the protected subject-matter was made available to users of a website without the consent of the rightholders mentioned in Article 3(2) of Directive 2001/29.

25 Given that, according to that provision, rightholders have the exclusive right to authorise or prohibit any act of making available to the public, it must be stated that an act of making protected subject-matter available to the public on a website without the rightholders' consent infringes copyright and related rights.

26 In order to remedy such a situation of infringement of the rights at issue, Article 8(3) of Directive 2001/29 provides for the possibility for rightholders to apply for an injunction against intermediaries whose services are used by a third party to infringe one of their rights.

27 As Recital 59 in the preamble to Directive 2001/29 states, since the services of intermediaries are increasingly used for infringing copyright or related rights, such intermediaries are, in many cases, best placed to bring such infringing activities to an end.

28 In the present case, the Handelsgericht Wien and then the Oberlandesgericht Wien ordered UPC Telekabel, the internet service provider addressed by the injunction at issue in the main proceedings, to bring the infringement of the rights of Constantin Film and of Wega to an end.

29 However, UPC Telekabel disputes that it may be considered, for the purposes of Article 8(3) of Directive 2001/29, to be an intermediary whose services are used to infringe a copyright or related right.

30 In this respect, it follows from Recital 59 in the preamble to Directive 2001/29 that the term 'intermediary' used in Article 8(3) of that directive covers any person who carries a third party's infringement of a protected work or other subject-matter in a network.

31 Having regard to the objective pursued by Directive 2001/29, as shown in particular by Recital 9 thereof, which is to guarantee rightholders a high level of protection, the concept of infringement thus used must be understood as including the case of protected subject-matter placed on the internet and made available to the public without the agreement of the rightholders at issue.

32 Accordingly, given that the internet service provider is an inevitable actor in any transmission of an infringement over the internet between one of its customers and a third party, since, in granting access to the network, it makes that transmission

possible, it must be held that an internet service provider, such as that at issue in the main proceedings, which allows its customers to access protected subject-matter made available to the public on the internet by a third party is an intermediary whose services are used to infringe a copyright or related right within the meaning of Article 8(3) of Directive 2001/29.

33 Such a conclusion is borne out by the objective pursued by Directive 2001/29. To exclude internet service providers from the scope of Article 8(3) of Directive 2001/29 would substantially diminish the protection of rightholders sought by that directive.

34 That conclusion cannot be called into question by the argument that, for Article 8(3) of Directive 2001/29 to be applicable, there has to be a contractual link between the internet service provider and the person who infringed a copyright or related right.

35 Neither the wording of Article 8(3) nor any other provision of Directive 2001/29 indicates that a specific relationship between the person infringing copyright or a related right and the intermediary is required. Furthermore, that requirement cannot be inferred from the objectives pursued by that directive, given that to admit such a requirement would reduce the legal protection afforded to the rightholders at issue, whereas the objective of that directive, as is apparent *inter alia* from Recital 9 in its preamble, is precisely to guarantee them a high level of protection.

36 Nor is the conclusion reached by the Court in paragraph 30 of this judgment invalidated by the assertion that, in order to obtain the issue of an injunction against an internet service provider, the holders of a copyright or of a related right must show that some of the customers of that provider actually access, on the website at issue, the protected subject-matter made available to the public without the agreement of the rightholders.

37 Directive 2001/29 requires that the measures which the Member States must take in order to conform to that directive are aimed not only at bringing to an end infringements of copyright and of related rights, but also at preventing them.

38 Such a preventive effect presupposes that the holders of a copyright or of a related right may act without having to prove that the customers of an internet service provider actually access the protected subject-matter made available to the public without their agreement.

39 That is all the more so since the existence of an act of making a work available to the public presupposes only that the work was made available to the public;

it is not decisive that persons who make up that public have actually had access to that work or not.

40 In view of the above, the answer to the first question is that Article 8(3) of Directive 2001/29 must be interpreted as meaning that a person who makes protected subject-matter available to the public on a website without the agreement of the rightholder, for the purpose of Article 3(2) of that directive, is using the services of the internet service provider of the persons accessing that subject-matter, which must be regarded as an intermediary within the meaning of Article 8(3) of Directive 2001/29. (...)

The third question

42 By its third question, the referring court asks, essentially, whether the fundamental rights recognised by EU law must be interpreted as 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.

43 In this respect, as is apparent from Recital 59 in the preamble to Directive 2001/29, the rules for the injunctions which the Member States must lay down pursuant to Article 8(3) of the directive, such as those relating to the conditions to be met and the procedure to be followed, are a matter for national law.

44 That said, those national rules, and likewise their application by the national courts, must observe the limitations arising from Directive 2001/29 and from the sources of law to which Recital 3 in its preamble refers.

45 In order to assess whether an injunction such as that at issue in the main proceedings, taken on the basis of Article 8(3) of Directive 2001/29, is consistent with EU law, it is therefore necessary to take account in particular of the requirements that stem from the protection of the applicable fundamental rights, and to do so in accordance with Article 51 of the Charter of Fundamental Rights of the European Union ('the Charter').

46 The Court has already ruled that, where several fundamental rights are at issue, the Member States must, when transposing a directive, ensure that they rely on an interpretation of the directive which allows a fair balance to be struck between the applicable fundamental rights protected by the European Union legal order.

Then, when implementing the measures transposing that directive, the authorities and courts of the Member States must not only interpret their national law in a manner consistent with that directive but also ensure that they do not rely on an interpretation of it which would be in conflict with those fundamental rights or with the other general principles of EU law, such as the principle of proportionality.

47 In the present case, it must be observed that an injunction such as that at issue in the main proceedings, taken on the basis of Article 8(3) of Directive 2001/29, makes it necessary to strike a balance, primarily, between (i) copyrights and related rights, which are intellectual property and are therefore protected under Article 17(2) of the Charter, (ii) the freedom to conduct a business, which economic agents such as internet service providers enjoy under Article 16 of the Charter, and (iii) the freedom of information of internet users, whose protection is ensured by Article 11 of the Charter.

48 As regards the freedom to conduct a business, the adoption of an injunction such as that at issue in the main proceedings restricts that freedom.

49 The freedom to conduct a business includes, *inter alia*, the right for any business to be able to freely use, within the limits of its liability for its own acts, the economic, technical and financial resources available to it.

50 An injunction such as that at issue in the main proceedings constrains its addressee in a manner which restricts the free use of the resources at his disposal because it obliges him to take measures which may represent a significant cost for him, have a considerable impact on the organisation of his activities or require difficult and complex technical solutions.

51 However, such an injunction does not seem to infringe the very substance of the freedom of an internet service provider such as that at issue in the main proceedings to conduct a business.

52 First, an injunction such as that at issue in the main proceedings leaves its addressee to determine the specific measures to be taken in order to achieve the result sought, with the result that he can choose to put in place measures which are best adapted to the resources and abilities available to him and which are compatible with the other obligations and challenges which he will encounter in the exercise of his activity.

53 Secondly, such an injunction allows its addressee to avoid liability by proving that he has taken all reasonable measures. That possibility of exoneration clearly has the effect that the addressee of the injunction will not be required to make unbearable sacrifices, which seems justified in particular in the light of the fact

that he is not the author of the infringement of the fundamental right of intellectual property which has led to the adoption of the injunction.

54 In that regard, in accordance with the principle of legal certainty, it must be possible for the addressee of an injunction such as that at issue in the main proceedings to maintain before the court, once the implementing measures which he has taken are known and before any decision imposing a penalty on him is adopted, that the measures taken were indeed those which could be expected of him in order to prevent the proscribed result.

55 None the less, when the addressee of an injunction such as that at issue in the main proceedings chooses the measures to be adopted in order to comply with that injunction, he must ensure compliance with the fundamental right of internet users to freedom of information.

56 In this respect, the measures adopted by the internet service provider must be strictly targeted, in the sense that they must serve to bring an end to a third party's infringement of copyright or of a related right but without thereby affecting internet users who are using the provider's services in order to lawfully access information. Failing that, the provider's interference in the freedom of information of those users would be unjustified in the light of the objective pursued.

57 It must be possible for national courts to check that that is the case. In the case of an injunction such as that at issue in the main proceedings, the Court notes that, if the internet service provider adopts measures which enable it to achieve the required prohibition, the national courts will not be able to carry out such a review at the stage of the enforcement proceedings if there is no challenge in that regard. Accordingly, in order to prevent the fundamental rights recognised by EU law from precluding the adoption of an injunction such as that at issue in the main proceedings, the national procedural rules must provide a possibility for internet users to assert their rights before the court once the implementing measures taken by the internet service provider are known.

58 As regards intellectual property, it should be pointed out at the outset that it is possible that the enforcement of an injunction such as that in the main proceedings will not lead to a complete cessation of the infringements of the intellectual property right of the persons concerned.

59 First, as has been stated, the addressee of such an injunction has the possibility of avoiding liability, and thus of not adopting some measures that may be achievable, if those measures are not capable of being considered reasonable.

60 Secondly, it is possible that a means of putting a complete end to the infringements of the intellectual property right does not exist or is not in practice achievable, as a result of which some measures taken might be capable of being circumvented in one way or another.

61 The Court notes that there is nothing whatsoever in the wording of Article 17(2) of the Charter to suggest that the right to intellectual property is inviolable and must for that reason be absolutely protected.

62 None the less, the measures which are taken by the addressee of an injunction, such as that at issue in the main proceedings, when implementing that injunction must be sufficiently effective to ensure genuine protection of the fundamental right at issue, that is to say that they must 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 made available to them in breach of that fundamental right.

63 Consequently, even though the measures taken when implementing an injunction such as that at issue in the main proceedings are not capable of leading, in some circumstances, to a complete cessation of the infringements of the intellectual property right, they cannot however be considered to be incompatible with the requirement that a fair balance be found, in accordance with Article 52(1), in fine, of the Charter, between all applicable fundamental rights, provided that (i) they do not unnecessarily deprive internet users of the possibility of lawfully accessing the information available and (ii) that they have the effect of preventing unauthorised access to 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.

64 In the light of the foregoing considerations, the answer to the third question is 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. (...)

THINK IT OVER!

1. In its two earlier preliminary rulings (the two *Sabam* cases) the ECJ concluded that any filtering obligation against ISPs and hosting service providers, where the provider has to filter out all electronic communication passed via its services or information stored on its server as a preventive measure, exclusively at its expense, for an unlimited period, and where such measures apply indiscriminately to all its customers runs afoul of the prohibition of general monitoring obligations under Article 15 of the Electronic Commerce Directive. ***In UPC, the ECJ found that the concept of “Erfolgsverbot” complies with the E-Commerce Directive.*** According to this concept a given result must be reached or at least reasonable steps need to be taken to succeed, but the obliged service provider is flexible in selecting the necessary measures to reach this goal to. Is this concept specific enough to remain outside of the scope of Article 15?

2. ***Is the “Erfolgsverbot” a workable solution against online copyright infringements?*** Does the filtering of allegedly infringing materials by ISPs or hosting providers have any deterring effects on end-users? Is there any obligation on the service providers’ side to continue the filtering of illegal materials? What kind of measures can have the “effect of preventing unauthorized access to the protected subject-matter”? Is a continuous, pro-active/preventive filtering still in compliance with Article 15? In its *Alone in the Dark* decision, the German Federal Supreme Court concluded that the file-hosting service provider (cyberlocker) RapidShare is obliged to take steps to *prevent any further similar infringements* after being noticed, including manually controlling indexing sites. Furthermore, in *File-Hosting Dienst*, the same court opined that RapidShare is similarly obliged to manually monitor Google’s search engine, Twitter and Facebook, and filter out links to infringing materials.

3. The protection of intellectual property rights, including copyrights, is guaranteed as a fundamental right under the Charter of Fundamental Rights of the European Union [see Article 17(2)]. So is the freedom to conduct a business (see Article 16) and the freedom of expression and information (see Article 11). ***How is it possible to balance these different, but equally protected fundamental rights in the digital environment, especially in a P2P filesharing context?***

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**BMG Rights Management (US) LLC, et al. v. Cox
Communications, Inc., et al.**

149 F.Supp.3d 634 (2015)

O'GRADY, United States District Judge

(...)

I. BACKGROUND

Cox provides high-speed internet service to customers nationwide. Plaintiffs BMG Rights Management (US), LLC (“BMG”) and Round Hill Music LP are the putative owners or administrators of approximately 1,400 musical composition copyrights. Plaintiffs allege users of Cox internet service employ BitTorrent, a type of peer-to-peer (“P2P”) file sharing, to illegally upload and download music files, thereby violating Plaintiffs’ exclusive rights.

A. BitTorrent

The innovation of P2P file sharing is that it allows “user’s computers [to] communicate directly with each other,” rather than through a central server. All P2P protocols 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.” While P2P protocols have many benefits and non-infringing uses, they have also been harnessed for less meritorious purposes by “those wanting access to pirated media, [such as] music, movies, and television shows.”

The BitTorrent protocol is unique in “how it facilitates file transfers.” BitTorrent breaks files into pieces, which “permits users to download lots of different pieces at the same time from different peers.” It also allows users to begin sharing before the complete file has downloaded, meaning “at any given time, each user is both downloading and uploading several different pieces of a file from and to multiple other users.”

B. Rightscorp, Inc.

Plaintiffs enlisted Rightscorp, Inc. (“Rightscorp”) as their agent to identify infringing uses of their copyrighted works. Rightscorp’s software searches websites that index torrent files and identifies files that appear to contain one or more of the

Plaintiffs' copyrighted works. A torrent file does not actually contain any content. It contains metadata about the files available to be distributed and other information that allows Rightscorp to contact a tracker and find peers offering torrent payloads that contain the files. If Rightscorp contacts a peer and determines that the peer has the torrent payload, Rightscorp will record the date, time, the peer's IP address, the port on the peer's computer through which the connection was made, the torrent file's unique hash value, and the name of the copyrighted work. Rightscorp then sends a notice of infringement to the internet service provider associated with the recorded IP address. According to Plaintiffs, Rightscorp sent Cox 2.5 million notices corresponding to instances in which Cox internet users offered one of Plaintiffs' copyrighted works for download. Plaintiffs also contend that Rightscorp downloaded more than 100,000 full copies of music files that violated Plaintiffs' musical composition copyrights from peers through Cox's internet service.

C. Cox's Copyright Policy and Graduated Response Procedure

Cox's Acceptable Use Policy ("AUP") provides that account holders may not use Cox's internet service "to post, copy, transmit, or disseminate any content that infringes the patents, copyrights, trade secrets, trademark, moral rights, or propriety rights of any party." The AUP further provides that "[v]iolation of any terms of this AUP may result in the immediate suspension or termination of either ... access to the Service and/or [the] Cox account." Cox informs account holders of the policy in subscriber agreements. The terms on Cox's website also incorporate the AUP's policy by reference.

Cox's abuse department handles misconduct on Cox's network. Abuse ranges from copyright infringement to hacking to excessive bandwidth usage. Cox offers copyright owners an email address, abuse@cox.net, to which they can send notices of infringement. Cox processes the notices it receives using a largely automated system called CATS – Cox Abuse Tracking System. CATS scans the messages in the inbox and culls certain information, such as the date of the alleged abuse, the IP address, and so on. That information is then used to create a "ticket."

Three features of the CATS system are worth mentioning. First, when Cox receives multiple complaints in one day for a single account, the tickets are "rolled up," meaning Cox counts only the first ticket. Second, Cox imposes a "hard limit" on the number of complaints a complainant can submit that will receive customer-facing action. If a complainant exceeds the hard limit, CATS automatically sends an email informing the complainant that the daily limit has been reached and the tickets created from those emails are automatically closed. The default limit is 200 complaints per complainant per day, but Cox says it will work with a complainant to set a reasonable number. Cox claims such limits are necessary to

keep the number of complaints at a manageable capacity for staff and to prevent a single complainant from overwhelming the company. Third, Cox defines its “abuse cycle” in 180-day periods. While Cox maintains a record of its customers’ full ticket histories, if no complaints are received within six months from the last complaint, the cycle restarts.

Cox handles tickets generated by CATS according to its graduated response procedure. This process, which Cox does not publicize to customers, progresses from warnings to suspensions and ultimately, the possibility of termination. Cox takes no action on an account’s first ticket because a “substantial percentage” of accounts never receive a second complaint within one abuse cycle. When a second complaint arrives, CATS generates an email to the account holder that includes a letter from Cox explaining the alleged infringement as well as the complete text of the infringement notice Cox received from the copyright owner. When Cox has “rolled up” complaints over the course of a day, CATS will only send the first complaint received that day. This process of sending an email warning repeats on the third, fourth, fifth, sixth, and seventh complaints Cox receives for an account within a six-month period.

