EXHIBIT D

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Copyright | Database and Collections of Information Misappropriation Act of 2003

Statement of David O. Carson
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before the
Subcommittee on Courts, the Internet, and Intellectual Property
Committee on the Judiciary
and the
Subcommittee on Commerce, Trade and Consumer Protection
Committee on Energy and Commerce

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Database and Collections of Information Misappropriation Act of 2003

Good afternoon. Chairman Smith, Chairman Stearns, Congressman Berman, Congressman Schakowsky, Members of both Subcommittees, it is a pleasure to appear before you today. Thank you for giving the Copyright Office the opportunity to testify at this hearing on the discussion draft of the Database and Collections of Information Misappropriation Act.

The Copyright Office has testified twice in recent years before the Subcommittee on Courts and Intellectual Property on legislation to protect databases. In the 105th and 106th Congresses, the Register of Copyrights testified in connection with the proposed Collections of Information Antipiracy Act. That bill was passed by the House in the 105th Congress but no action was taken in the Senate. In her testimony on that legislation and on a later version, the Register testified that there was a need to preserve adequate incentives for the production and dissemination of databases, which are increasingly important to the U.S. economy and culture, both as a component in the development of electronic commerce and as a tool for facilitating scientific, educational and technological advancement. She stated that there was a gap in existing legal protection, which could not be satisfactorily filled through the use of technology alone. This legal gap was compounded by the ease and speed with which a database can be copied and disseminated, using today's digital and scanning capabilities. Without legislation to fill the gap, publishers were likely to react to the lack of security by investing less in the production of databases, or disseminating them less broadly. The result would be an overall loss to the public of the benefits of access to the information that would otherwise have been made available.

At the same time, the Register cautioned that the risks of over-protection were equally serious, because (as already noted) the free flow of information is essential to the advancement of knowledge, technology and culture. She testified in support of legislation that would ensure adequate incentives for investment, without inhibiting access for appropriate purposes and in appropriate circumstances.

Accordingly, the Register recommended the restoration of the general level of protection

provided in the past under copyright "sweat of the brow" theories, but under a suitable constitutional power, with flexibility built in for uses in the public interest in a manner similar to the function played by fair use in copyright law. Such balanced legislation could optimize the availability of reliable information to the public.

In the intervening years, nothing has occurred to change the views of the Copyright Office. We continue to believe that balanced legislation should be enacted that would provide appropriate levels of protection for producers of databases, without unnecessarily impeding the free flow of knowledge and information.

The discussion draft represents a continuing evolution of the legislation addressing the protection of databases toward a pure misappropriation approach. In our previous testimony we expressed the view that misappropriation is the best approach to this issue and we commend the leadership of all of those who have worked so hard on this issue for their commitment to craft legislation that takes into account the needs of producers of databases as well as users and members of the educational, scientific and research communities. While we have not had sufficient opportunity to study the discussion draft to permit us to offer any definitive views on this particular draft, we believe in general that it represents a major step in the direction of enactment of the type of balanced legislation the Office has long recommended.

Much of what I say today will be based on the research and findings of the Register in her August 1997 Report on Legal Protection for Databases, which was prepared at the request of Senator Hatch, Chairman of the Senate Committee on the Judiciary. We are aware of no major developments since the time of that Report that have significantly altered the landscape with respect to legal protection for databases.

My testimony today will provide a historical perspective concerning the protection of databases in the United States, briefly review the approach taken in the discussion draft and address some of the concerns that critics of database legislation have voiced.

I. The History of Database Protection in the United States

In the terminology of the copyright law, a database is a "compilation." The Copyright Act defines a compilation as "a work formed by the collection and assembling of preexisting materials or of data...."(1) Compilations were protected as "books" as early as the Copyright Act of 1790.

