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**Internet Intermediaries' Liability for
Copyright and Trademark Infringement:
Reconciling the EU and U.S. Approaches**

Béatrice Martinet Farano

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Abstract

Over the past ten years, the potential liability of online service providers for third party content has raised one of the most spirited and fascinating debates in the legal arena, putting right holders, service providers and Internet users at loggerheads.

In the United States and in Europe, lawmakers have endeavored to resolve this tension by enacting, more than ten years ago, a set of essentially consistent regulations – most notably the U.S. D.M.C.A. and the EU E-commerce Directive – aimed at fostering the growth of the digital economy, while not hampering the protection of IP rights in the digital environment.

However, courts in Europe and in the United States are facing increasing difficulties in interpreting these regulations and adapting them to a new economic and technical landscape that involves unprecedented levels of online piracy and new kinds of online intermediaries. As a result, courts in Europe and in the United States have reached contrasting conclusions and have failed to offer consistent guidelines in an increasingly global market.

The present study purports to show, after a short introduction (Part 1) that although the legal framework regulating Internet intermediaries' liability in Europe and in the United States is globally consistent (Part 2), its interpretation by U.S. and different courts in Europe has however been very different (Part 3). The last part of this study offers a brief outline of the recently legislated and draft reforms of copyright law in Europe and in the U.S. (Part 4.1) and concludes that rather than through new legislative reforms, the U.S. and EU approaches to online piracy could be reconciled through a more consistent interpretation of our current legal frameworks and the implementation of a wide range of business-driven solutions (Part 4.2).

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1. INTRODUCTION

1.1 Outline of the issue

Over the past ten years, the potential liability for third party content faced by Online Service Providers (OSPs) or Internet intermediaries – whether they be pure Internet Service Providers (ISPs)¹ or more interactive websites based on User Generated Content (UGC)² – has raised one of the most spirited and fascinating debates in the legal arena.

On one hand, right holders, suffering major losses from online infringement, have expressed growing concerns regarding the protection of their assets and claimed further remedies against Internet intermediaries and users, to combat the dramatic growth of online piracy.

On the other hand, Internet intermediaries have argued that they should be exempted from any liability for third party content, stressing that placing further duties on them will stifle innovation and the emergence of new businesses in the technology industry.

Internet users and the public at large have finally rushed into this debate in recent years, to defend a certain vision of a free and open Internet and untrammelled access to the widest possible range of goods and content online³.

¹ Although the term Internet Service Provider (or ISP) is sometimes used to refer to a broad range of online intermediaries, including UGC websites, this term is now widely used to define the technical operator giving access to the Internet. In the rest of this paper, we will thus generally use the term Internet Service Provider (ISP) in its strict sense (operator giving access to Internet broadband), while we will generally use the term Online Service Provider (OSP) or Internet intermediary to designate the broader category of all the online operators offering services of intermediation between end-users in the digital environment (including ISPs, UGC websites and other intermediaries).

² In the rest of this paper, UGC website(s) will be used to refer to operators offering “intermediary services” based on third party content, including (but not limited to) file sharing platforms, online marketplaces, streaming, BitTorrent sites, blogging services, news and other aggregators (see *infra* Part 3.2)

³ See *infra* part 4.1.2.4 and 4.1.3 (anti-copyright popular movements and public’s reactions to copyright bills and/or reforms recently introduced in Europe and in the U.S.).

In Europe, like in the United States, lawmakers have endeavored to resolve the resulting tension between these different stakeholders by enacting, more than 10 years ago, a set of essentially consistent regulations aimed at fostering digital economy⁴, whilst not hampering the protection of IP rights.

1.2 Emergence of a consistent legal framework

Adopted in 1996, the WIPO Copyright Treaty⁵ was the first attempt⁶ to regulate the issue at an international level by suggesting that OSPs should not be held directly liable for merely providing enabling communication facilities to third party infringers⁷.