When Cox receives an eighth notice, it suspends the account and places the account holder in what Cox calls a “soft-walled garden.” That means the account holder’s internet access is temporarily limited to a single webpage that displays a warning message. The account holder can exit the soft-walled garden and self-reactivate service by clicking a link on the webpage. On the ninth complaint, the account holder is again sent to the soft-walled garden.

The tenth complaint results in what Cox calls a “hard-walled garden.” The account holder is now directed to a webpage with instructions to call Cox customer service. When the account holder calls Cox, he or she can request reactivation. The eleventh complaint is the same. The twelfth and thirteenth complaints also place account holders in the hard-walled garden, but now they must speak to higher-level Cox customer service representatives to request reactivation. When Cox receives the fourteenth complaint in an abuse cycle, it will review the full account history and consider termination. Termination is never automatic, however, and is left to the discretion of Cox employees. In the “vast majority” of cases, Cox says it is able to address the behavior triggering the infringement notices during the preliminary steps and never has to reach the “drastic measure” of terminating service.

D. Cox’s Rejection of Rightscorp’s Notices

Rightscorp includes within its standard infringement notice an offer of settlement. Specifically, the notices say, “This notice is an offer of settlement. If you click on the link below and login to the Rightscorp, Inc. automated settlement system,

for \$10.00 [or \$20.00] per infringement, you will receive a legal release from the copyright owner.” As a policy, Cox does not accept or process infringement notices that contain settlement offers. Cox’s in-house privacy counsel set the policy after concluding that such notices are improper and fall outside the “spirit” of the DMCA.

When Cox receives a complaint with a settlement offer, it asks the complainant to conform the notice and explains that the notice will not be forwarded unless and until it is amended. Until a complainant complies, Cox “blacklists” all complaints received from that complainant by configuring CATS to auto-delete messages received from that complainant’s email address.

On March 9, 2011, Cox received its first notice of infringement from Rightscorp. Cox asked Rightscorp to remove its settlement offers, but Rightscorp declined to do so and continued to send Cox notices. On March 14, Cox blacklisted Rightscorp, meaning from that point on, Cox auto-deleted Rightscorp’s emails and never retrieved the information from the body of those notices. The following October, Cox claims Rightscorp “started inundating” its inbox, sending as many as 24,000 notices in one day. In response, Cox blocked Rightscorp. Blocking messages goes one step beyond blacklisting: now Rightscorp’s notices never even entered Cox’s inbox. When a complainant is blacklisted, Cox still has a record of the emails received and deleted. When a complainant is blocked at the server level, there is no record of any message received. (...)

II. ANALYSIS

(...)

2. DMCA Safe-Harbor Defense

BMG also moves for summary judgment on Cox’s entitlement to its DMCA safe-harbor defense. Specifically, BMG contends Cox cannot meet the statute’s threshold requirement that internet service providers (“ISPs”) adopt and reasonably implement a repeat infringer policy. After providing an overview of the DMCA’s safe harbor provisions, the Court turns to Cox’s policies and practices.

A. Statutory Framework

Title II of the DMCA, titled the Online Copyright Infringement Liability Limitation Act, was Congress’s answer to the potentially enormous liability that ISPs faced for the materials being transmitted over their networks. To that end, Congress created four safe harbors that protect ISPs from liability for copyright infringement when

their involvement is limited to certain activities – transitory digital networking communications, system caching, information residing on systems or networks at the direction of users, and information location tools. Cox invokes the first of these safe harbors, § 512(a), which “limits the liability of ISPs when they do nothing more than transmit, route, or provide connections for copyrighted material – that is, when the ISP is a mere conduit for transmission.”

To benefit from any one of the safe harbors, Congress imposed certain threshold requirements on all ISPs. As is relevant here, a service provider must demonstrate that it has “adopted and reasonably implemented, and informed subscribers and account holders of the service provider’s system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers.” 17 U.S.C. § 512(i)(1)(A). The requirement that service providers implement a repeat-infringer policy is a “fundamental safeguard for copyright owners” and “essential to maintain[ing] the strong incentives for service providers to prevent their services from becoming safe havens or conduits for known repeat copyright infringers.”

The dispute in this case centers on what it means for a service provider to “reasonably implement[]” its policy. The phrase is not defined in the statute. In deciphering its meaning, courts have split the phrase into two separate requirements: (1) whether a service provider *implemented* its policy; and (2) whether that implementation was *reasonable*. Courts have identified several “threshold functions” that must be present in order for a service provider to implement any repeat-infringer policy. For example, a service provider must have a “working notification system” and “a procedure for dealing with DMCA-compliant notifications,” and the provider must “not actively prevent copyright owners from collecting information needed to issue such notifications.” Additionally, the penalty imposed for repeat infringers (when appropriate circumstances exist) must be termination and not some lesser consequence.

A service provider’s implementation is reasonable if it terminates a repeat infringer’s access in appropriate circumstances. This raises the dual questions of when a service provider should consider a subscriber or account holder to be a repeat infringer and when circumstances become appropriate for termination. As Professor Nimmer points out, “repeat infringer” could have a number of meanings. On one end of the spectrum, an infringer could be “an adjudicated copyright infringer.” In the middle may be someone against whom an unadjudicated charge has been made, but the service provider has actual knowledge of, or is aware of facts and circumstances suggesting, infringement. On the other end, an infringer could be someone against whom “an unadjudicated charge of infringement has

been preferred.” Although Cox asks the Court to hold that one can be labeled an infringer only when adjudicated as such, the Court finds no support in caselaw for that interpretation. Instead, courts have articulated a knowledge standard: “A policy is unreasonable ... if the service provider failed to respond when it had *knowledge* of the infringement.”

Even if a service provider has knowledge of infringement, however, the Act requires termination only in “appropriate circumstances.” The inclusion of this phrase implies that there are some circumstances under which termination of a repeat infringer may not be appropriate. For example, courts have noted that there are different degrees of online copyright infringement, from the inadvertent and noncommercial, to the willful and commercial. Another common benchmark, taken from the House and Senate Reports, is that “those who repeatedly or flagrantly abuse their access to the Internet through disrespect for intellectual property rights of others should know that there is a realistic threat of losing that access.” Thus, appropriate circumstances clearly cover account holders who repeatedly or flagrantly infringe copyright, particularly infringement of a willful and commercial nature. Equally clear is that this standard cannot be applied in such a way as to impose an affirmative duty on service providers to monitor for infringement.

In sum, the Court finds § 512(i) covers, “at a minimum, instances where a service provider is given sufficient evidence to create actual knowledge of blatant, repeat infringement by particular users, particularly infringement of a willful and commercial nature.”

B. Application

BMG identifies three reasons why Cox did not reasonably implement its repeat infringer policy. First, BMG says Cox cannot be said to be implementing its policy if it refuses to accept Rightscorp’s infringement notices merely because they contain settlement offers. And even beyond Cox’s blanket refusal to forward those notices to its account holders, BMG argues it is also unreasonable that Cox makes no effort to record the other information contained in the notices, such as the date and time of the infringing activity and the account holder’s IP address. Second, BMG argues that with millions of subscribers, Cox’s use of a “hard limit” on the number of infringement notices it will receive in a twenty-four-hour period is additional evidence of unreasonableness. Third, BMG argues that Cox does not terminate access of repeat infringers under appropriate circumstances.

The Court finds this last ground sufficient, standing alone, to bar Cox from invoking the DMCA’s protection. Accordingly, there is no need to decide whether Cox’s refusal to receive notices with settlement agreements or its “hard limit” on the

number of notices received might also render Cox ineligible for a safe harbor. In assessing Cox's termination of repeat infringers, the Court divides Cox's practices into two time periods: before the fall of 2012 and after.

i. Cox Did Not Implement a Repeat Infringer Policy before Fall 2012

The record conclusively establishes that before the fall of 2012 Cox did not implement its repeat infringer policy. Instead, Cox publicly purported to comply with its policy, while privately disparaging and intentionally circumventing the DMCA's requirements. Cox employees followed an unwritten policy put in place by senior members of Cox's abuse group by which accounts used to repeatedly infringe copyrights would be nominally terminated, only to be reactivated upon request. Once these accounts were reactivated, customers were given clean slates, meaning the next notice of infringement Cox received linked to those accounts would be considered the first in Cox's graduate response procedure.

Numerous emails in the record, portions of which are reproduced below, support these conclusions. Even viewed in the light most favorable to Cox, the Court finds the contents of the emails cannot be explained away. Cox's attempts to recast the emails are unavailing. Nor can they be pinned on low level employees whose views had no real significance. The name that appears again and again on these emails is Jason Zabek, Cox's Manager of Customer Abuse Operations. (...)

To implement the repeat infringer policy contemplated by § 512(i), the penalty imposed by service providers must be termination. Terminate means "[t]o put an end to; to bring to an end." Service providers cannot skirt the termination requirement by imposing something short of complete termination of a subscriber or account holder. The District Court for the Southern District of New York recently examined the DMCA's termination requirement and reasoned that the "definition suggests that Congress intended service providers to have a policy in place that would end or discontinue the accounts of repeat infringers, *not something short of that* such as limiting repeat infringers' user privileges." That is exactly what Cox did. In Zabek's words, "DMCA = reactivate." Although Cox asserts that "its policy has always been to terminate account holders in appropriate circumstances," that bare assertion is not enough to defeat summary judgment.

The Fourth Circuit has said that the immunity granted by Congress to service providers "is not presumptive" and is to be "granted only to innocent service providers." The emails in the record strip Cox of any innocence. They make clear that it was Cox's policy to intentionally circumvent the DMCA. Despite having a repeat-infringer policy on the books, Cox's implementation rendered the policy an "absolute mirage."

ii. Cox Did Not Reasonably Implement Its Repeat Infringer Policy After the Fall of 2012

In October 2012, Cox added two additional suspension steps to its graduated response procedure. BMG concedes that around the same time that Cox adopted these new procedures, Cox abandoned its tacit “DMCA = reactivate” policy. Now when Cox terminated a customer, it meant complete termination of access for six months. The problem, BMG contends, is that in place of the fake terminations, Cox stopped terminating customers altogether. In other words, now that termination would mean losing a customer, BMG alleges Cox would not terminate even when Cox knew that a customer was repeatedly and blatantly violating copyrights. As evidence, BMG points to (1) the drop-off in the number of terminations following the policy shift; and (2) emails documenting specific instances in which Cox personnel did not terminate account holders despite having knowledge that the account holder was repeatedly infringing.

The numbers bear out BMG’s first argument. From January 2010 until August 2012, Cox terminated an average of 15.5 account holders a month. Between September 2012 and November 2014 when this suit was filed, Cox terminated an average of 0.8 accounts per month, with a total of 22 terminations. In that same period, Cox took approximately 711,000 customer-facing actions – meaning Cox issued 711,000 email warnings and suspensions – in response to alleged infringements. That number does not include the number of first complaints Cox received for each account because Cox takes no action on those. Cox also admits that of the 22 terminated accounts, 17 of those had also either failed to pay their bills on time or were excessive bandwidth users. Were these numbers all BMG had, the Court could not grant summary judgment. An inference that Cox was not reasonably implementing its policy may be drawn from the numbers. But “that conclusion is *not compelled* by the evidence.”

BMG has also presented evidence of specific instances in which Cox did not terminate account holders despite knowing that they were using Cox’s service to repeatedly infringe. (...)

Thus, BMG has identified specific instances in which Cox knew accounts were being used repeatedly for infringing activity yet failed to terminate. Cox does not seriously challenge these examples. Labeling them as “nothing more than conjecture and hyperbole,” Cox argues that these “snippets of conversations do not show what actions call centers actually took against accounts.” Cox, of course, is careful never to assert that these customers were in fact terminated. As BMG notes in its reply, “no conjecture is required – not one of these subscribers or their

abuse ticket numbers can be found on the list of terminated subscribers Cox did produce.”

Instead, Cox hangs its hat on the notion that an “infringer” is someone who has been adjudicated an infringer in court. Working from that baseline, Cox argues that “as a matter of choice and not obligation, Cox applies its process to mere *accusations* involving its accounts.” In other words, Cox’s policy goes above and beyond what the DMCA requires, so its failure to act based on notices of infringement cannot render Cox ineligible for the safe harbor’s protection. Cox also argues that by not defining “appropriate circumstances” Congress left it to the service provider to make its own determination of when such circumstances exist.

Although Cox was under no duty to monitor for infringement, Cox did not have leeway to wait until an account holder was adjudicated as an infringer to find that circumstances were appropriate for termination. As explained above, the Court disagrees that a repeat infringer policy applies only to those who have been held liable in a copyright suit. Rather, an account holder must be considered an infringer, at minimum, when the service provider has actual knowledge that the account holder is using its services for infringing purposes. Nor do service providers have complete discretion to define “appropriate circumstances.” Appropriate circumstances arise when an account holder is repeatedly or flagrantly infringing copyrights. Thus, when Cox had actual knowledge of particular account holders who blatantly or repeatedly infringed, the responsibility shifted to Cox to terminate their accounts.

Cox makes the additional argument that knowledge of infringement cannot be established by notices submitted by copyright holders. Cox claims such notices are unreliable for a variety of reasons. There is conflicting authority as to whether notices of infringement should be considered evidence sufficient to give an ISP knowledge of a user’s infringement. Whether or not DMCA-compliant notices are sufficient, standing alone, to establish a service provider’s knowledge for purposes of the statutory safe harbor, they are “powerful evidence of a service provider’s knowledge.”

Moreover, the account holders referenced in the emails above had already been through Cox’s entire graduated response procedure. That means Cox had received, not one or two, but at least *fourteen* infringement notices tied to their accounts in a six-month period. And Cox customer service representatives worked with the customers on each of their four “hard-walled garden” suspensions to identify the cause of the infringement notices—including the possibilities of malware, an unsecured wireless network, or a file-sharing program on another computer in the household. By the time an account holder reaches the end of Cox’s graduated

response procedure, the chance that the account holder is not a willful infringer has substantially lessened.

Finally, and critically, the emails in the record reveal that Cox had knowledge that at least some of its account holders were intentionally and repeatedly infringing. As one court explained, “[a]lthough efforts to pin down exactly what amounts to knowledge of blatant copyright infringement may be difficult, it requires, at a minimum, that a service provider who receives a notice of a copyright violation be able to tell merely from looking at the user’s activities, statements, or conduct that copyright infringement is occurring.” It is clear that Cox was able to tell from these account holders’ statements and conduct that infringement was occurring. Yet, Cox continued to provide service.

Implementation of a repeat-infringer policy is “unreasonable when service providers fail[] to terminate users who ‘repeatedly or blatantly infringe copyright’.” Cox has not come forward with any evidence that would raise a genuine issue of material fact as to whether it has done so. Accordingly, BMG is entitled to summary judgment on Cox’s safe-harbor defense. If Cox is determined to be liable for contributory or vicarious copyright infringement, BMG will not be limited in the remedies it seeks.

C. Defendants’ Motion for Summary Judgment

Cox moves for summary judgment on five grounds: (1) whether there is evidence of direct infringement by third parties; (2) whether there is evidence of Cox’s contributory infringement; (3) whether there is evidence of Cox’s vicarious liability; (4) whether BMG failed to mitigate its damages; and (5) whether BMG’s unclean hands bar its claims. After a careful review of the record in the light most favorable to BMG, the Court finds summary judgment on any of the first four grounds is inappropriate. Issues of material fact remain for the jury to decide at trial. The Court finds Cox’s unclean hands defense fails as a matter of law.

1. Direct Copyright Infringement by Third Parties

BMG cannot hold Cox liable for contributory or vicarious infringement absent evidence of underlying direct infringement. Direct infringement requires proof of (1) ownership of a valid copyright and (2) copying. Copying is established when any of the exclusive rights listed in § 106 are violated. In the complaint, BMG alleged that its exclusive rights of reproduction and distribution, “are directly infringed each time a Cox subscriber without authorization uploads or downloads through the Cox system a recording that embodies a composition.” Cox claims there is no evidence in the record to support that allegation.

A. Level of Specificity Required

It is undisputed that BMG has not identified a specific individual Cox account holder who utilized a BitTorrent protocol on Cox's internet service to upload or download music files that infringed BMG's copyrights. Cox believes this is a critical deficiency in BMG's evidence. In Cox's view, BMG should have brought John Doe lawsuits and used subpoenas to establish at least one account holder as a direct infringer. Cox argues Rightscorp's identifications of IP addresses associated with Cox accounts is insufficient to establish that any infringing act was committed by a Cox *account holder* rather than some third party who tapped into the account holder's network – for example, a neighbor accessing an unsecured wireless network or a babysitter on a Friday night.