Over the course of the nineteenth century, two rationales developed for protecting compilations under copyright. The earliest cases identified the compiler's effort - "his own expense, or skill, or labor, or money"(2) - as the critical contribution justifying protection. This type of analysis came to be known as the "sweat of the brow" doctrine. Analyses under sweat of the brow emphasized both the compilers' efforts and the copiers' "unfair use of the copyrighted work, in order to save themselves the time and labor of original investigation."(3)

During the late nineteenth century, courts began to articulate another basis for copyright protection that generally differed from the labor/investment approach taken in cases involving compilations. In a series of decisions from 1879 to 1903, the Supreme Court held that the "writings" that could be protected under the Copyright Clause of the Constitution included "only such as are original,"(4) and indicated that creativity is a component of originality.(5)

The evolving doctrine of originality was applied by some courts in compilation cases, particularly cases involving compilations of textual materials such as law books. These cases identified the author's critical contribution justifying protection as his judgment in selecting and arranging materials.(6)

This approach coexisted with, rather than supplanted, sweat of the brow cases. Sweat of the brow was applied to cases involving purely factual compilations, such as catalogs and directories.

On the question of the scope of protection afforded to compilations, there was somewhat greater uniformity in the case law. In compilation cases, regardless of the theoretical framework adopted to justify copyright protection, once the plaintiff's work was determined to be copyrightable, courts generally held a defendant to have infringed whenever material was copied from the plaintiff's work. Typically, there was no inquiry as to whether the particular material copied was protected by the plaintiff's copyright. To avoid infringement, a second-comer was required to go to the original sources and compile the material independently, without reference to the earlier work.(7) A common thread running through many of these decisions was the court's desire to prevent the copier from competing unfairly with the compiler by appropriating the fruits of the compiler's efforts or creativity. In this sense, courts treated copyright protection for compilations much like a branch of unfair competition law.

In the Copyright Act of 1976, Congress included in the definition of "compilation" the first express statutory link between compilations and original works of authorship "...that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes a work of authorship."(8) Cases under the 1976 Act were divided about the continuing viability of the sweat of the brow doctrine. Some circuits continued to apply it,(9) while other circuits rejected it, requiring a showing of sufficient creativity in order to entitle a compilation to copyright protection.(10) The Supreme Court resolved the split in the circuits in *Feist Publications, Inc. v. Rural Tel. Serv. Co.*(11) In that case, the Supreme Court held that the white pages of a telephone directory (containing an alphabetical listing of all residents with telephone service in a defined geographic area) was insufficiently creative to merit copyright protection. The Court held that the requirement of creativity was not merely statutory, but rooted in the Copyright Clause itself.(12) Thus, the sweat of the brow doctrine was laid to rest.

What remains is a thin layer of copyright protection for qualifying databases. In order to qualify, they must exhibit some modicum of creativity in the selection, arrangement, or coordination of the data. The protection is thin in that only the creative elements (selection, arrangement, or coordination of data) are protected by copyright. Explanatory materials such as introductions or footnotes to databases may also be copyrightable. But in no case is the data itself (as distinguished from its selection, coordination or arrangement) copyrightable. The absence of uniform protection for noncreative databases is what has given rise to the calls for this legislation.

II. Discussion Draft of the Database and Collections of Information Misappropriation Act

It is our understanding that the scope and applicability of the prohibitions in the discussion draft are designed to codify the standards set forth in the Second Circuit's decision in *National Basketball Ass'n v. Motorola, Inc.* ("*NBA*").(13) That case involved a state law misappropriation claim by the NBA against the maker of a hand-held pager which provided subscribers with

scores and statistics of professional basketball games in progress.[14] In analyzing the case, the court concluded that a "hot news" misappropriation claim under the theory of *International News Service v. Associated Press*[15] ("*INS*") would survive preemption by federal copyright law.[16] The court enumerated five elements "central to an *INS* claim." Those conditions are:

> (i) the plaintiff generates or collects information at some cost or expense;
>
> (ii) the value of the information is highly time-sensitive;
>
> (iii) the defendant's use of the information constitutes free-riding on the plaintiff's costly efforts to generate or collect it;
>
> (iv) the defendant's use of the information is in direct competition with a product or service offered by the plaintiff; and
>
> (v) the ability of other parties to free-ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.[17]

A. The plaintiff generates or collects information at some cost or expense.

The first condition is codified in subsection 3(a)(1) of the discussion draft, which applies the prohibition against misappropriation only to databases that were "generated, gathered, or maintained through a substantial expenditure of financial resources or time." The term "maintained" does not appear in the court's articulation of the first condition. However, the reference to "quality" in the fifth factor could suggest a recognition that misappropriation applies not only to the initial creation but to the periodic update and verification of the product or service. One other variation from the exact language of the court is the requirement of a "substantial" expense. The court used the arguably less demanding term, "some." The discussion draft also equates "time" with "cost or expense," which we believe is probably a defensible interpretation of the elements set forth in *NBA*.