In the United States, the Communications Decency Act (CDA)⁸ and the Digital Millennium Copyright Act (DMCA)⁹ were thus passed respectively in 1996 and in 1998, while the Electronic Commerce Directive (e-commerce Directive)¹⁰ in Europe was adopted in 2000.

For both continents, boosting the development of digital economy meant, amongst other things, protecting Internet Service Providers – whose role was limited to transmitting, hosting and conveying third party information to the public – from potential unlimited liability for third party content.¹¹

⁴ See e.g. Senator Wyden, Address at the Santa Clara University Conference: *47 U.S.C § 230, a 15 years retrospective* (March 4, 2011) (“it was imperative in 1996 that the nascent Internet be protected from the interests of those that wanted to tax and control it.”) (Available at <http://law.scu.edu/hightech/47-usc-230-a-15-year-retrospective'.cfm>). See also U.S.C. §230 (b).

⁵ WIPO Copyright Treaty (WCT) and WIPO Performance and Phonograms Treaty (WPPT) adopted in Geneva on Dec. 20, 1996 (available at http://www.wipo.int/treaties/en/ip/wct/trtdocs_wo033.html).

⁶ See, WIPO Report, International bureau, *The WIPO Copyright Treaty (WCT) And The WIPO Performances and Phonograms Treaty (WPPT)*, §29, available at http://www.wipo.int/copyright/en/activities/wct_wppt/pdf/wct_wppt.pdf

⁷ See WCT, *Agreed statements concerning Article 8 of the Treaty* (“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 Bern Convention”).

⁸ Communication Decency Act (CDA), H.R. 1004, 104th Cong. (1996) (enacted) (see 47 U.S.C. § 230).

⁹ Digital Millennium Copyright Act, H.R. 2281, 105th Cong. (1998) (enacted) (see 17 U.S.C. §§ 512, 1201–1205, 1301–1332 and 28 U.S.C. § 4001)

¹⁰ Council Directive 2000/31/EC of the European Parliament and of the Council *on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market* (June 8, 2000).

¹¹ See S. REP. 105-190 at 2 and 44-45 and H. REP. 105-796 at 73-74, stressing that by limiting the liability of service providers, the DMCA will ensure efficiency and variety in the Internet economy.

Provisions limiting the liability of OSPs with respect to third party infringing content were thus enacted in both systems in very similar terms, with the “hosting defense” in the 2000 e-commerce Directive being largely inspired by its counterpart in the 1998 DMCA¹².

Without any doubt, these provisions have favored the blooming of many businesses in the Internet industry, enabling the digital economy to become, in the last 10 years, a key driver of growth, innovation and job creation in Europe and in the United States.¹³

However, courts in Europe and in the United States are facing increasing difficulties in interpreting and adapting these regulations to a new economic and technical landscape, involving unprecedented levels of online piracy and new kinds of online intermediaries.

1.3 Evolution of the economic and technical landscape in the last 10 years: a dramatic growth of online piracy and the emergence of new online intermediaries.

On one hand, the new horizons opened by the worldwide reach of the Internet, as well as the cost efficiency, payment facilities and anonymity offered by the development of e-commerce has contributed to bring copyright and trademark infringement to unprecedented levels in the last 10 years¹⁴.

¹² Compare Council Directive 2000/31/EC (art. 12-14) with 17 U.S.C. § 512 c) (I).

¹³ Mathieu Pélissier du Rausas et al., McKinsey Global Institute, *Internet matters, the net's sweeping impact on growth, jobs, and prosperity*, May 2011, concluding that in the G8 countries, South Korea and Sweden, the Internet economy have accounted for 21% of GDP growth in the last five years and generated 2,6 jobs for every job cut; see also McKinsey Global Institute, *“The Impact of the Internet on the French Economy”*, March 2011, (available in French only) (showing that in France, the Internet economy would even account for 25% of GDP growth and net employment creation).