The Court disagrees with Cox's articulation of what is required of a copyright owner in a secondary liability suit. First, imposing a rule that would require copyright owners to litigate John Doe lawsuits before bringing claims of secondary liability would undermine a key purpose of secondary liability claims. As the Supreme Court explained, "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 liability."

Second, Cox's argument ignores the fact that BMG may establish direct infringement using circumstantial evidence that gives rise to an inference that Cox account holders or other authorized users accessed its service to directly infringe. As explained more fully below, Rightscorp claims to have identified 2.5 million instances of Cox users making BMG's copyrighted works available for download, and Rightscorp itself downloaded approximately 100,000 full copies of BMG's works using Cox's service. BMG has presented more than enough evidence to raise a genuine issue of material fact as to whether Cox account holders directly infringed its exclusive rights.

Cox tries to counter this by arguing that BMG cannot rely solely on evidence compiled by Rightscorp because direct infringement requires a showing of volitional conduct by a third party. Cox claims a plaintiff cannot rely on evidence of its own agent's volition. Courts have routinely rejected the argument that evidence of infringement gathered by a copyright owner's investigative agent cannot be used to establish infringement. Where a copyright owner has not licensed its agent to authorize distribution or reproduction, the agent's downloading of the works is not authorized and thus does not run afoul of the general proposition that a copyright owner cannot infringe his own copyright. Thus, the fact that Rightscorp

caused over 100,000 downloads of the copyrighted works is sufficient to meet the volition requirement.

Finally, Cox makes much of the distinction between infringement by the individual named on the account and infringement by other users with access to Cox service. Cox overstates the import of the distinction. Taking a scenario posed by Cox at oral argument, it is typical for each member of a multimember household to access the internet via an agreement between Cox and one individual in the household. Certainly, evidence that any one of those users infringed would be sufficient, notwithstanding the fact that the individual's name does not appear on the bill. While identity is a key issue in many individual infringement suits, it has little relevance in a large-scale secondary liability suit. On the other hand, Cox's liability for infringement over its network is not boundless. Cox is free to present evidence at trial that might weaken any inference raised by BMG's evidence of infringement. For instance, Cox can present evidence of the prevalence of stolen access to wireless networks or what it believes to be Rightscorp's imprecise methods of identifying IP addresses.

B. The Distribution Right

Cox devotes most of its argument to the scope of § 106(3)'s distribution right, arguing that BMG's evidence of Cox account holders making copyrighted works available for download is insufficient to show distribution. Cox asserts that BMG must show actual dissemination of the copyrighted works and that BMG has failed to do so. BMG responds that a "making available" definition of distribution is the law in the Fourth Circuit, but that even under an "actual distribution" standard, there is sufficient evidence to establish infringement of its distribution right.

Section 106(3) grants "the owner of copyright ... the exclusive rights to ... distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." The right was "largely dormant" before the emergence of file-sharing technology. As copyright owners have increasingly relied on the distribution right in the digital age, district courts and academia alike have split on how to define distribution.

One source of disagreement among courts is the question of how to understand early cases that discussed the distribution right in contexts far afield from online file sharing. The most commonly cited case in this debate comes from the Fourth Circuit. In *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 199 (4th Cir.1997), the church obtained an authorized copy of the plaintiffs' copyrighted research materials for its main library's collection. The church then made unauthorized microfiche copies of the research and sent the copies to its branch libraries. Upon discovering a copy at one of the branches, the copyright

owners sued, alleging a violation of his distribution right. Because the library did not keep records of who used the microfiche, the church argued that the plaintiffs could not establish distribution because there was no evidence that a member of the public had ever used it. The Fourth Circuit disagreed.

After stating the general principle that “[i]n order to establish ‘distribution’ of a copyrighted work, a party must show that an unlawful copy was disseminated ‘to the public’”, the court held:

When a public library adds a work to its collection, lists the work in its index or catalog system, and makes the work available to the borrowing or browsing public, it has completed all the steps necessary for distribution to the public. At that point, members of the public can visit the library and use the work. Were this not to be considered distribution within the meaning of § 106(3), a copyright holder would be prejudiced by a library that does not keep records of public use, and the library would unjustly profit by its own omission.

The Fourth Circuit has never returned to its holding in *Hotaling* and thus has not had the opportunity to consider whether evidence that sound recordings were made available for download without authorization via BitTorrent would be enough to show distribution. BMG contends that *Hotaling* announced a broadly applicable “making available” definition of distribution that applies equally to file-sharing and that the Court is bound by that definition. While the Court is bound by Fourth Circuit precedent, the Court does not read *Hotaling* as broadly as BMG urges.

The *Hotaling* court announced the definition of distribution when it said, “In order to establish ‘distribution’ of a copyrighted work, a party must show that an unlawful copy was *disseminated* ‘to the public’.” The court’s specific holding that the plaintiffs established a distribution from the library was driven by equitable concerns rather than an analysis of the statute. As Goldstein explains:

Hotaling can also be understood as only a more limited decision on what is required to prove distribution. Although the record on the summary judgment appeal revealed no instances in which the library in fact loaned the infringing copy to the public, the court observed that “members of the public can visit the library and use the work,” and further that “[i]f, as the [defendant] Church says, actual use by the public must be shown to establish distribution, no one can expect a copyright holder to prove particular instances of use by the public when the proof is impossible to produce because the infringing library has not kept records of public use.

To be sure, some courts have construed the holding in *Hotaling* broadly and held that making works available on file-sharing programs is distribution. The Court joins those courts and holds that *Hotaling* did not announce a rule of general applicability, but instead articulated a principle that applies only in cases where it is impossible for a copyright owner to produce proof of actual distribution.

This reading of *Hotaling* is also consistent with the plain meaning of the statute. Section 101 does not contain a further definition of distribution. Section 106(3) provides the only relevant definition. A distribution occurs when a work is transferred to the public “by sale or other transfer of ownership, or by rental, lease, or lending.” Thus, Congress provided the list of specific transactions that will consummate a distribution. As Cox notes, clearly missing from the list is an offer to sell, transfer, rent, lease, or lend a work.

BMG argues in response that reading distribution to include a “making available” right is consistent with other provisions in the Copyright Act. As examples, BMG cites the definition of “publication” in § 101, which includes “offering to distribute copies,” and § 506(a)(1)(C), a criminal provision that provides that “the distribution of a work” may be accomplished by “making it available on a computer network accessible to members of the public.” Courts have debated whether the definition of “publication” in § 101 supports a broader reading of the distribution right. Some courts have concluded that “distribution” and “publication” are synonymous terms under the Copyright Act and, working from that baseline, use the definition of “publication” to define “distribution.” This logic is flawed for several reasons.

At the threshold, the Court questions the evidence relied on by those courts that purportedly establishes that distribution is interchangeable with publication. Those courts build upon comments in legislative history as well as an excerpt from the Supreme Court’s decision in *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539 (1985). Legislative history cannot override the plain meaning of “distribution” under § 106(3), however, and *Harper & Row* involved a narrow discussion of first publication and not the meaning of distribution and publication generally.

Nor does the definition of “publication” support a broader reading of the distribution right. The Act defines “publication” as

the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending. The offering to distribute copies or phonorecords to a group of persons for purposes of further distribution, public performance, or public display, constitutes publication. 17 U.S.C. § 101.

The first sentence of the definition tracks the language in § 106(3), making it clear that all distributions are publications. It does not follow from that proposition that the inverse – all publications are distributions – is also true. The “offering to distribute” language forms an additional category of publications that are *not* distributions. In short, § 101 provides no support for BMG’s “making available” theory.

Section 506(a)(1)(C), a criminal provision that imposes penalties for “the distribution of a work being prepared for commercial distribution, by making it available on a computer network accessible to members of the public,” likewise convinces the Court that its reading of § 106(3) is correct. This provision and § 101 establish that “when Congress intends distribution to encompass making available or offering to transfer, it has demonstrated that it is quite capable of explicitly providing that in the statute.”

BMG makes three additional arguments for a “making available” interpretation that the court finds equally unpersuasive. First, BMG says that “making available” is “the view of definitive treatises.” That is not correct. There is a split in the academic debate, with Menell and Nimmer advocating for a “making available” right and Patry and Goldstein advocating for actual distribution. Menell and Nimmer rely heavily on legislative history for their expansive reading of the distribution right. The Court has already reviewed the statutory language and found it plain and unambiguous. Legislative history may not be used “to muddy clear statutory language.” The Court leaves any further debate to academia.

BMG also argues that interpreting the right broadly is essential to comport with the United States’s obligations under the World Intellectual Property Organization (“WIPO”) Copyright Treaty. While the WIPO Treaty does recognize a “making available” right, the treaty is “not self-executing and [it] lack[s] any binding legal authority separate from [its] implementation through the Copyright Act.” Moreover, courts employ the so-called *Charming Betsy* canon of statutory interpretation only when “constru[ing] *ambiguous* statutes to avoid unreasonable interference with the sovereign authority of other nations.” As already explained, the statute is unambiguous. “[I]f a statute makes plain Congress’s intent, a court must enforce the intent of Congress irrespective of whether the statute conforms to customary international law.”

Finally, BMG points to a letter written by Marybeth Peters, the former Register of Copyrights, that embraces a “making available” reading of the statute. The opinions expressed in the letter have no controlling weight and the Court does not consider them.

Although the Court agrees with Cox up to this point, Cox makes two additional arguments regarding the contours of the distribution right that the Court does not accept. First, Cox contends “copies or phonorecords” cover only tangible, material objects and the distribution right is not infringed by electronic, rather than physical, transfers. Second, Cox argues that the transactional language in the statute – “by sale or other transfer of ownership, or by rental, lease, or lending” – requires that there be a consummated “transfer” of copy or phonorecord and that there is no evidence of such a transfer in this case. The Court believes Cox is mistaken on both counts.

The distribution right extends only to “copies” and “phonorecords.” Phonorecords are “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.” A work is “fixed” if it is “in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.” Although Cox equates the phrase “material object” with a physical object, in fact “any object in which a sound recording can be fixed is a ‘material object’.” And that includes electronic files.

Not only can electronic files be “material objects,” but transferring files using a BitTorrent protocol satisfies the transactional element of distribution. Section 106(3) requires a distribution “by sale or other transfer of ownership, or by rental, lease, or lending.” While BitTorrent transfers do not fit within our ordinary conception of a “transfer of ownership” because the transferor retains his or her own copy of the file, the Court finds the *London-Sire* court’s reasoning on this issue persuasive. “[I]t is the newly minted ownership rights held by the transferee that concern it, not whether the transferor gives up his own.” 542 F.Supp.2d at 173. In other words, what matters is that “when the transaction is completed, the distributee has a material object.”

In sum, to establish a direct infringement of its distribution right, BMG must show an actual dissemination of a copyrighted work. BMG contends that even under this standard, it has produced more than enough evidence to show actual dissemination. First, Rightscorp identified Cox subscribers sharing torrents that Rightscorp had also found on torrent indexing websites. Because each torrent contains a unique “hash,” an identifying code that is only created once, BMG argues these Cox users must have downloaded the torrents at some point. Second, Rightscorp downloaded over 700,000 copies of copyrighted works from Cox subscribers using Cox’s internet service and 100,000 of those copies were of the

works at issue in this case. Third, Rightscorp says it identified 2.5 million instances in which Cox users made available the copyrighted works for downloading. BMG argues that even if this “making available” evidence is not direct evidence of distribution, it is circumstantial evidence that the works were in fact downloaded given the way a BitTorrent protocol operates.

The Court finds BMG has demonstrated that there is a genuine issue of material fact as to whether its distribution right was directly infringed.

2. Contributory Infringement

A contributory infringer is one who, (1) “with knowledge of the infringing activity,” (2) “induces, causes or materially contributes to the infringing conduct of another.” BMG’s claim is that Cox knew, had reason to know, or was willfully blind to its users’ infringement and materially contributed to that infringement. Cox raises two general challenges to BMG’s claim. First, Cox contends that only an inducement theory of contributory infringement survived the Supreme Court’s decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). Because BMG concedes for purposes of summary judgment that there is no evidence that Cox induced infringement, Cox asks for summary judgment. Second, even if the Court finds a “material contribution” theory is still viable, Cox argues that BMG has no evidence that Cox knew of the specific infringing activity at issue in this case.

A. Effect of *Grokster*

The Court finds no support for Cox’s reading of *Grokster*. *Grokster* clarified the scope of inducement; it did not explicitly or implicitly reject a material contribution theory of liability. The Court also finds it persuasive that in the wake of *Grokster* courts have continued to articulate both inducement and material contribution theories of contributory infringement.

B. Knowledge

Cox argues that even if a “material contribution” theory survived *Grokster*, BMG cannot succeed because there is no evidence that Cox had knowledge of infringing activity. The knowledge requirement is met by a showing of actual or constructive knowledge or by evidence that a defendant took deliberate actions to willfully blind itself to specific infringing activity.

BMG asserts that Cox had knowledge of its users’ infringing activity because Rightscorp sent Cox more than two million infringement notices pertaining to its

copyrighted works. Despite Cox's arguments to the contrary, DMCA-compliant notices are evidence of knowledge. This case presents an unusual fact pattern, however, because it is undisputed that Cox never received Rightscorp's notices related to BMG's copyrights during the period covered by the Complaint. Cox began blocking Rightscorp's notices at the server level in 2011, meaning not only did Cox not receive the notices, it also has no record of receiving them. The notices relevant to this litigation were not sent until 2012.

BMG argues that Cox's unreasonable decision not to receive Rightscorp's notices gave Cox reason to know of the infringing activity. In support, BMG draws a comparison to *Ellison v. Robertson*, 357 F.3d 1072 (9th Cir.2004). In that case, AOL changed the email address it used to accept infringement notices but did not immediately register the change with the U.S. Copyright Office or put a mechanism in place to forward or return messages received at its old address. The Ninth Circuit concluded that "[b]ecause there [was] evidence indicating that AOL changed its e-mail address in an unreasonable manner and that AOL should have been on notice of infringing activity," a trier of fact could find AOL had reason to know of the infringing activity occurring. BMG says Cox's blacklisting of its notices was similarly unreasonable and that, as in *Ellison*, there is other evidence in the record that put Cox on notice of specific infringing activity.

First, BMG claims that when Cox refused to forward its notices, it gave Cox access to a searchable and sortable "dashboard" that contained all of the information pertaining to the alleged infringements occurring at each IP address. Although Cox received an email from Rightscorp with instructions on how to access the dashboard, Cox maintains that it never in fact accessed the dashboard and thus it could not have been a source of knowledge. Second, BMG says after Cox blocked Rightscorp's notices, Rightscorp sent emails to Zabek, the abuse group, and Cox's in-house privacy counsel identifying IP addresses with a significant amount of infringing activity. Finally, BMG reprises the statements by members of Cox's abuse group discussed above that describe specific customers with phrases like "habitual abuser" or "well aware of his actions."

Considering all of this together, the Court finds a reasonable jury could conclude that Cox's refusal to accept Rightscorp's notices was unreasonable and that additional notice provided to Cox gave it reason to know of the allegedly infringing activity on its network.

C. Willful Blindness

BMG also argues that the record establishes Cox's willful blindness to the direct infringement. As noted above, willful blindness is the equivalent of knowledge in copyright law. "A person is 'willfully blind' or engages in 'conscious avoidance' amounting to knowledge where the person was aware of a high probability of the fact in dispute and consciously avoided confirming that fact." Willful blindness requires more than negligence or recklessness. There must be evidence that the defendant took "deliberate actions to avoid confirming a high probability of wrongdoing and who can almost be said to have actually known the critical facts."

BMG argues that Cox's failure to terminate repeat infringers from its service and its deliberate avoidance of Rightscorp's notices establishes its willful blindness. In response, Cox points to the actions it *does* take when it receives what it considers proper infringement notices. Cox says that it forwards hundreds of thousands of infringement notices annually, that it works with account holders to identify and stop the activities causing the notices, and that it suspends and when necessary terminates account holders. But this generalized evidence that Cox does not always turn a blind eye to infringement, does not mean that it has never done so. Cox also argues that BMG cannot show that its decision to block Rightscorp notices was made with the intent to avoid knowledge of infringement because Cox works with complainants to remove "improper language" from notices. Because Cox offered to do the same with Rightscorp's notices, Cox argues there is no evidence that it was deliberately avoiding knowledge of illegal activity. While this would certainly be a reasonable inference for a jury to draw, it is not the only inference available.

BMG paints a very different picture of a company unhappy with the burdens of complying with the DMCA and using the settlement offers in Rightscorp's notices as a red herring to distract from its goal of reducing the number of infringement notices Cox receives. Given the evidence, this is also a justifiable inference. It will be the jury's task, not the Court's, to weigh the evidence and choose among the competing inferences.