B. The value of the information is highly time-sensitive.

The second condition is codified in subsection 3(a)(1) of the discussion draft, which requires that the making available occur "in a time sensitive manner." Section 3(c) of the discussion draft states that courts shall consider "the temporal value of the information in the database, within the context of the industry sector involved" in determining whether this condition is met. The discussion draft omits the term "highly," although it is not clear how much difference that makes. The discussion draft appears to take a flexible approach to this condition, requiring consideration of the business context, but also allowing a court to consider whatever other factors it might deem relevant. This approach may well be the subject of initial uncertainty, until courts have provided guidance in applying the standard. In this respect, the discussion draft may go beyond the "hot news" doctrine addressed in *NBA* and *INS*.

In its previous testimony, the Copyright Office noted with approval the application of a definite term of protection, beginning at the time the relevant portion of the collection is first used in commerce. The Office continues to have concerns about protection without a clear end point. However, the time sensitivity provisions of the discussion draft may address that concern, depending upon how they are interpreted. It may be that consideration should be

given to clarifying the scope and application of the "time sensitive" component of this discussion draft. To the extent that it goes beyond "hot news" - and in the past the Office has supported protecting more than "hot news" - there may still be reason to consider some specific limitation on the duration of protection.

C. The defendant's use of the information constitutes free-riding on the plaintiff's costly efforts to generate or collect it.

The third condition is codified in subsection 3(a) of the discussion draft, which prohibits the "mak[ing] available in commerce to others a quantitatively substantial part of the information in a database generated, gathered, or maintained by another person..." While the term "free-riding" does not appear in the relevant portion of the text, the conditions described appear to be the practical equivalent. Moreover, the "free-riding" problem is addressed in subsection 3 (a)(3).

D. The defendant's use of the information is in direct competition with a product or service offered by the plaintiff.

The fourth condition is codified in subsection 3(a)(2) of the discussion draft, which requires that the making available "inflict[] an injury." That term is defined in subsection 3(b) as "serving as a functional equivalent in the same market as the database in a manner that causes the displacement, or the disruption of the sources, of sales, licenses, advertising, or other revenue." Here the discussion draft expressly provides for direct competition and also requires the showing of at least some disruption in revenue to the compiler.

E. The ability of other parties to free-ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.

The fifth condition is codified verbatim in subsection 3(a)(3) of the discussion draft. Thus, this legislation appears to codify the standards set forth by the Second Circuit.

III. Criticisms of the Discussion Draft

I understand that the discussion draft has been the subject of criticism. I would like to take this opportunity to address some of those arguments.

A. Constitutionality

It has been suggested that this legislation exceeds Congress' authority under Article I, section 8 of the Constitution. As you know, the Constitution provides explicit authority for the protection of copyright.(18) As discussed earlier, the Supreme Court held in *Feist* that the Copyright Clause cannot serve as a basis of authority for the protection of noncreative databases. But *Feist* does not address whether some other basis for protection of such materials may exist. The most likely other basis is the Commerce Clause.(19) At least one critic suggests that the Commerce Clause cannot serve this function. The Copyright Office disagrees.

It has long been accepted that Congress has the power to enact trademark legislation under the Commerce Clause, despite the fact that trademarks may be seen as a form of

intellectual property; that trademark law protects material that does not meet standards for copyright and patent protection; and that the protection may last indefinitely. The Supreme Court's opinion in *The Trademark Cases*[20] held unconstitutional an early attempt by Congress to enact a trademark law, based on a lack of Congressional power under either the Copyright Clause or the Commerce Clause. According to the Court, the Copyright Clause did not provide authority for the legislation because trademarks have different "essential characteristics" from inventions or writings, since they are the result of use (often of already-existing material) rather than invention or creation, and do not depend on novelty or originality.[21] The Commerce Clause did not provide authority because the particular trademark law in question governed all commerce and was not limited to interstate or foreign commerce.[22] The opinion suggested that similar legislation limited as to the type of commerce involved would pass constitutional muster under the Commerce Clause. Indeed, legislation consistent with the Court's interpretation of the Commerce Clause was subsequently enacted and has gone unchallenged since 1905.