¹⁴ In particular, it is argued that online infringements would have flooded the market of luxury goods and would undermine the music industry; see e.g. DLA Piper Press Release, *Online Counterfeit goods Market worth 800M pounds* (available at <http://www.dlapiper.com/global/media/detail.aspx?news=2734>), NBC Universal study, *An Estimate of Infringing Use of the Internet* (showing that copyright piracy would account for almost 25% of the global internet traffic); OECD study, *The economic impact of counterfeiting and piracy* (available at http://www.oecd.org/document/4/0,3746,en_2649_34173_40876868_1_1_1_1,00.html) (value of counterfeiting and piracy would equal USD 200 to 250 billion annually), BASCAP Report (Online Piracy alone: between 30 and 75 billion

On the other hand, the roles and activities played by Internet intermediaries have also dramatically changed in this same period of time. While the online intermediaries existing at the time of the DMCA and the e-commerce Directive were indeed essentially technical players¹⁵, with little or no involvement in the production and/or management of content, a number of new online businesses, playing increasingly “active” roles¹⁶, have emerged to provide Internet users with new kinds of “intermediary” services¹⁷.

Furthermore, lines have progressively blurred between the different categories of intermediaries historically involved in the Internet industry – whether Access Service Providers (ASPs), Internet Service Providers (ISPs)¹⁸, Online Service Providers (OSPs) and/or content providers¹⁹ – which now tend to play simultaneously different and potentially competing roles.

annually and IAC (International Anti-Counterfeiting Report, *The truth about counterfeiting*, available at <http://www.iacc.org/about-counterfeiting/the-truth-about-counterfeiting>).

¹⁵ E.g. network operators, Internet access providers, data processing and/or web hosting providers; See Council Directive 2000/31/EC, preamble 42 (“The exemptions from liability established in this Directive cover only cases where the activity of the information society service provider is limited to the *technical process* of operating and giving access to a communication network over which information made available by third parties is transmitted or temporarily stored, *for the sole purpose of making the transmission more efficient; this activity is of a mere technical, automatic and passive nature*, which implies that the information society service provider has neither knowledge of nor control over the information which is transmitted or stored.”) (Emphasis added). See also Pablo Asbo Baistrocchi, *liability of intermediary service providers in the E.U. directive on electronic commerce*, 116 SANTA CLARA COMPUTER & HIGH TECH. L. J. vol. 19 (2003) at 116 (defining *hosting provider* as the technical renting of web site space).

¹⁶ To quote the “active role” standard used by the ECJ. See generally OECD Report, *The economic and social role of Internet Intermediaries*, Karine Perset, April 2010.

¹⁷ E.g. music and video sharing platforms, online marketplaces, online auction brokers, social networking sites, peer-to-peer websites, web aggregators, community websites, etc.).

¹⁸ To that extent, the clear distinction that was originally drawn between Internet Access Providers (IAPs) – which merely provided “*fundamental communications services such as access, information storage, etc.*”, and Internet Service Providers (ISPs) which provided “*some additional services which facilitates a transaction between end users*” (see e.g. C. Reed, *Internet Law, Text and Material* (Butterworth, 2000, chapter 4 at 78) has become meaningless, since many ISPs and Internet portals are now offering a wide range of additional services including search engine services, social network services, news syndication or even access to content of their own.

¹⁹ See WIPO Study, *Role and responsibility of Internet Intermediaries in the field of copyright and related rights* (2011) (by Lilian Edwards, Professor of E-Governance, University of Strathclyde) (available at http://www.wipo.int/export/sites/www/copyright/en/doc/role_and_responsibility_of_the_internet_intermediaries_final.pdf).

1.4 Increasing actions against intermediaries and divergence in their outcomes.

Faced with the staggering level of online piracy, multiple difficulties in acting against direct infringers on the Internet, and Internet intermediaries increasingly active in the production and management of disputed content, right holders in Europe and in the United States have naturally turned to these intermediaries, seeking voluntary collaboration and/or prohibitory injunctions and compensatory damages before civil and criminal courts.