3. Vicarious Infringement

BMG also alleges that Cox is liable for vicarious infringement. A variant on *respondeat superior*, vicarious liability holds a defendant accountable for third-party infringement if he "(1) possessed the right and ability to supervise the infringing activity; and (2) possessed an obvious and direct financial interest in the exploited copyrighted materials." Unlike contributory infringement, vicarious liability is not based on the knowledge or intent of the defendant. It is entirely

dependent on the existence of a financial benefit and the defendant's relationship to the infringement.

A. Right and Ability to Supervise

The first element requires that the defendant “declin[ed] a right to stop or limit” the direct infringement. Cox expressly retains the right in its AUP to suspend or terminate its account holders' access to internet service. Thus, Cox has the contractual right to condition the availability of its internet access to users who do not use that service to violate copyrights. If users listen when Cox exercises that power, infringement stops. If users do not and Cox terminates them, that also stops or at least limits infringement.

In addition to its legal control, Cox also has the practical ability to stop or limit infringement. There cannot be any serious dispute that internet service is an essential component of the infringing activity alleged by BMG. File-sharing programs are completely dependent on the internet to facilitate the download and upload of files. It is therefore a reasonable inference that the result of an internet service provider exercising its ability to suspend or terminate account holders stops or limits infringement.

Cox maintains that despite a legal right to stop or limit infringing activity by terminating accounts, there must also be evidence in the record that Cox's current architecture would allow it to exercise physical control over the infringing activity. Cox reasons that the provision of general internet service is much different than the swap market in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir.1996), where the defendant not only had the right to terminate vendors, but also “controlled the access of customers to the swap meet area.” It is also distinguishable, Cox contends, from defendants like Napster, which had “the ability to locate infringing material listed on its search indices.”

In support, Cox relies on two more recent cases from the Ninth Circuit, *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir.2007), and *Perfect 10, Inc. v. Visa International Service Association*, 494 F.3d 788 (9th Cir.2007). This Court is of course not bound by either decision, nor does the Court find the reasoning in those decisions warrants summary judgment here. In *Amazon*, the owner of copyrighted images sued Google unsuccessfully on two theories of vicarious liability. The first was that Google was vicariously liable for linking search results to third-party websites that contained the infringing images. The Ninth Circuit found the “control” element was missing because the plaintiff “ha[d] not shown that Google has contracts with third-party websites that empower Google to stop or limit them from reproducing, displaying, and distributing infringing copies”

of the infringing images. The second theory was that Google had control via contracts underlying its AdSense program, through which owners of websites register to have Google place relevant advertising on their sites. The contracts permitted Google to terminate partnerships for copyright violations. Despite the right to terminate, the court found it did not in practice give Google “the right to stop direct infringement by third-party websites.”

By contrast, here Cox has the contractual right to control, which allows it to stop or limit individuals from infringing BMG’s copyrights. Moreover, unlike the scenario in which Google terminated a contract with an AdSense partner, when Cox terminates or suspends the relationship with an account holder, it takes away an essential component of direct infringement. When an AdSense partner was terminated, the only result was that the ads were no longer sourced by Google. It would have no effect on how the website worked. Without the internet, individuals cannot upload or download illegal content.

In *Visa*, the Ninth Circuit held that Visa could not be vicariously liable for processing credit card payments on websites hosting infringing conduct. The court’s holding was grounded in a concern that vicarious liability may be extended to entities whose ability to take steps against infringement would have only an “indirect effect of reducing infringing activity on the Internet at large.” The court believed that were Visa to exercise its contractual right to terminate relationships, it would exert at most “indirect economic pressure.” Here, the connection cannot be described as indirect. When Cox exercises its contractual right, Cox blocks a direct infringer’s access to the internet. That individual is thereafter precluded from participation in the infringing activity. The *Visa* court even reasoned that Visa could only “block access to their payment system, but they cannot themselves *block access to the Internet*, to any particular websites, or to search engines enabling the location of such websites.”

Nor does the Court agree with the *Visa* court’s attempt to distinguish cases like *Fonovisa* and *Napster* where the defendant has physical control over the infringing activity. As Judge Kozinski explained in his dissent, “[p]hysical control over the infringing activity is one way to stop infringers, but it’s certainly not the only way. Withdrawing crucial services, such as financial support, can be just as effective, and sometimes more effective, than technical measures that can often be circumvented.”

In sum, Cox has a contractual relationship with its users and that relationship gives Cox the legal right to withhold service in the face of infringing conduct. Cox also provides a crucial service to the infringements alleged in this case, which gives Cox the practical ability to stop or limit infringement. That is enough to raise a

genuine issue of material fact as to whether BMG can establish the first element of its vicarious liability claim.

B. Direct Financial Interest

The second element requires 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.” Financial benefit can be shown by evidence that “users are attracted to a defendant’s product because it enables infringement, and that use of the product for infringement financially benefits the defendant.” To show users’ attraction, a plaintiff must only establish that “the availability of infringing material acts as a ‘draw’ for customers.” “[T]he law is clear that to constitute a direct financial benefit, the ‘draw’ of infringement need not be the primary, or even a significant, draw – rather, it only need be ‘a’ draw.” While the draw need not be significant, the requisite causal connection must be between “the infringing activities *at issue in th[e] case* and a direct financial benefit” to the defendant.

Cox provides a content-neutral commercial service that makes a wide selection of services and activities available to its subscribers, including email, social networking, web surfing, gaming, P2P file sharing, and more. Cox charges the same flat monthly fees to its users whether they use Cox’s service for infringing or non-infringing purposes. Those “flat periodic payments for service ... ordinarily would not constitute receiving a financial benefit directly attributable to the infringing activity,” unless “the value of the service lies in providing access to infringing material.” Thus, the relevant inquiry “where a service provider obtains revenue from ‘subscribers,’ ” as here, is “whether the infringing activity constitutes a draw for subscribers, not just an added benefit.” In other words, Cox’s receipt of monthly fees is only evidence of direct financial benefit if some portion of those fees is generated from subscribers that are drawn to Cox’s service at least in part *because* of the infringing activity alleged in this case. Without that evidence, the requisite causal connection between the benefit and the infringing activity is not established.

BMG offers evidence of the “draw” of infringing activity in the form of a survey conducted by its expert, Stephen Nowlis. The study of Cox internet subscribers concluded that 16% of subscribers “download or upload free digital music through sites such as ThePirateBay, KickAssTorrents, and Torrentz,” and of that 16%, 70% characterized the ability to do so as a reason they subscribe to Cox. While this evidence is hardly overwhelming, it is also not clearly insufficient to satisfy the legal standard. At this stage, viewing the evidence in the light most favorable to BMG, the Court finds a close question remains and reasonable minds could differ.

Accordingly, summary judgment is inappropriate. A reasonable trier of fact could conclude that some percentage of Cox customers were drawn to Cox's internet service at least in part to download music, including BMG's copyrighted works, using BitTorrent. (...)

III. CONCLUSION

For the reasons stated above, the Court **DENIES** Cox's Motion for Summary Judgment. The Court **GRANTS** in part and **DENIES** in part Plaintiffs' Motion for Partial Summary Judgment.

THINK IT OVER!

1. The Court concluded that Cox's repeat infringer policy wasn't effectively executed, and that it was generally loose, too. ***What can be an effective repeat infringer policy under the DMCA?*** Would the elimination of "rolling-up" the daily complaints make Cox's system reasonable enough? Are the 14 notices too much? For your consideration: the E-Commerce Directive does not include any word on repeat infringer policies. Would it be reasonable to introduce such a new obligation on the service providers' side? You might take a look at the European Commission's Digital Single Market Strategy [see COM(2016) 593 final]. Under the heavily contested Article 13 of the draft directive, service providers will be obliged to install content recognition systems (in fact, content filtering mechanisms) to prevent massive online copyright infringements. Is this a more effective method to tackle infringements rather than the termination of end-user subscriptions?

2. Following the above decision and a jury trial on the merits of the case, Cox was ultimately found liable for failing to address the infringements of its clients. More precisely, the Court found that "jury's finding that internet users directly infringed copyrights was supported by sufficient evidence; jury's finding that provider knew or should have known that its users were infringing copyrights was supported by sufficient evidence; jury's finding that provider materially contributed to its user's infringement was supported by sufficient evidence; district court did not abuse its discretion in giving jury instruction as spoliation sanction against holder, rather than dismissing case or precluding evidence; jury's finding that provider did not maintain obvious and direct financial interest in its users' infringement was supported by sufficient evidence". At the same time, the Court refused to enter plaintiff's requests for permanent injunctions as BMG's request was not specific enough and lacked conduct-based instructions. Judge O'Grady further added that "***there is an understandable desire to build flexibility into the injunction. But Rule 65(d), overall, prefers certainty over flexibility.***"

FURTHER CASE LAW

Hotelling v. Church of Jesus Christ of Latter-Day Saints, 118 *F.3d* 199 (1997)

Capitol Records, Inc. v. MP3Tunes, LLC, 821 *F.Supp.2d* 627 (2011)

Viacom International Inc., et al., v. YouTube Inc., et al., 940 *F.Supp.2d* 110 (2013)

BMG Rights Management (US) LLC, v. Cox Communications, Inc., et al., 199 *F.Supp.3d* 958 (2016)

RECOMMENDED READINGS*In English*

ESTRADA, Erik – CRONIN, Caitlin – GILLESPIE, Bill: How Much Can Dumb Pipes Know? BMG v. Cox and Why a Knowledge Bar to DMCA Safe Harbor for Internet Service Providers is Inappropriate, *Denver Law Review Online*, 2016: p. 1–5.

Chapter III

Preservation of and access to cultural heritage

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

804 F.3d 202 (2nd Cir. 2015)

LEVAL, Circuit Judge,

(...) BACKGROUND

I. Plaintiffs

The author-plaintiffs are Jim Bouton, author of *Ball Four*; Betty Miles, author of *The Trouble with Thirteen*; and Joseph Goulden, author of *The Superlawyers: The Small and Powerful World of the Great Washington Law Firms*. Each of them has a legal or beneficial ownership in the copyright for his or her book. Their books have been scanned without their permission by Google, which made them available to Internet users for search and snippet view on Google's website.

II. Google Books and the Google Library Project

Google's Library Project, which began in 2004, involves bi-lateral agreements between Google and a number of the world's major research libraries. Under these agreements, the participating libraries select books from their collections to submit to Google for inclusion in the project. Google makes a digital scan of each book, extracts a machine-readable text, and creates an index of the machine-readable text of each book. Google retains the original scanned image of each book, in part so as to improve the accuracy of the machine-readable texts and indices as image-to-text conversion technologies improve.

Since 2004, Google has scanned, rendered machine-readable, and indexed more than 20 million books, including both copyrighted works and works in the public domain. The vast majority of the books are non-fiction, and most are out of print. All of the digital information created by Google in the process is stored on servers protected by the same security systems Google uses to shield its own confidential information.

The digital corpus created by the scanning of these millions of books enables the Google Books search engine. Members of the public who access the Google

Books website can enter search words or terms of their own choice, receiving in response a list of all books in the database in which those terms appear, as well as the number of times the term appears in each book. A brief description of each book, entitled “About the Book,” gives some rudimentary additional information, including a list of the words and terms that appear with most frequency in the book. It sometimes provides links to buy the book online and identifies libraries where the book can be found. The search tool permits a researcher to identify those books, out of millions, that do, as well as those that do not, use the terms selected by the researcher. Google notes that this identifying information instantaneously supplied would otherwise not be obtainable in lifetimes of searching.

No advertising is displayed to a user of the search function. Nor does Google receive payment by reason of the searcher’s use of Google’s link to purchase the book.

The search engine also makes possible new forms of research, known as “text mining” and “data mining.” Google’s “ngrams” research tool draws on the Google Library Project corpus to furnish statistical information to Internet users about the frequency of word and phrase usage over centuries. This tool permits users to discern fluctuations of interest in a particular subject over time and space by showing increases and decreases in the frequency of reference and usage in different periods and different linguistic regions. It also allows researchers to comb over the tens of millions of books Google has scanned in order to examine “word frequencies, syntactic patterns, and thematic markers” and to derive information on how nomenclature, linguistic usage, and literary style have changed over time. The district court gave as an example “track[ing] 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 Google Books search function also allows the user a limited viewing of text. In addition to telling the number of times the word or term selected by the searcher appears in the book, the search function will display a maximum of three “snippets” containing it. A snippet is a horizontal segment comprising ordinarily an eighth of a page. Each page of a conventionally formatted book⁷ in the Google Books database is divided into eight non-overlapping horizontal segments, each such horizontal segment being a snippet. (Thus, for such a book with 24 lines to a page, each snippet is comprised of three lines of text.) Each search for a particular word or term within a book will reveal the same three snippets, regardless of the number of computers from which the search is launched. Only the first usage of the term on a given page is displayed. Thus, if the top snippet of a page contains two (or more) words for which the user searches, and Google’s program is fixed to reveal that particular snippet in response to a search for either term, the second

search will duplicate the snippet already revealed by the first search, rather than moving to reveal a different snippet containing the word because the first snippet was already revealed. Google's program does not allow a searcher to increase the number of snippets revealed by repeated entry of the same search term or by entering searches from different computers. A searcher can view more than three snippets of a book by entering additional searches for different terms. However, Google makes permanently unavailable for snippet view one snippet on each page and one complete page out of every ten – a process Google calls “blacklisting.”

Google also disables snippet view entirely for types of books for which a single snippet is likely to satisfy the searcher's present need for the book, such as dictionaries, cookbooks, and books of short poems. Finally, since 2005, Google will exclude any book altogether from snippet view at the request of the rights holder by the submission of an online form.

Under its contracts with the participating libraries, Google allows each library to download copies – of both the digital image and machine-readable versions – of the books that library submitted to Google for scanning (but not of books submitted by other libraries). This is done by giving each participating library access to the Google Return Interface (“GRIN”). The agreements between Google and the libraries, although not in all respects uniform, require the libraries to abide by copyright law in utilizing the digital copies they download and to take precautions to prevent dissemination of their digital copies to the public at large. Through the GRIN facility, participant libraries have downloaded at least 2.7 million digital copies of their own volumes.

III. Procedural History

Plaintiffs brought this suit on September 20, 2005, as a putative class action on behalf of similarly situated, rights-owning authors. After several years of negotiation, the parties reached a proposed settlement that would have resolved the claims on a class-wide basis. The proposed settlement allowed Google to make substantially more extensive use of its scans of copyrighted books than contemplated under the present judgment, and provided that Google would make payments to the rights holders in return. On March 22, 2011, however, the district court rejected the proposed settlement as unfair to the class members who relied on the named plaintiffs to represent their interests.

On October 14, 2011, Plaintiffs filed a fourth amended class action complaint, which is the operative complaint for this appeal. The district court certified a class on May 31, 2012. Google appealed from the certification, and moved in the district court for summary judgment on its fair use defense. Plaintiffs cross-moved in the

district court for summary judgment. On the appeal from the class certification, our court – questioning whether it was reasonable to infer that the putative class of authors favored the relief sought by the named plaintiffs – provisionally vacated that class certification without addressing the merits of the issue, concluding instead that “resolution of Google’s fair use defense in the first instance will necessarily inform and perhaps moot our analysis of many class certification issues.”

On November 14, 2013, the district court granted Google’s motion for summary judgment, concluding that the uses made by Google of copyrighted books were fair uses, protected by §107. Upon consideration of the four statutory factors of §107, the district court found that Google’s uses were transformative, that its display of copyrighted material was properly limited, and that the Google Books program did not impermissibly serve as a market substitute for the original works. The court entered judgment initially on November 27, 2013, followed by an amended judgment on December 10, 2013, dismissing Plaintiffs’ claims with prejudice. Plaintiffs filed timely notice of appeal.

DISCUSSION

I. The Law of Fair Use

The ultimate goal of copyright is to expand public knowledge and understanding, which copyright seeks to achieve by giving potential creators exclusive control over copying of their works, thus giving them a financial incentive to create informative, intellectually enriching works for public consumption. This objective is clearly reflected in the Constitution’s empowerment of Congress “*To promote the Progress of Science ... by securing for limited Times to Authors ... the exclusive Right to their respective Writings.*” Thus, while authors are undoubtedly important intended beneficiaries of copyright, the ultimate, primary intended beneficiary is the public, whose access to knowledge copyright seeks to advance by providing rewards for authorship.