The Register's 1997 Report on the Legal Protection of Databases stated that "To the extent that database protection promotes different policies from copyright protection, and does so in a different manner, it is similar to trademark law, and therefore seems likely to survive a constitutional challenge." The prohibition set forth in this discussion draft appears to meet that prescription. It is crafted to protect that which the *NBA* case held to be outside of copyright. Its focus is on unfair competition through the misappropriation of a commercial product that is the result of substantial expenditure of another's financial resources or time, in a way that inflicts commercial injury on that person, elements that are far removed from the core of copyright.

B. Subpoena to Identify Violators

The discussion draft includes a procedure similar to that in 17 U.S.C. §512(h) to allow potential plaintiffs to learn the identity of those they believe have violated the provisions in this discussion draft. The Copyright Office believes that the section 512(h) subpoenas are a necessary and appropriate tool in copyright owners' struggle against infringement, particularly in the digital and online environments. However the discussion draft does differ in one significant respect: Section 512(h) requires the person seeking a subpoena to file with the clerk of the court a certain information about the claim of infringement that has given rise to the controversy that requires identification of the alleged infringer. This provision provides assurances that the subpoena is sought in good faith and that there is an objective basis for seeking it. The current discussion draft does not have any analogous safeguards. The Copyright Office recommends the inclusion of such a provision in this discussion draft.

C. Fair Use Exception

We understand that some have suggested that this discussion draft is somehow flawed without the inclusion of a "fair use" exception, similar to the one that appears in the Copyright Act.[23] In the past, the Copyright Office has supported inclusion of provisions similar to fair use in database protection legislation. However, the past legislative proposals provided for broader protection than is provided in this discussion draft. In providing for a narrower prohibition, the discussion draft may well obviate the need for a fair use-type of provision. It may well be that this discussion draft already incorporates most of the principles embodied in copyright fair use. The "purpose and character of the use"[24] is addressed by subsection 3(a) of the discussion draft, which prohibits the "making available in commerce," and in subsection 3(b), which makes clear that the prohibition extends only to inflictions of injury that serve as a

functional equivalent in the same market as the database. The "amount and substantiality of the portion used"[25] is also addressed in subsection 3(a), which requires "a quantitatively substantial part of the information." Indeed, this provision is more permissive than fair use, which may not excuse the use of a quantitatively insubstantial portion that is qualitatively vital to the work. The "effect of the use upon the potential market for or value of the copyrighted work"[26] is addressed by subsection 3(a)(3), requiring that the ability of others to free-ride threaten the "existence or quality" of the database, as well as subsection 3(b), with its strong requirement of market harm. Of course, the second fair use factor, "the nature of the copyrighted work,"[27] is inapplicable to a legal regime specifically designed to protect that which is denied copyright protection for lack of creativity. While we are strong proponents of fair use and understand the desire for such a provision in database protection legislation, we are not persuaded that such a provision is necessarily required when the prohibition itself serves the policies underlying fair use.

D. Internet Service Provider Liability

There has been complaint that the discussion draft would subject internet service providers ("ISPs") to liability unfairly. However, subsection 7(i) of the discussion draft explicitly insulates ISPs from liability unless their employees violate the prohibition while acting within the scope of their duties, actively direct or induce a violation of the prohibition, or receive a financial gain directly attributable to the violative conduct. It is not readily obvious to the Copyright Office how the ordinary use of ISPs' systems by their users could be within the scope of these few exceptions to the general rule that ISPs do not bear liability under this discussion draft. Moreover, it is notable that the discussion draft provides this benefit to ISPs without requiring them to abide by many of the conditions that appear in section 512 of the Copyright Act,[28] such as taking down violative material in response to a notice or terminating the account of a repeat offender. Compared to section 512, this provision appears to be generous.