For nearly three hundred years, since shortly after the birth of copyright in England in 1710, courts have recognized that, in certain circumstances, giving authors *absolute* control over all copying from their works would tend in some circumstances to limit, rather than expand, public knowledge. In the words of Lord Ellenborough, “[W]hile I shall think myself bound to secure every man in the enjoyment of his copy-right, one must not put manacles upon science.” Courts thus developed the doctrine, eventually named fair use, which permits unauthorized copying in some circumstances, so as to further “copyright’s very purpose, ‘[t]o promote the Progress of Science and useful Arts.’” Although well established

in the common law development of copyright, fair use was not recognized in the terms of our statute until the adoption of §107 in the Copyright Act of 1976.

§107, in its present form, provides:

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

As the Supreme Court has designated fair use an affirmative defense, the party asserting fair use bears the burden of proof.

The statute's wording, derived from a brief observation of Justice Joseph Story in *Folsom v. Marsh*, does not furnish standards for recognition of fair use. Its instruction to consider the "purpose and character" of the secondary use and the "nature" of the copyrighted work does not explain what types of "purpose and character" or "nature" favor a finding of fair use and which do not. In fact, as the Supreme Court observed in *Campbell*, the House Report makes clear that, in passing the statute, Congress had no intention of normatively dictating fair use policy. The purpose of the enactment was to give recognition in the statute itself to such an important part of copyright law developed by the courts through the common law process. "Congress meant §107 'to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way,' and intended that courts continue the common-law tradition of fair use adjudication." Furthermore, notwithstanding fair use's long common-law history, not until the *Campbell* ruling in 1994 did courts undertake to explain the standards for finding fair use.

The *Campbell* Court undertook a comprehensive analysis of fair use's requirements, discussing every segment of §107. Beginning with the examples of purposes set forth in the statute's preamble, the Court made clear that they are "illustrative and not limitative" and "provide only general guidance about the sorts of copying that courts and Congress most commonly ha [ve] found to be fair uses." The statute

“calls for case-by-case analysis” and “is not to be simplified with bright-line rules.” §107’s four factors are not to “be treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright.” Each factor thus stands as part of a multifaceted assessment of the crucial question: how to define the boundary limit of the original author’s exclusive rights in order to best serve the overall objectives of the copyright law to expand public learning while protecting the incentives of authors to create for the public good.

At the same time, the Supreme Court has made clear that some of the statute’s four listed factors are more significant than others. The Court observed in *Harper & Row Publishers, Inc. v. Nation Enterprises* that the fourth factor, which assesses the harm the secondary use can cause to the market for, or the value of, the copyright for the original, “is undoubtedly the single most important element of fair use.” This is consistent with the fact that the copyright is a commercial right, intended to protect the ability of authors to profit from the exclusive right to merchandise their own work.

In *Campbell*, the Court stressed also the importance of the first factor, the “purpose and character of the secondary use.” The more the appropriator is using the copied material for new, transformative purposes, the more it serves copyright’s goal of enriching public knowledge and the less likely it is that the appropriation will serve as a substitute for the original or its plausible derivatives, shrinking the protected market opportunities of the copyrighted work.

With this background, we proceed to discuss each of the statutory factors, as illuminated by *Campbell* and subsequent case law, in relation to the issues here in dispute.

II. The Search and Snippet View Functions

A. Factor One

(1) *Transformative purpose.* *Campbell*’s explanation of the first factor’s inquiry into the “purpose and character” of the secondary use focuses on whether the new work, “in Justice Story’s words, ... merely ‘supersede[s] the objects’ of the original creation, ... or instead adds something new, with a further purpose.... [I]t asks, in other words, whether and to what extent the new work is ‘transformative.’” While recognizing that a transformative use is “not absolutely necessary for a finding of fair use,” the opinion further explains that the “goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works” and that “[s]uch works thus lie at the heart of the fair use doctrine’s guarantee of breathing

space within the confines of copyright.” In other words, transformative uses tend to favor a fair use finding because a transformative use is one that communicates something new and different from the original or expands its utility, thus serving copyright’s overall objective of contributing to public knowledge.

The word “transformative” cannot be taken too literally as a sufficient key to understanding the elements of fair use. It is rather a suggestive symbol for a complex thought, and does not mean that any and all changes made to an author’s original text will necessarily support a finding of fair use. The Supreme Court’s discussion in *Campbell* gave important guidance on assessing when a transformative use tends to support a conclusion of fair use. The defendant in that case defended on the ground that its work was a parody of the original and that parody is a time-honored category of fair use. Explaining why parody makes a stronger, or in any event more obvious, claim of fair use than satire, the Court stated,

[T]he heart of any parodist’s claim to quote from existing material ... is the use of ... a prior author’s composition to ... comment[] on that author’s works.... If, on the contrary, the commentary has no critical bearing on the substance or style of the original composition, which the alleged infringer merely uses to get attention or to avoid the drudgery in working up something fresh, the claim to fairness in borrowing from another’s work diminishes accordingly (if it does not vanish).... Parody needs to mimic an original to make its point, and so has some claim to use the creation of its victim’s ... imagination, whereas satire can stand on its own two feet and so requires justification for the very act of borrowing.

In other words, the would-be fair user of another’s work must have justification for the taking. A secondary author is not necessarily at liberty to make wholesale takings of the original author’s expression merely because of how well the original author’s expression would convey the secondary author’s different message. Among the best recognized justifications for copying from another’s work is to provide comment on it or criticism of it. A taking from another author’s work for the purpose of making points that have no bearing on the original may well be fair use, but the taker would need to show a justification. This part of the Supreme Court’s discussion is significant in assessing Google’s claim of fair use because, as discussed extensively below, Google’s claim of transformative purpose for copying from the works of others is to provide otherwise unavailable information about the originals.

A further complication that can result from oversimplified reliance on whether the copying involves transformation is that the word “transform” also plays a role in defining “derivative works,” over which the original rights holder retains exclusive control. Section 106 of the Act specifies the “exclusive right[]” of the copyright

owner “(2) to prepare derivative works based upon the copyrighted work.” The statute defines derivative works largely by example, rather than explanation. The examples include “translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, condensation,” to which list the statute adds “any other form in which a work may be ... *transformed*.” As we noted in *Authors Guild, Inc. v. HathiTrust*, “[p]aradigmatic examples of derivative works include the translation of a novel into another language, the adaptation of a novel into a movie or play, or the recasting of a novel as an e-book or an audiobook.” While such changes can be described as transformations, they do not involve the kind of transformative purpose that favors a fair use finding. The statutory definition suggests that derivative works generally involve transformations in the nature of *changes of form*. By contrast, copying from an original for the purpose of criticism or commentary on the original or provision of information about it, tends most clearly to satisfy *Campbell*’s notion of the “transformative” purpose involved in the analysis of Factor One.

With these considerations in mind, we first consider whether Google’s search and snippet views functions satisfy the first fair use factor with respect to Plaintiffs’ rights in their books. (The question whether these functions might infringe upon Plaintiffs’ derivative rights is discussed in the next Part.)

(2) *Search Function*. We have no difficulty concluding that Google’s making of a digital copy of Plaintiffs’ books for the purpose of enabling a search for identification of books containing a term of interest to the searcher involves a highly transformative purpose, in the sense intended by *Campbell*. Our court’s exemplary discussion in *HathiTrust* informs our ruling. That case involved a dispute that is closely related, although not identical, to this one. Authors brought claims of copyright infringement against HathiTrust, an entity formed by libraries participating in the Google Library Project to pool the digital copies of their books created for them by Google. The suit challenged various usages HathiTrust made of the digital copies. Among the challenged uses was HathiTrust’s offer to its patrons of “full-text searches,” which, very much like the search offered by Google Books to Internet users, permitted patrons of the libraries to locate in which of the digitized books specific words or phrases appeared. We concluded that both the making of the digital copies and the use of those copies to offer the search tool were fair uses.

Notwithstanding that the libraries had downloaded and stored complete digital copies of entire books, we noted that such copying was essential to permit searchers to identify and locate the books in which words or phrases of interest to them appeared. We concluded “that the creation of a full-text searchable database is a quintessentially transformative use ... [as] the result of a word search is different

in purpose, character, expression, meaning, and message from the page (and the book) from which it is drawn.” (...)

As with *HathiTrust* (and *iParadigms*), the purpose of Google’s copying of the original copyrighted books is to make available significant information *about those books*, permitting a searcher to identify those that contain a word or term of interest, as well as those that do not include reference to it. In addition, through the ngrams tool, Google allows readers to learn the frequency of usage of selected words in the aggregate corpus of published books in different historical periods. We have no doubt that the purpose of this copying is the sort of transformative purpose described in *Campbell* as strongly favoring satisfaction of the first factor.

We recognize that our case differs from *HathiTrust* in two potentially significant respects. First, *HathiTrust* did not “display to the user any text from the underlying copyrighted work,” whereas Google Books provides the searcher with snippets containing the word that is the subject of the search. Second, *HathiTrust* was a nonprofit educational entity, while Google is a profit-motivated commercial corporation. We discuss those differences below.

(3) *Snippet View*. Plaintiffs correctly point out that this case is significantly different from *HathiTrust* in that the Google Books search function allows searchers to read snippets from the book searched, whereas *HathiTrust* did not allow searchers to view any part of the book. Snippet view adds important value to the basic transformative search function, which tells only whether and how often the searched term appears in the book. Merely knowing that a term of interest appears in a book does not necessarily tell the searcher whether she needs to obtain the book, because it does not reveal whether the term is discussed in a manner or context falling within the scope of the searcher’s interest. (...)

Google’s division of the page into tiny snippets is designed to show the searcher just enough context surrounding the searched term to help her evaluate whether the book falls within the scope of her interest (without revealing so much as to threaten the author’s copyright interests). Snippet view thus adds importantly to the highly transformative purpose of identifying books of interest to the searcher. With respect to the first factor test, it favors a finding of fair use (unless the value of its transformative purpose is overcome by its providing text in a manner that offers a competing substitute for Plaintiffs’ books, which we discuss under factors three and four below).

(4) *Google’s Commercial Motivation*. Plaintiffs also contend that Google’s commercial motivation weighs in their favor under the first factor. Google’s commercial motivation distinguishes this case from *HathiTrust*, as the defendant

in that case was a non-profit entity founded by, and acting as the representative of, libraries. Although Google has no revenues flowing directly from its operation of the Google Books functions, Plaintiffs stress that Google is profit-motivated and seeks to use its dominance of book search to fortify its overall dominance of the Internet search market, and that thereby Google indirectly reaps profits from the Google Books functions.

For these arguments Plaintiffs rely primarily on two sources. First is Congress's specification in spelling out the first fair use factor in the text of §107 that consideration of the "purpose and character of the [secondary] use" should "include[e] whether such use is of a commercial nature or is for nonprofit educational purposes." Second is the Supreme Court's assertion in dictum in *Sony Corporation of America v. Universal City Studios, Inc.*, that "every commercial use of copyrighted material is presumptively ... unfair." If that were the extent of precedential authority on the relevance of commercial motivation, Plaintiffs' arguments would muster impressive support. However, while the commercial motivation of the secondary use can undoubtedly weigh against a finding of fair use in some circumstances, the Supreme Court, our court, and others have eventually recognized that the *Sony* dictum was enormously overstated. (...)

Our court has since repeatedly rejected the contention that commercial motivation should outweigh a convincing transformative purpose and absence of significant substitutive competition with the original. (...)

While we recognize that in some circumstances, a commercial motivation on the part of the secondary user will weigh against her, especially, as the Supreme Court suggested, when a persuasive transformative purpose is lacking, we see no reason in this case why Google's overall profit motivation should prevail as a reason for denying fair use over its highly convincing transformative purpose, together with the absence of significant substitutive competition, as reasons for granting fair use. Many of the most universally accepted forms of fair use, such as news reporting and commentary, quotation in historical or analytic books, reviews of books, and performances, as well as parody, are all normally done commercially for profit.

B. Factor Two

The second fair use factor directs consideration of the "nature of the copyrighted work." While the "transformative purpose" inquiry discussed above is conventionally treated as a part of first factor analysis, it inevitably involves the second factor as well. One cannot assess whether the copying work has an objective that differs from the original without considering both works, and their respective objectives.

The second factor has rarely played a significant role in the determination of a fair use dispute. The Supreme Court in *Harper & Row* made a passing observation in dictum that, “[t]he law generally recognizes a greater need to disseminate factual works than works of fiction or fantasy.” Courts have sometimes speculated that this might mean that a finding of fair use is more favored when the copying is of factual works than when copying is from works of fiction. However, while the copyright does not protect facts or ideas set forth in a work, it does protect that author’s manner of expressing those facts and ideas. At least unless a persuasive fair use justification is involved, authors of factual works, like authors of fiction, should be entitled to copyright protection of their protected expression. The mere fact that the original is a factual work therefore should not imply that others may freely copy it. Those who report the news undoubtedly create factual works. It cannot seriously be argued that, for that reason, others may freely copy and re-disseminate news reports.

In considering the second factor in *HathiTrust*, we concluded that it was “not dispositive,” commenting that courts have hardly ever found that the second factor in isolation played a large role in explaining a fair use decision. The same is true here. While each of the three Plaintiffs’ books in this case is factual, we do not consider that as a boost to Google’s claim of fair use. If one (or all) of the plaintiff works were fiction, we do not think that would change in any way our appraisal. Nothing in this case influences us one way or the other with respect to the second factor considered in isolation. To the extent that the “nature” of the original copyrighted work necessarily combines with the “purpose and character” of the secondary work to permit assessment of whether the secondary work uses the original in a “transformative” manner, as the term is used in *Campbell*, the second factor favors fair use not because Plaintiffs’ works are factual, but because the secondary use transformatively provides valuable information about the original, rather than replicating protected expression in a manner that provides a meaningful substitute for the original.

C. Factor Three

The third statutory factor instructs us to consider “the amount and substantiality of the portion used in relation to the copyrighted work as a whole.” The clear implication of the third factor is that a finding of fair use is more likely when small amounts, or less important passages, are copied than when the copying is extensive, or encompasses the most important parts of the original. The obvious reason for this lies in the relationship between the third and the fourth factors. The larger the amount, or the more important the part, of the original that is copied, the greater the likelihood that the secondary work might serve as an effectively

competing substitute for the original, and might therefore diminish the original rights holder's sales and profits.

(1) *Search Function*. The Google Books program has made a digital copy of the entirety of each of Plaintiffs' books. Notwithstanding the reasonable implication of Factor Three that fair use is more likely to be favored by the copying of smaller, rather than larger, portions of the original, courts have rejected any categorical rule that a copying of the entirety cannot be a fair use. Complete unchanged copying has repeatedly been found justified as fair use when the copying was reasonably appropriate to achieve the copier's transformative purpose and was done in such a manner that it did not offer a competing substitute for the original. The Supreme Court said in *Campbell* that "the extent of permissible copying varies with the purpose and character of the use" and characterized the relevant questions as whether "the amount and substantiality of the portion used ... are reasonable in relation to the purpose of the copying," noting that the answer to that question will be affected by "the degree to which the [copying work] may serve as a market substitute for the original or potentially licensed derivatives".

In *HathiTrust*, our court concluded in its discussion of the third factor that "[b]ecause it was reasonably necessary for the [HathiTrust Digital Library] to make use of the entirety of the works in order to enable the full-text search function, we do not believe the copying was excessive." As with *HathiTrust*, not only is the copying of the totality of the original reasonably appropriate to Google's transformative purpose, it is literally necessary to achieve that purpose. If Google copied less than the totality of the originals, its search function could not advise searchers reliably whether their searched term appears in a book (or how many times).

While Google *makes* an unauthorized digital copy of the entire book, it does not reveal that digital copy to the public. The copy is made to enable the search functions to reveal limited, important information about the books. With respect to the search function, Google satisfies the third factor test, as illuminated by the Supreme Court in *Campbell*.

(2) *Snippet View*. Google's provision of snippet view makes our third factor inquiry different from that inquiry in *HathiTrust*. What matters in such cases is not so much "the amount and substantiality of the portion used" *in making a copy*, but rather the amount and substantiality of *what is thereby made accessible* to a public for which it may serve as a competing substitute. In *HathiTrust*, notwithstanding the defendant's full-text copying, the search function revealed virtually nothing of the text of the originals to the public. Here, through the snippet view, more is revealed to searchers than in *HathiTrust*.

Without doubt, enabling searchers to see portions of the copied texts could have determinative effect on the fair use analysis. The larger the quantity of the copyrighted text the searcher can see and the more control the searcher can exercise over what part of the text she sees, the greater the likelihood that those revelations could serve her as an effective, free substitute for the purchase of the plaintiff's book. We nonetheless conclude that, at least as presently structured by Google, the snippet view does not reveal matter that offers the marketplace a significantly competing substitute for the copyrighted work.

Google has constructed the snippet feature in a manner that substantially protects against its serving as an effectively competing substitute for Plaintiffs' books. In the Background section of this opinion, we describe a variety of limitations Google imposes on the snippet function. These include the small size of the snippets (normally one eighth of a page), the blacklisting of one snippet per page and of one page in every ten, the fact that no more than three snippets are shown – and no more than one per page – for each term searched, and the fact that the same snippets are shown for a searched term no matter how many times, or from how many different computers, the term is searched. In addition, Google does not provide snippet view for types of books, such as dictionaries and cookbooks, for which viewing a small segment is likely to satisfy the searcher's need. The result of these restrictions is, so far as the record demonstrates, that a searcher cannot succeed, even after long extended effort to multiply what can be revealed, in revealing through a snippet search what could usefully serve as a competing substitute for the original.

The blacklisting, which permanently blocks about 22% of a book's text from snippet view, is by no means the most important of the obstacles Google has designed. While it is true that the blacklisting of 22% leaves 78% of a book *theoretically* accessible to a searcher, it does not follow that any large part of that 78% is in fact accessible. The other restrictions built into the program work together to ensure that, even after protracted effort over a substantial period of time, only small and randomly scattered portions of a book will be accessible. In an effort to show what large portions of text searchers can read through persistently augmented snippet searches, Plaintiffs' counsel employed researchers over a period of weeks to do multiple word searches on Plaintiffs' books. In no case were they able to access as much as 16% of the text, and the snippets collected were usually not sequential but scattered randomly throughout the book. Because Google's snippets are arbitrarily and uniformly divided by lines of text, and not by complete sentences, paragraphs, or any measure dictated by content, a searcher would have great difficulty constructing a search so as to provide any extensive information about the book's use of that term. As snippet view never reveals more than one snippet per page in response to repeated searches for the same term, it is at least

difficult, and often impossible, for a searcher to gain access to more than a single snippet's worth of an extended, continuous discussion of the term.

The fact that Plaintiffs' searchers managed to reveal nearly 16% of the text of Plaintiffs' books overstates the degree to which snippet view can provide a meaningful substitute. At least as important as the percentage of words of a book that are revealed is the manner and order in which they are revealed. Even if the search function revealed 100% of the words of the copyrighted book, this would be of little substitutive value if the words were revealed in alphabetical order, or any order other than the order they follow in the original book. It cannot be said that a revelation is "substantial" in the sense intended by the statute's third factor if the revelation is in a form that communicates little of the sense of the original. The fragmentary and scattered nature of the snippets revealed, even after a determined, assiduous, time-consuming search, results in a revelation that is not "substantial," even if it includes an aggregate 16% of the text of the book. If snippet view could be used to reveal a coherent block amounting to 16% of a book, that would raise a very different question beyond the scope of our inquiry.

D. Factor Four

The fourth fair use factor, "the effect of the [copying] use upon the potential market for or value of the copyrighted work," focuses on whether the copy brings to the marketplace a competing substitute for the original, or its derivative, so as to deprive the rights holder of significant revenues because of the likelihood that potential purchasers may opt to acquire the copy in preference to the original. Because copyright is a commercial doctrine whose objective is to stimulate creativity among potential authors by enabling them to earn money from their creations, the fourth factor is of great importance in making a fair use assessment.

Campbell stressed the close linkage between the first and fourth factors, in that the more the copying is done to achieve a purpose that differs from the purpose of the original, the less likely it is that the copy will serve as a satisfactory substitute for the original. Consistent with that observation, the *HathiTrust* court found that the fourth factor favored the defendant and supported a finding of fair use because the ability to search the text of the book to determine whether it includes selected words "does not serve as a substitute for the books that are being searched."

However, *Campbell's* observation as to the likelihood of a secondary use serving as an effective substitute goes only so far. Even if the *purpose* of the copying is for a valuably transformative purpose, such copying might nonetheless harm the value of the copyrighted original if done in a manner that results in widespread revelation of sufficiently significant portions of the original as to make available

a significantly competing substitute. The question for us is whether snippet view, notwithstanding its transformative purpose, does that. We conclude that, at least as snippet view is presently constructed, it does not.

Especially in view of the fact that the normal purchase price of a book is relatively low in relation to the cost of manpower needed to secure an arbitrary assortment of randomly scattered snippets, we conclude that the snippet function does not give searchers access to effectively competing substitutes. Snippet view, at best and after a large commitment of manpower, produces discontinuous, tiny fragments, amounting in the aggregate to no more than 16% of a book. This does not threaten the rights holders with any significant harm to the value of their copyrights or diminish their harvest of copyright revenue.

We recognize that the snippet function can cause *some* loss of sales. There are surely instances in which a searcher's need for access to a text will be satisfied by the snippet view, resulting in either the loss of a sale to that searcher, or reduction of demand on libraries for that title, which might have resulted in libraries purchasing additional copies. But the possibility, or even the probability or certainty, of some loss of sales does not suffice to make the copy an effectively competing substitute that would tilt the weighty fourth factor in favor of the rights holder in the original. There must be a meaningful or significant effect "upon the potential market for or value of the copyrighted work." (...)

Even if the snippet reveals some authorial expression, because of the brevity of a single snippet and the cumbersome, disjointed, and incomplete nature of the aggregation of snippets made available through snippet view, we think it would be a rare case in which the searcher's interest *in the protected aspect* of the author's work would be satisfied by what is available from snippet view, and rarer still – because of the cumbersome, disjointed, and incomplete nature of the aggregation of snippets made available through snippet view – that snippet view could provide a significant substitute for the purchase of the author's book.

Accordingly, considering the four fair use factors in light of the goals of copyright, we conclude that Google's making of a complete digital copy of Plaintiffs' works for the purpose of providing the public with its search and snippet view functions (at least as snippet view is presently designed) is a fair use and does not infringe Plaintiffs' copyrights in their books. (...)

CONCLUSION

The judgment of the district court is **AFFIRMED**.

THINK IT OVER!

What are the consequences of the Circuit Court’s decision – that clearly follows the District Court’s opinion – 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 ECJ in *TUD v. Ulmer*. ***Would HathiTrust’s service compatible with the copyright law of the European Union?***

FURTHER CASE LAW

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

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

Case C117/13 – Technische Universität Darmstadt v. Eugen Ulmer KG, Judgment of the Court (Fourth Chamber), 11 September 2014, ECLI:EU:C:2014:2196

RECOMMENDED READINGS

In English

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

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

HARI, Priya: Is Scanning Books Really Fair Use?: The Next Chapter in the Google Books Litigation, *Charlotte Law Review*, Fall 2015, p. 111-133.

KOONCE, Lance: Another Page in the Google Books Saga: Appeals Court Blesses Mass Digitization Project as Fair Use, *Intellectual Property & Technology Law Journal*, February 2016, p. 20-23.

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.

In Spanish

Ripa, Torres – Hernández, Javier y Gómez – Antonio, José (coords.): *El copyright en cuestión. Diálogos sobre propiedad intelectual*, Deusto Digital, Universidad de Deusto, 2011

Technische Universität Darmstadt v. Eugen Ulmer

Case C117/13, Judgment of the Court (Fourth Chamber), 11 September 2014 [ECLI:EU:C:2014:2196]

(...) Legal context*European Union law*

3 Recitals (...) 34, 36 (...) in the preamble to Directive 2001/29 are worded as follows:

(...)

(34) Member States should be given the option of providing for certain exceptions or limitations for cases such as educational and scientific purposes, for the benefit of public institutions such as libraries and archives, for purposes of news reporting, for quotations, for use by people with disabilities, for public security uses and for uses in administrative and judicial proceedings.

...

(36) The Member States may provide for fair compensation for rightholders also when applying the optional provisions on exceptions or limitations which do not require such compensation.

(...)

6 Article 5 of the same directive, entitled ‘Exceptions and limitations’, provides in paragraph 2:

‘Member States may provide for exceptions or limitations to the reproduction right provided for in Article 2 in the following cases:

- (a) in respect of reproductions on paper or any similar medium, effected by the use of any kind of photographic technique or by some other process having similar effects, with the exception of sheet music, provided that the rightholders receive fair compensation;*
- (b) in respect of reproductions on any medium made by a natural person for private use and for ends that are neither directly nor indirectly commercial, on condition that the rightholders receive fair compensation which takes account of the application or non-application of technological measures referred to in Article 6 to the work or subject-matter concerned;*
- (c) 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;*

...’

7 Article 5(3) of that directive provides:

‘Member States may provide for exceptions or limitations to the rights provided for in Articles 2 and 3 in the following cases:

...

- (n) use by 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;*

...’

8 According to Article 5(5) of the same directive:

‘The exceptions and limitations provided for in paragraphs 1, 2, 3 and 4 shall only be applied in certain special cases which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.’

German law

9 Paragraph 52b of the German Law on copyright (Urheberrechtsgesetz, ‘UrhG’) of 9 September 1965 (BGBl. I, p. 1273), in the version applicable at the date of the facts in the main proceedings, is worded as follows:

‘Reproduction of works at electronic reading points in public libraries, museums and archives

So far as there are no contractual provisions to the contrary, it shall be permissible to make published works available from the holdings of publicly

accessible libraries, museums or archives, which neither directly nor indirectly serve economic or commercial purposes, exclusively on the premises of the relevant establishment at electronic reading points dedicated to the purpose of research and for private study. The number of copies of a work made available at electronic reading points shall not, in principle, be higher than the number held by the establishment. Equitable remuneration shall be paid in consideration of their being made available. The claim may be asserted only by a collecting society.'

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

10 TU Darmstadt operates a regional and academic library in which it installed electronic reading points that allow the public to consult works contained in the collection of that library.

11 Since January or February 2009, those works have included the textbook of Schulze W., Einführung in die neuere Geschichte ('the textbook at issue'), published by Ulmer, a scientific publishing house established in Stuttgart (Germany).

12 TU Darmstadt did not take up Ulmer's offer of 29 January 2009 of an opportunity to purchase and use the textbooks it publishes as electronic books ('e-books'), including the textbook at issue.

13 TU Darmstadt digitised that textbook so as to make it available to users on electronic reading points installed in its library. Those points did not allow for a greater number of copies of that work to be consulted at any one time than the number owned by the library. Users of the reading points could print out the work on paper or store it on a USB stick, in part or in full, and take it out of the library in that form.

14 In an action brought by Ulmer, the Landgericht (Regional Court) Frankfurt am Main held, by judgment of 6 March 2011, that the rightholder and establishment must have reached prior agreement on the digital use of the work concerned for Paragraph 52b of the UrhG not to apply. That court also rejected Ulmer's application seeking to prohibit TU Darmstadt from digitising the textbook at issue or having it digitised. However, it granted that company's request to prohibit users of the TU Darmstadt library from being able, at electronic reading points installed therein, to print out that work and/or store it on a USB stick and/or take such reproductions out of the library.

15 Hearing an appeal by TU Darmstadt on a point of law, the Bundesgerichtshof (Federal Court of Justice) considers, in the first place, that the question arises

whether works and other protected objects are ‘subject to purchase or licensing terms’, within the meaning of Article 5(3)(n) of Directive 2001/29, where the rightholder offers to conclude with an establishment referred to in that provision appropriately worded licensing agreements in respect of those works or whether a different interpretation of that provision must be adopted, in terms of which only cases where the owner and the establishment have entered into an agreement on that matter are covered.

16 That court takes the view that, unlike the German language version of the provision, the English and French language versions are consistent with the first of the above interpretations. That interpretation could also be justified on the basis of the purpose and general scheme of Directive 2001/29. However, if only the entering into an agreement would allow for the application of that provision to be ruled out, it would be open to the establishment to refuse an appropriate offer from the rightholder so as to benefit from the limiting provision in question, which would also mean that the owner would not receive appropriate remuneration, which nevertheless is one of the objectives of that directive.

17 In the second place, the referring court is uncertain whether Article 5(3)(n) of Directive 2001/29 must be interpreted to mean that it allows Member States to confer on the establishments referred to in that provision the right to digitise the works contained in their collections to the extent that the communication or making available of those works on their terminals requires such reproduction. The referring court takes the view that Member States should have an ancillary competence in order to provide for such an exception to the reproduction right referred to in Article 2 of that directive or such a limitation of that right; otherwise the effectiveness of Article 5(3)(n) would not be guaranteed. That competence could, in any event, be inferred from Article 5(2)(c) of the directive.

18 In the third place, the referring court takes the view that the dispute in the main proceedings raises the question whether, pursuant to Article 5(3)(n) of Directive 2001/29, Member States may provide for a limiting provision permitting the users of an establishment referred to in that provision to print out on paper or store on a USB stick, in part or in full, the works reproduced or made available by the establishment on its terminals.

19 In that regard, that court considers, first of all, that while those printouts, stored copies or downloads, being related to the reproduction of a work, are not, in principle, covered by the limitation provided for in Article 5(3)(n) of Directive 2001/29, they could nevertheless be permitted, as an extension of the communication or of the making available of a work by the establishment in

question, under another limitation, in particular, pursuant to the so-called ‘private copying’ exception provided for in Article 5(2)(b) of that directive.

20 Next, the court finds that the objective referred to in Article 5(3)(n) of Directive 2001/29, which entails permitting the efficient use, for the purpose of research or private study, of texts communicated or made available on the terminals of an establishment such as a library, is consistent with an interpretation of that provision to the effect that the printing out on paper of a work from a terminal should be permitted, whereas storage on a USB stick should not be.

21 Lastly, the referring court considers that such an interpretation of Article 5(3)(n) of Directive 2001/29 would also ensure that the scope of the limitation provided for in that provision respects the threefold condition provided for in Article 5(5) of that directive. In its view, storage of a work on a USB stick encroaches upon the rights of the author of that work more than printing it out on paper.

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

‘(1) Is a work subject to purchase or licensing terms, within the meaning of Article 5(3)(n) of Directive 2001/29, where the rightholder offers to conclude with the establishments referred to therein licensing agreements for the use of that work on appropriate terms?’

(2) Does Article 5(3)(n) of Directive 2001/29 entitle the Member States to confer on those establishments the right to digitise the works contained in their collections, if that is necessary in order to make those works available on terminals?’

(3) May the rights which the Member States lay down pursuant to Article 5(3)(n) of Directive 2001/29 go so far as to enable users of the terminals to print out on paper or store on a USB stick the works made available there?’

Consideration of the questions referred for a preliminary ruling

The first question

23 By its first question, the referring court is essentially asking whether a work is subject to ‘purchase or licensing terms’, within the meaning of Article 5(3)(n) of Directive 2001/29, where the rightholder has offered to conclude with an establishment referred to in that provision, such as a publicly accessible library, on appropriately worded terms a licensing agreement in respect of that work.

24 All of the interested parties that have presented written observations, with the exception of Ulmer, propose that the first question be answered in the negative

and essentially support an interpretation to the effect that the concept of ‘purchase or licensing terms’, mentioned in Article 5(3)(n) of Directive 2001/29, must be understood to mean that the rightholder and establishment concerned must have concluded a licensing agreement in respect of the work in question that sets out the conditions in which that establishment may use the work.

25 Ulmer argues that the mere fact that the rightholder offers to conclude a licensing agreement with a publicly accessible library is sufficient for ruling out the application of Article 5(3)(n) of Directive 2001/29, provided always that such offer is ‘appropriate’.

26 In that regard, first of all, a comparison of the language versions of Article 5(3)(n) of Directive 2001/29, particularly the English, French, German and Spanish versions – which use the words ‘terms’, ‘conditions’, ‘Regelung’ and ‘condiciones’, respectively – shows that, in that provision, the EU legislature used the concepts ‘terms’ or ‘provisions’, which refer to contractual terms actually agreed as opposed to mere contractual offers.

27 Next, it should be recalled that the limitation under Article 5(3)(n) of Directive 2001/29 aims to promote the public interest in promoting research and private study, through the dissemination of knowledge, which constitutes, moreover, the core mission of publicly accessible libraries.

28 The interpretation favoured by Ulmer implies that the rightholder could, by means of a unilateral and essentially discretionary action, deny the establishment concerned the right to benefit from that limitation and thereby prevent it from realising its core mission and promoting the public interest.

29 Moreover, recital 40 in the preamble to Directive 2001/29 states that specific contracts or licences should be promoted which, without creating imbalances, favour such establishments and the disseminative purposes they serve.

30 As noted by the Advocate General in points 21 and 22 of his Opinion, recitals 45 and 51 in the preamble to Directive 2001/29 confirm (including in their German version) that, in the context, inter alia, of the exceptions and limitations listed in Article 5(3) of Directive 2001/29, it is existing contractual relations and the conclusion and implementation of existing contractual agreements that are at issue, and not mere prospects of contracts or licences.