E. Alleged Expansion of Intellectual Property Protection

There is also apparently a somewhat amorphous criticism that this discussion draft would serve in furtherance of an alleged trend of expanding intellectual property protection without counterbalancing other interests. The Copyright Office sees no such trend. Indeed, the last few years have seen expansions of exceptions and limitations. For example, legislation has provided exceptions and limitations for digital distance education,[29] use of works by the blind,[30] and the aforementioned provisions for ISPs.[31]

A complete analysis of intellectual property protection includes a consideration not only of the provisions of the law, but also of the other factors which affect the incentive to create and the availability for use of protected materials. Most significantly, the dramatic growth of the use of digital technology and the Internet have made more materials available to more people than ever before. However, this technology has also created an avenue for the improper use of materials on a previously unimagined scale. Changes in the law to try to prevent or remedy these improper uses do not necessarily reflect a change in philosophy about the appropriate scope of protection and have not altered the fact that both authorized and unauthorized users of protected materials generally have greater opportunities to use the material of others than they did before these technological developments.

IV. Conclusion

The discussion draft represents the latest in a series of legislative attempts to provide consistent, federal standards of protection for databases. As I noted at the outset, the Copyright Office is sympathetic to these efforts but does not, at this time, take a position on this legislation. As always, the Copyright Office stands ready to assist both Subcommittees and I will be pleased to answer any questions you may have.

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1. 17 U.S.C. §101.

2. *Emerson v. Davies*, 8 F. Cas. 615, 619 (C.C.D. Mass. 1845).

3. *West Pub. Co. v. Lawyers' Co-operative Pub. Co.*, 79 F. 756, 772 (2d Cir. 1897).

4. *In re* The Trademark Cases, 100 U.S. 82, 94 (1879).

5. *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239 (1903).

6. *See e.g., Edward Thompson Co. v. American Lawbook Co.*, 122 F. 922, 924 (2d Cir. 1903) (focusing on "skill and taste of the [plaintiff] in selecting or arranging" materials); *Lawrence v. Dana*, 15 F. Cas. 26, 28, 4 Cliff. 1 (C.C.D. Mass. 1869)("copyright may justly be claimed by an author of a book who has taken existing materials from sources common to all writers, and arranged and combined them in a new form, and given them an application unknown before, for the reason that, in so doing, he has exercised skill and discretion in making the selections, arrangement, and combination....").

7. *See, e.g., Williams v. Smythe*, 110 F. 961 (C.C.M.D. Pa. 1901); *List Publishing Co. v. Keller*, 30 F. 772 (C.C.S.D.N.Y. 1887).

8. 17 U.S.C. §101.

9. *See, e.g., Illinois Bell Tel. Co. v. Haines & Co.*, 683 F. Supp. 1204 (N.D. Ill. 1988), *aff'd*, 905 F.2d 1081 (7th Cir. 1990), *vacated and remanded*, 499 U.S. 944 (1991); *Rural Tel. Serv. Co. v. Feist Publications, Inc.*, 916 F.2d 718 (10th Cir. 1990), *reversed,* 499 U.S. 340 (1991).

10. *See, e.g., Financial Info., Inc. v. Moody's Investors Serv., Inc.*, 808 F.2d 204 (2d Cir. 1986), *cert denied*, 484 U.S. 820 (1987); *Eckes v. Card Prices Update*, 736 F.2d 859 (2d Cir. 1984); *Worth v. Selchow & Richter Co.*, 827 F.2d 569, 572-73 (9th Cir. 1987).

11. 499 U.S. 340 (1991).

12. *Id.* at 346.

13. 105 F.3d 841 (2d Cir. 1997).

14. The case also involved a claim of infringement of the copyrights in the broadcasts of the games. That claim was rejected by the court because alleged infringement involved reproduction only of the uncopyrightable facts from the broadcasts, and not of the expression or descriptions of the games that constituted the broadcasts. 105 F.3d at 847.

15. 248 U.S. 215 (1918).

16. *See* 17 U.S.C. §301.

17. 105 F.3d at 852.

18. "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const., Art. I, sec. 8, cl. 8.

19. "To regulate Commerce with foreign Nations, and among the several States..." U.S. Const., Art. I, sec 8, cl. 3.

20. 100 U.S. 82 (1879).

21. *Id.* at 93-94.

22. *Id.* at 97.

23. *See* 17 U.S.C. §107.

24. §107(1).

25. §107(3).

26. §107(4).

27. §107(2).

28. *See* 17 U.S.C. §512 (limiting the liability of qualifying ISPs for copyright infringement).

29. *See* 17 U.S.C. §110(2).

30. *See* 17 U.S.C. §121.

31. *See* 17 U.S.C. §512.

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