31 Furthermore, the interpretation proposed by Ulmer is difficult to reconcile with the aim pursued by Article 5(3)(n) of Directive 2001/29, which is to maintain a fair balance between the rights and interests of rightholders, on the one hand, and, on the other hand, users of protected works who wish to communicate them to

the public for the purpose of research or private study undertaken by individual members of the public.

32 In addition, if the mere act of offering to conclude a licensing agreement were sufficient to rule out the application of Article 5(3)(n) of Directive 2001/29, such an interpretation would be liable to negate much of the substance of the limitation provided for in that provision, or indeed its effectiveness, since, were it to be accepted, the limitation would apply, as Ulmer has maintained, only to those increasingly rare works of which an electronic version, primarily in the form of an e-book, is not yet offered on the market.

33 Lastly, the interpretation to the effect that there must be contractual terms actually agreed also cannot be ruled out – contrary to what is maintained by Ulmer – by reason of the fact that it would conflict with the threefold condition provided for in Article 5(5) of Directive 2001/29.

34 In that regard, it is sufficient to state that the limitation provided for in Article 5(3)(n) of Directive 2001/29 is accompanied by a number of restrictions that guarantee – even though the application of that provision is ruled out only in the event that contractual terms have actually been concluded – the continuing applicability of such a limitation in special cases which do not conflict with a normal exploitation of the works and do not unreasonably prejudice the legitimate interests of the rightholder.

35 In the light of the foregoing considerations, the answer to the first question is that the concept of ‘purchase or licensing terms’ provided for in Article 5(3)(n) of Directive 2001/29 must be understood as requiring that the rightholder and an establishment, such as a publicly accessible library, referred to in that provision must have concluded a licensing agreement in respect of the work in question that sets out the conditions in which that establishment may use that work.

The second question

36 By its second question, the referring court is essentially asking whether Article 5(3)(n) of Directive 2001/29 must be interpreted to mean that it precludes Member States from granting to publicly accessible libraries covered by that provision the right to digitise the works contained in their collections, if such act of reproduction is necessary for the purpose of making those works available to users, by means of dedicated terminals, within those establishments.

37 The first point to be noted is that the digitisation of a work, which essentially involves the conversion of the work from an analogue format into a digital one, constitutes an act of reproduction of the work.

38 The question therefore arises whether Article 5(3)(n) of Directive 2001/29 permits Member States to grant that reproduction right to publicly accessible libraries, since, under Article 2 of that directive, it is the authors that have the exclusive right to authorise or prohibit the reproduction of their works.

39 In that regard, it should first be stated that, according to the first sentence of Article 5(3) of Directive 2001/29, the exceptions and limitations set out in that paragraph relate to the rights provided for in Articles 2 and 3 of that directive and thus both the exclusive reproduction right enjoyed by the rightholder and the right of communication to the public of works.

40 However, Article 5(3)(n) of the directive limits the use of works, within the meaning of that provision, to the ‘communication or making available’ of those works and thus to acts which fall under the sole exclusive right of communication to the public of works referred to in Article 3 of that directive.

41 Next, it should be recalled that for there to be an ‘act of communication’ for the purposes of Article 3(1) of Directive 2001/29, it is sufficient, in particular, that those works are made available to a public in such a way that the persons forming that public may access them, irrespective of whether they avail themselves of that opportunity.

42 It follows that, in circumstances such as those of the case in the main proceedings, where an establishment, such as a publicly accessible library, which falls within Article 5(3)(n) of Directive 2001/29, gives access to a work contained in its collection to a ‘public’, namely all of the individual members of the public using the dedicated terminals installed on its premises for the purpose of research or private study, that must be considered to be ‘making [that work] available’ and, therefore, an ‘act of communication’ for the purposes of Article 3(1) of that directive.

43 Such a right of communication of works enjoyed by establishments such as publicly accessible libraries covered by Article 5(3)(n) of Directive 2001/29, within the limits of the conditions provided for by that provision, would risk being rendered largely meaningless, or indeed ineffective, if those establishments did not have an ancillary right to digitise the works in question.

44 Those establishments are recognised as having such a right pursuant to Article 5(2)(c) of Directive 2001/29, provided that ‘specific acts of reproduction’ are involved.

45 That condition of specificity must be understood as meaning that, as a general rule, the establishments in question may not digitise their entire collections.

46 However, that condition is, in principle, observed where the digitisation of some of the works of a collection is necessary for the purpose of the ‘use by communication or making available, for the purpose of research or private study, to individual members of the public by dedicated terminals’, as provided in Article 5(3)(n) of Directive 2001/29.

47 Furthermore, the scope of that ancillary right of digitisation must be determined by interpreting Article 5(2)(c) of Directive 2001/29 in the light of Article 5(5) of that directive, under which that limitation is applicable only in certain special cases which do not prejudice the normal exploitation of the work or other protected object or cause unjustified harm to the legitimate interests of the rightholder, the latter provision, however, not being intended to extend the scope of the exceptions and limitations provided for in Article 5(2) of the directive.

48 In the present case, it must be stated that the applicable national legislation takes due account of the conditions provided for in Article 5(5) of the directive, since it follows, first, from Article 52b of the UrhG, that the digitisation of works by publicly accessible libraries cannot have the result of the number of copies of each work made available to users by dedicated terminals being greater than that which those libraries have acquired in analogue format. Secondly, although, by virtue of that provision of national law, the digitisation of the work is not, as such, coupled with an obligation to provide compensation, the subsequent making available of that work in digital format, on dedicated terminals, gives rise to a duty to make payment of adequate remuneration.

49 Having regard to the foregoing considerations, the answer to the second question is that Article 5(3)(n) of Directive 2001/29, read in conjunction with Article 5(2)(c) of that directive, must be interpreted to mean that it does not preclude Member States from granting to publicly accessible libraries covered by those provisions the right to digitise the works contained in their collections, if such act of reproduction is necessary for the purpose of making those works available to users, by means of dedicated terminals, within those establishments.

The third question

50 By its third question, the referring court is essentially asking whether Article 5(3)(n) of Directive 2001/29 must be interpreted to mean that it precludes Member States from granting to publicly accessible libraries covered by that provision the

right to make works available to users by dedicated terminals which permit the printing out of those works on paper or their storage on a USB stick.

51 As is clear from paragraphs 40 and 42 of the present judgment, the limitation laid down in Article 5(3)(n) of Directive 2001/29 covers, in principle, only certain acts of communication normally falling under the exclusive right of the author provided for in Article 3 of that directive, namely those by which the establishments in question make a work available to individual members of the public, for the purpose of research or private study, by dedicated terminals installed on their premises.

52 It is undisputed that acts such as the printing out of a work on paper or its storage on a USB stick, even if made possible by the specific features of the dedicated terminals on which that work can be consulted, are not acts of ‘communication’, within the meaning of Article 3 of Directive 2001/29, but rather of ‘reproduction’, within the meaning of Article 2 of that directive.

53 What is involved is the creation of a new analogue or digital copy of the work that an establishment makes available to users by means of dedicated terminals.

54 Such acts of reproduction, unlike some operations involving the digitisation of a work, also cannot be permitted under an ancillary right stemming from the combined provisions of Articles 5(2)(c) and 5(3)(n) of Directive 2001/29, since they are not necessary for the purpose of making the work available to the users of that work, by dedicated terminals, in accordance with the conditions laid down by those provisions. Moreover, since those acts are carried out not by the establishments referred to in Article 5(3)(n) of Directive 2001/29, but rather by the users of the dedicated terminals installed within those establishments, they cannot be authorised under that provision.

55 By contrast, such acts of reproduction on analogue or digital media may, if appropriate, be authorised under the national legislation transposing the exceptions or limitations provided for in Article 5(2)(a) or (b) of Directive 2001/29 since, in each individual case, the conditions laid down by those provisions, in particular as regards the fair compensation which the rightholder must receive, are met.

56 Furthermore, such acts of reproduction must observe the conditions set out in Article 5(5) of Directive 2001/29. Consequently, the extent of the texts reproduced may not, in particular, unreasonably prejudice the legitimate interests of the rightholder.

57 Having regard to the foregoing considerations, the answer to the third question is that Article 5(3)(n) of Directive 2001/29 must be interpreted to mean that

it does not extend to acts such as the printing out of works on paper or their storage on a USB stick, carried out by users from dedicated terminals installed in publicly accessible libraries covered by that provision. However, such acts may, if appropriate, be authorised under national legislation transposing the exceptions or limitations provided for in Article 5(2)(a) or (b) of that directive provided that, in each individual case, the conditions laid down by those provisions are met.

(...)

THINK IT OVER!

1. Surprisingly, the ECJ employs a new language to describe the action taken out by the public library mentioning “*ancillary right of digitization*” instead of “*limitation and exception to reproduction right*”, even though the court applies the three-step test to this ancillary right like it was a classic limitation or exception. ***What do you think, what kind of practical implications might arise from this hypothetical distinction?***
2. Clearly, the effectiveness of the exception provided in Article 5(3)(n) of Directive 2001/29/EC is linked to the prior digitization carried out by public libraries. In fact, without the previous act of reproduction public libraries wouldn't be able to communicate or make available to the public protected works acquired in non-digital format.
3. The Court specifies that ancillary right of digitization does not allow publicly accessible libraries to digitize their entire collection (paragraph 45). In principle, digitization is possible in the extent of some of the works of a collection if it's necessary for the purpose laid down in Article 5(3)(n). However, it remains unclear how to interpret the condition of “some of the works”. ***Would it be lawful to digitize a substantial volume of the collection?***

RECOMMENDED READINGS

In English

LINKLATER, Emma: Make me an offer I won't regret: Offers to license works on acceptable terms cannot block libraries' "right" to digitize for access on dedicated terminals: Technische Universität Darmstadt, *Common Market Law Review*, Issue 3/2015, p. 813–823.

ROSATI, Eleonora: Copyright: CJEU says that Member States may grant public libraries the right to digitize works in their collections, *Journal of Intellectual Property Law and Practice*, Issue 1/2015, p. 6–8.

LOEWENHEIM, Ulrich: Boundaries of use of electronic terminals, *Journal of Intellectual Property Law and Practice*, Issue 5/2015 p. 384–387.

In French

CARON, Christophe: A propos de la consultation d'œuvres numérisées dans les bibliothèques, *Communication, commerce électronique*, 2014/11. comm. 83.

Marc Soulier, Sara Doke v. Premier ministre, Ministre de la Culture et de la Communication

Case C301/15, Judgment of the Court (Third Chamber), 16 November 2016 [ECLI:EU:C:2016:878]

(...) Legal context

International law

Berne Convention

(...)

5 Article 5 of that Convention provides, inter alia, in paragraphs 1 and 2 thereof:

1. *Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention.*
2. *The enjoyment and the exercise of those rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the*

existence of protection in the country of origin of the work. Consequently, apart from the provisions of this Convention, the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed.'

(...)

EU law

10 Recitals 9, 15 and 32 of Directive 2001/29 state:

(32) This Directive provides for an exhaustive enumeration of exceptions and limitations to the reproduction right and the right of communication to the public. Some exceptions or limitations only apply to the reproduction right, where appropriate. This list takes due account of the different legal traditions in Member States, while, at the same time, aiming to ensure a functioning internal market. Member States should arrive at a coherent application of these exceptions and limitations, which will be assessed when reviewing implementing legislation in the future.'

(...)

13 Article 5 of that directive, entitled 'Exceptions and limitations', states, inter alia, in paragraphs 2 and 3 thereof, that the Member States may, in the cases listed therein, provide for various exceptions and limitations to the reproduction right and the right of communication to the public provided for in Articles 2 and 3 of that directive.

French law

14 The Loi No 2012-287, du 1er mars 2012, relative à l'exploitation numérique des livres indisponibles du XXème siècle (Law No 2012-287 of 1 March 2012 on the digital exploitation of out-of-print 20th century books) (JORF No 53 of 2 March 2012, p. 3986) added to Title III of Book One of the first part of the Intellectual Property Code, which deals with the exploitation of rights related to copyright, a Chapter IV, entitled 'Special provisions relating to the digital exploitation of out-of-print books', comprising Articles L. 134-1 to L. 134-9 of that code. Some of those articles were subsequently amended or repealed by the Loi No 2015-195, du 20 février 2015, portant diverses dispositions d'adaptation au droit de l'Union européenne dans les domaines de la propriété littéraire et artistique et du patrimoine culturel (Law No 2015195 of 20 February 2015 containing various provisions implementing EU law in the fields of literary and artistic property and cultural heritage) (JORF No 45 of 22 February 2015, p. 3294).

15 Articles L. 134-1 to L. 134-9 of the Intellectual Property Code, as drafted following those two laws, read as follows:

Article L. 134-1

For the purposes of this Chapter, an out-of-print book means a book published in France before 1 January 2001 which is no longer commercially distributed by a publisher and is not currently published in print or in a digital format.

Article L. 134-2

A public database indexing out-of-print books shall be created and made openly available, free of charge, through an online, public communication service. The Bibliothèque nationale de France (National Library of France) shall be responsible for implementing and updating it and for recording the information provided for in Articles L. 134-4, L. 134-5 and L. 134-6.

...

Article L. 134-3

I. When a book has been registered in the database referred to in Article L. 134-2 for more than six months, the right to authorise its reproduction and performance in digital format shall be exercised by a collecting society governed by Title II of Book III of this Part and approved for that purpose by the Minister responsible for culture.

With the exception of the case provided for in the third subparagraph of Article L. 134-5, the reproduction and performance of the book in digital format shall be authorised, in return for remuneration, on a nonexclusive basis and for a renewable period of five years.

II. Approved societies shall have standing to bring legal proceedings with a view to protecting the rights that they administer.

III. The approval provided for in I shall be issued having regard to:

...

2° equal representation of authors and publishers among the members and within the executive bodies;

...

5° the fairness of the rules governing the distribution of collected income among successors in title, whether or not they are parties to the publishing contract. The amount of the sums received by the author or authors of the book may not be less than the amount of the sums received by the publisher;

6° the evidentiary measures which the society intends to apply in order to identify and locate rightholders, for the purposes of distributing the collected income;

...

Article L. 134-4

I. The author of an out-of-print book or a publisher with the right to reproduce printed copies of that book may oppose the exercise by an approved collecting society of the right of authorisation referred to in the first subparagraph

of Article L. 134-3(I). Notification of that opposition shall be submitted in writing to the body referred to in the first subparagraph of Article L. 134-2 no later than six months after the book in question has been registered in the database referred to in the same subparagraph.

...

Article L. 134-5

If, upon expiration of the period laid down in Article L. 134-4(I), the author or publisher has not given notice of opposition, the collecting society shall offer authorisation to reproduce and perform an out-of-print book in digital format to the publisher having the right to reproduce that book in print.

...

The exploitation authorisation referred to in the first subparagraph shall be issued by the collecting society on an exclusive basis for a 10-year period which is tacitly renewable.

...

If the offer referred to in the first subparagraph is not accepted ..., the reproduction and performance of the book in digital format shall be authorised by the collecting society as provided for in the second subparagraph of Article L. 134-3(I).

...

Article L. 134-6

The author and publisher having the right of reproduction in print of an out-of-print book shall at any time jointly notify the collecting society referred to in Article L. 134-3 of their decision to withdraw the latter's right to authorise the reproduction and performance of that book in digital format.

The author of an out-of-print book may decide at any time to withdraw from the collecting society referred to in Article L. 134-3 the right to authorise the reproduction and performance of a book in digital format if he provides evidence that he alone holds the rights laid down in L. 134-3. He shall notify it of his decision.

...

Article L. 134-7

The detailed rules for the application of this Chapter, in particular the arrangements for access to the database provided for in Article L. 134-2, the nature and format of the data collected and the most appropriate publicity measures to ensure that successors in title are as well informed as possible, the conditions for issuing and withdrawing the approval of collecting societies provided for in Article L. 134-3, shall be laid down in a decree of the Conseil d'État (Council of State).

Article L. 134-9

By derogation from the provisions in the first three subparagraphs of Article L. 321-9, income collected through the exploitation of out-of-print books

which it has not been possible to distribute because the recipients could not be identified or located before expiry of the period provided for in the last subparagraph of L. 321-1 shall be used by the approved societies referred to in Article L. 134-3 for initiatives to support creative activities, initiatives to develop writers and initiatives by libraries to promote reading amongst the public.

...

16 The detailed rules for the application of Articles L. 134-1 to L. 134-9 of the Intellectual Property Code were subsequently laid down, pursuant to Article L. 134-7 of that code, by Decree No 2013-182, which inserted, inter alia, Article R. 134-11 into that code (...).

The dispute in the main proceedings and the question referred for a preliminary ruling

17 Within the meaning of the Intellectual Property Code, an ‘out-of-print book’ means a book published in France before 1 January 2001 which is no longer commercially distributed by a publisher and is not currently published in print or in digital form. Articles L. 134-1 to L. 134-9 of that code established a legal framework intended to make those books accessible once again by organising their commercial exploitation in digital form. The detailed rules for the application of those provisions were laid down by Decree No 2013-182.

18 By application registered on 2 May 2013, Mr Soulier and Ms Doke, who are both authors of literary works, requested the Conseil d’État (Council of State, France) to annul Decree No 2013-182.

19 In support of their claim, they submit, in particular, that Articles L. 134-1 to L. 134-9 of the Intellectual Property Code establish an exception or a limitation to the exclusive reproduction right laid down in Article 2(a) of Directive 2001/29 and that that exception or limitation is not included among those listed exhaustively in Article 5 thereof.

20 The Syndicat des écrivains de langue française (SELF), the Autour des auteurs association and 35 natural persons subsequently intervened in the proceedings in support of the claim brought by Mr Soulier and Ms Doke.

21 In their respective defences, the Prime Minister and the Minister for Culture and Communication both contested that the claim should be dismissed.

22 SOFIA subsequently intervened in the proceedings, also seeking to have those claims dismissed. SOFIA presents itself as a society made up equally of authors and publishers, mandated to manage the right to authorise the reproduction and

representation of out-of-print books in digital form, the public lending right and the remuneration for digital private copying in the field of writing.

23 After dismissing all the pleas of Mr Soulier and Ms Doke that rested on legal bases other than Articles 2 and 5 of Directive 2001/29, the referring court started the examination of the pleas relating to those articles by holding, immediately, that the treatment of that aspect of the case depends on the interpretation to be given of those articles.

24 In those circumstances, the Conseil d'État (Council of State) decided to stay the proceedings and to refer the following question to the Court of Justice for a preliminary ruling:

'Do [Articles 2 and 5] of Directive 2001/29 preclude legislation, such as that [established in Articles L. 134-1 to L. 134-9 of the Intellectual Property Code], 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?'

The question referred for a preliminary ruling

Preliminary observations

25 It is common ground, on the one hand, that the national legislation at issue in the main proceedings concerns not only the right to authorise the reproduction of out-of-print books in digital form, within the meaning of Article 2(a) of Directive 2001/29, but also the right to authorise the representation under that form and that such a representation constitutes a 'communication to the public' within the meaning of Article 3(1) of that directive.

26 On the other hand, that legislation does not fall within the scope of any of the exceptions and limitations that the Member States have the option of placing, on the basis of Article 5 of Directive 2001/29, on the rights of reproduction and communication to the public laid down in Article 2(a) and Article 3(1) of that directive. The list of exceptions and limitations authorised by that directive is exhaustive in nature, as is apparent from recital 32 thereof.

27 It therefore follows that Article 5 of Directive 2001/29 appears to be irrelevant for the purposes of the main proceedings.

28 In those circumstances, it must be considered that, by its question, the referring court asks, in essence, whether Article 2(a) and Article 3(1) of Directive 2001/29

must be interpreted as precluding national legislation, such as that at issue in the main proceedings, that gives an approved collecting society the right to authorise the reproduction and communication to the public, 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 that legislation lays down.

The Court's reply

29 Article 2(a) and Article 3(1) of Directive 2001/29 provide, respectively, that the Member States are to grant authors the exclusive right to authorise or prohibit direct or indirect reproduction of their works by any means and in any form and the exclusive right to authorise or prohibit any communication to the public of their works.

30 In that regard, it must be observed, first of all, that the protection conferred by those provisions on authors must be given a broad interpretation.

31 Therefore, that protection must be understood, in particular, as not being limited to the enjoyment of the rights guaranteed by Article 2(a) and Article 3(1) of Directive 2001/29, but as also extending to the exercise of those rights.

32 Such an interpretation is supported by the Berne Convention, Articles 1 to 21 of which the European Union is required to comply with under Article 1(4) of the WIPO Copyright Treaty, to which the European Union is a party and which Directive 2001/29 is intended, in particular, to implement, as stated in recital 15 thereof. It is apparent from Article 5(2) of that convention that the protection which it guarantees to authors extends both to the enjoyment and to the exercise of the rights of reproduction and communication to the public referred to in Article 9(1) and Article 11a(1) thereof, which correspond to those protected by Directive 2001/29.

33 Next, it is important to emphasise that the rights guaranteed to authors by Article 2(a) and Article 3(1) of Directive 2001/29 are preventive in nature, in the sense that any reproduction or communication to the public of a work by a third party requires the prior consent of its author.

34 It follows that, subject to the exceptions and limitations laid down exhaustively in Article 5 of Directive 2001/29, any use of a work carried out by a third party without such prior consent must be regarded as infringing the copyright in that work.

35 Nevertheless, Article 2(a) and Article 3(1) of Directive 2001/29 do not specify the way in which the prior consent of the author must be expressed, so that those provisions cannot be interpreted as requiring that such consent must necessarily be expressed explicitly. It must be held, on the contrary, that those provisions also allow that consent to be expressed implicitly.

36 Thus, in a case in which it was questioned about the concept of a ‘new public’, the Court held that, in a situation in which an author had given prior, explicit and unreserved authorisation to the publication of his articles on the website of a newspaper publisher, without making use of technological measures restricting access to those works from other websites, that author could be regarded, in essence, as having authorised the communication of those works to the general internet public.

37 However, the objective of increased protection of authors to which recital 9 of Directive 2001/29 refers implies that the circumstances in which implicit consent can be admitted must be strictly defined in order not to deprive of effect the very principle of the author’s prior consent.

38 In particular, every author must actually be informed of the future use of his work by a third party and the means at his disposal to prohibit it if he so wishes.

39 Failing any actual prior information relating to that future use, the author is unable to adopt a position on it and, therefore, to prohibit it, if necessary, so that the very existence of his implicit consent appears purely hypothetical in that regard.

40 Consequently, without guarantees ensuring that authors are actually informed as to the envisaged use of their works and the means at their disposal to prohibit it, it is *de facto* impossible for them to adopt any position whatsoever as to such use.

41 Concerning national legislation such as that at issue in the main proceedings, it must be stated that it gives an approved society the right to authorise the digital exploitation of out-of-print books, while allowing the authors of those books to oppose that practice in advance, within a time limit of six months after their registration in a database established to that effect.

42 Exercise of the right of opposition established by such legislation for the benefit of all the holders of rights in the books concerned, and in particular the authors, thus has the effect of prohibiting the use of those works, whereas the lack of opposition of a given author within the prescribed period can be construed, with regard to Article 2(a) and Article 3(1) of Directive 2001/29, as the expression of his implicit consent to that use.

43 It does not follow from the decision to refer that that legislation offers a mechanism ensuring authors are actually and individually informed. Therefore, it is not inconceivable that some of the authors concerned are not, in reality, even aware of the envisaged use of their works and, therefore, that they are not able to adopt a position, one way or the other, on it. In those circumstances, a mere lack of opposition on their part cannot be regarded as the expression of their implicit consent to that use.

44 This is all the more true considering that such legislation is aimed at books which, while having been published and commercially distributed in the past, are so no longer. That particular context precludes the conclusion that it can reasonably be presumed that, without opposition on their part, every author of these ‘forgotten’ books is, however, in favour of the ‘resurrection’ of their works, in view of their commercial use in a digital format.

45 Admittedly, Directive 2001/29 does not preclude national legislation, such as that at issue in the main proceedings, from pursuing an objective such as the digital exploitation of out-of-print books in the cultural interest of consumers and of society as a whole. However, the pursuit of that objective and of that interest cannot justify a derogation not provided for by the EU legislature to the protection that authors are ensured by that directive.

46 Lastly, it must be stated that legislation such as that at issue in the main proceedings enables, in particular, authors to put an end to the commercial exploitation of their works in digital format, either by mutual agreement with the publishers of those works in printed format or alone, on condition, however, in that second case, that they provide evidence that they alone hold the rights in their works.

47 In that regard, it is important to point out, first, that it follows from the exclusive nature of the rights of reproduction and communication to the public laid down in Article 2(a) and Article 3(1) of Directive 2001/29 that the authors are the only persons to whom that directive gives, by way of original grant, the right to exploit their works.

48 It follows that, if Directive 2001/29 does not prohibit Member States from granting certain rights or certain benefits to third parties, such as publishers, it is provided that those rights and benefits do not harm the rights which that directive gives exclusively to authors.

49 Consequently, it must be considered that, when the author of a work decides, in the context of the implementation of legislation such as that at issue in the main proceedings, to put an end to the future exploitation of that work in a digital

format, that right must be capable of being exercised without having to depend, in certain cases, on the concurrent will of persons other than those to whom that author had given prior authorisation to proceed with such a digital exploitation and, thus, on the agreement of the publisher holding only the rights of exploitation of that work in a printed format.

50 Secondly, it follows from Article 5(2) of the Berne Convention, which is binding on the Union for the reasons set out in paragraph 32 of the present judgment, that the enjoyment and the exercise of the rights of reproduction and communication to the public given to authors by that convention and corresponding to those laid down in Article 2(a) and 3(1) of Directive 2001/29 may not be subject to any formality.

51 It follows, in particular, that, in the context of legislation such as that at issue in the main proceedings, the author of a work must be able to put an end to the exercise, by a third party, of rights of exploitation in digital format that he holds on that work, and in so doing prohibit him from any future use in such a format, without having to submit beforehand, in certain circumstances, to a formality consisting of proving that other persons are not, otherwise, holders of other rights in that work, such as those concerning its exploitation in printed format.

52 Having regard to all of the foregoing considerations, the answer to the question is that Article 2(a) and Article 3(1) of Directive 2001/29 must be interpreted as precluding national legislation, such as that at issue in the main proceedings, that gives an approved collecting society the right to authorise the reproduction and communication to the public in digital form of ‘out-of-print’ books, namely, books published in France before 1 January 2001 which are no longer commercially distributed by a publisher and are not currently published in print or in digital form, 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 that legislation lays down.

(...)

THINK IT OVER!

1. The relevance of this preliminary ruling goes well beyond the compliance of the French regulation with the Directive 2001/29/EC. In fact, this is the first judicial revision of a non-voluntary collective licensing on a general basis. Some arguments of the ECJ might be therefore valid to further analysis of similar schemes (especially *compulsory and extended collective licensing*), even though copyright scholars generally agree that – under certain conditions – they represent performant practical solutions to issues related to mass-uses of protected works. In accordance with the previous caselaw making a distinction between enjoyment and exercise of exclusive rights (paragraphs 31-32), the Court also stated that the French collective licensing scheme shall not be considered as a copyright exception or limitation. Therefore, what shall be studied essentially is the amplitude of compulsory collecting licensing to restrict full exercise of exclusive rights. ***Do you think this clarification will have an immediate effect on national copyright legislation as it was the case with the Padawan decision? In your opinion, how this decision will influence the on-going European copyright reform?***

2. Another key finding of the ECJ involves the consent of the author to the collective exercise of his rights. The Court acknowledges that an implicit consent might be sufficient, however, there are some prerequisites to be met. *“In particular, every author must actually be informed of the future use of his work by a third party and the means at his disposal to prohibit it if he so wishes. Failing any actual prior information relating to that future use, the author is unable to adopt a position on it and, therefore, to prohibit it, if necessary, so that the very existence of his implicit consent appears purely hypothetical in that regard”* (paragraphs 38-39). It seems uncertain however, how collective management organizations (CMOs) shall satisfy their obligation to individually inform each and every author of the actual future use of their work. ***In your opinion, is it an accurate or too rigorous criterion to justify non-voluntary collective licensing of certain exclusive rights in the case of mass-uses of the protected works?***

3. To put this general comment in a more specific way, ***please argue whether those two concrete examples of non-voluntary collective licensing satisfy the ECJ’s interpretation.*** First example is the French compulsory collective management of *reprographic reproduction*. Authors have no choice to exercise individually this right since it has been automatically transferred to the appropriate collective management organization by the force of the law.

Please note that otherwise Article 5(2)(a) of Directive 2001/29/EC acknowledges reprographic reproduction as an exception or limitation. Do you think the French licensing scheme complies with the arguments of the Court? Second example is one of the so-called extended collective licensing (ECL) in Hungary. The core of ECL is the idea that CMOs are vested to negotiate licenses even on behalf of right-holders non-members to the organization. Thus, users may get an authorization to use practically every protected work within the same class. Naturally, some specific requirements shall be met to justify the validity of such agreement, most importantly, CMOs shall represent a large majority of right-holders of the same class. Right-holders also have the right to withdraw their works from collective licensing, in consequence they continue to exercise those exclusive rights individually. In Hungary this basic principle of extended licensing applies also to the *making available to the public right* of so-called “small rights” musical works. Those rights are traditionally and generally exercised by the means of CMOs, however you may not find any explicit international or European regulation on the subject matter. In light of the preliminary ruling in the Soulier and Doke case, do you think Hungary should consider revising its copyright law?

FURTHER CASE LAW

In French

Décision du Conseil constitutionnel n° 2013-370 QPC du 28 février 2014
Conseil d’État du 7 juin 2017 n° 368208

RECOMMENDED READINGS

In English

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EL BADAWI, Lamia: La nécessaire revision du régime français d’exploitation numérique des livres indisponibles, *Revue de l’Union européenne*, 2017: p. 78.

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Chapter IV

Digital Exhaustion

UsedSoft GmbH v. Oracle International Corp.

Case C128/11, Judgment of the Court (Grand Chamber), 3 July 2012
[ECLI:EU:C:2012:407]

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 CDROM 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 CDROM 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 caselaw, 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 CDROM 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 CDROM 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 CDROM 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 CDROM 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 CDROM 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 CDROM 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.

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Capitol Records, LLC, v. ReDigi Inc

934 *F.Supp.2d* 640 (S.D.N.Y. 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.” 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.” 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.” 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.”

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. 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. 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.”

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.” 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.” 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.” For that reason, “courts have not hesitated to find copyright infringement by distribution in cases of file-sharing or electronic transmission of copyrighted works.” 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." 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."

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." 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." 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.”

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.” 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. (...)

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. 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. 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.” 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.”

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.” 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.” However, common law doctrines permit a court to impose secondary liability where “just” and appropriate. 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.” The knowledge requirement is “objective” and satisfied where the defendant knew or had reason to know of the infringing activity. Further, the support must be “more than a mere quantitative contribution to the primary infringement ... [, it] must be substantial.” However, even where a defendant’s contribution is material, it may evade liability if its product is “capable of substantial noninfringing uses.”

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.” 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.” 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. ***In short: 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 (2nd 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.

Test your knowledge

Try to answer the following essay questions that have been earlier 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. *SpaceCable*, a French cable television company has contracted *Throughcom*, a French TV channel owner to transmit the audiovisual contents of the television channel via cable television to its subscribers. The contract was validly formed in 2011 and it covers the transmission of television signals within the borders of France, and it requires that the transmitted signals are received within the home of the subscribers, irrespectively of the type of receiver of the signals (including, but not limited to, televisions, personal computers). *SpaceCable* decided in 2017 to publish a new application (*SCableTV*) for tablets that subscribers of *SpaceCable* can download at no price. With the help of *SCableTV* users can stream audiovisual contents on their tablets for no extra fee. *SpaceCable* also published a second application (*SCableTV+*) with which subscribers can bookmark the television programs of *Throughcom*. *SpaceCable* analyses subscribers' bookmarking practices and publishes the TOP10 bookmarked contents on a daily basis. All *SCableTV+* users can stream the TOP10 contents for free. *SpaceCable* displays short (5 seconds long) advertisements before each TOP10 content is streamed by the end-users.

Throughcom asks you to discuss whether the copyrights on the television programs are infringed by SpaceCable and/or the respective subscribers.

3. SzegedAir, a brand new air company is going to launch its first flights between Szeged and multiple European cities within the Schengen area on January 1, 2018. Besides offering sweet Hungarian chocolate, tasty pálinka and hot szalámi on the aircrafts, SzegedAir's most innovative plan is to offer on-board personal entertainment for the clients. The clients can register to SzegedAir's website and can directly check-in to the purchased flights there. After check-in clients will be able to download SzegedAir's On-Board Entertainment App (TOBE-App) from SzegedAir's website. Clients will be allowed to connect to the TOBE website with the help of the TOBE-App via SzegedAir's on-board Wi-Fi system. The App works on the SzegedAir's aircrafts between take-off and landing. Travelers might stream (watch and listen to) movies, episodes of TV-shows, sound recordings and online radio programs that are hosted on the TOBE website. The servers of the TOBE website are located in Szeged, Hungary.

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