In the last decade, the number of cases brought against Internet intermediaries for third party content has thus increased dramatically.

However, Courts in Europe and in the United States have failed to offer a consistent answer to the question of the liability of Internet intermediaries for third party content, struggling to interpret the DMCA and e-commerce Directive in light of a changing economic and technological background.

Similar legislations have therefore yielded different interpretations not only because of the circumstances and/or the status of the parties involved in the dispute²⁰, but also because of the cultural and/or economic background of the jurisdiction issuing the decision²¹.

1.5 Problems arising from these differences in approach

Yet, these differences in approach do not make sense in an Internet environment, which is global by its very nature²².

²⁰ See infra part 3 on the differences of applications of these regulations to different intermediaries. Compare notably *A&M Records Inc v Napster* (9th Cir. 2001) and *UMG Recordings Inc. et al. v. Veoh Networks Inc et al.* (9th Cir. 2011) where the 9th circuit held file-sharing platforms Napster liable for third party content, while Youtube was deemed not liable for such third party content, despite both platforms offered a high proportion of third party infringing content.

²¹ See infra part 3 on the divergence of interpretations of these regulations in Europe and in the U.S.. Compare notably *Tiffany v. eBay* (2nd Cir. 2010, aff'ing S.D.N.Y 2008) and *LVMH v. eBay* (C.A. Paris Sept 3, 2010 aff'g TGI Paris June 30, 3008) where the French Court held eBay liable for the infringing sales occurring on its website while the U.S. Court, in very similar circumstances, dismissed Tiffany's action.

²² Note, specifically, that as a result of the global nature of Internet, many courts worldwide have asserted jurisdiction over off-shore online businesses, regardless of the location of their servers, provided their website "targeted" the

Moreover, these divergences have also created a great deal of legal uncertainty, highly detrimental to all the stakeholders, whether it be (i) trademark or copyright holders, deprived of any effective protection against the infringement of their intellectual property online, (ii) Internet intermediaries, facing higher risk and liability in the conduct of their businesses, or (iii) Internet users, limited in their access to legitimate content online.

1.6 Outline of the present study

In this study, we will show that even if the legal framework regulating Internet Intermediaries' liability in Europe and in the United States is globally consistent (PART 2), it has however received very different interpretations from different Courts in Europe and in the United States (PART 3). We will then go through the different bills and reforms recently introduced in Europe and in the United States to address this problem (PART 4.1) and conclude that rather than through new legislative reforms, the U.S. and EU approaches to online piracy may be reconciled through a more consistent interpretation of our current legal frameworks and the implementation of a wide range of business-driven solutions (PART 4.2).

relevant public in their jurisdiction – see e.g. *Yahoo! v. Association Amicale des déportés d'Auschwitz et des camps de Haute Silesie, le MRAP* (jurisdiction of a Paris Court over a California based company because disputed goods were accessible to French public); see generally Joel R. Reidenberg, *Yahoo and Democracy on the Internet*, 42 *Jurimetrics J.* 261, 262; Ali-baba Course of study materials, *Internet Distribution, e-commerce and other computer related issues: current developments in liability on-line, business methods patents and software distribution, licensing and copyright protection question* (June 2010); WIPO Report, *Comparative analysis of the national approaches to the liability of Internet Intermediaries* (2011) (Daniel Seng, Associate Professor, Faculty of Law, National University of Singapore.)

2. INTERNET INTERMEDIARIES' LIABILITY FOR THIRD PARTY CONTENT: A SIMILAR LEGAL FRAMEWORK IN EUROPE AND IN THE UNITED STATES

The liability of Internet Service Provider as a result of their hosting and/or conveying to the public potentially unlawful third party content was one of the first legal issues raised by the democratization of the Internet²³.

Indeed, in view of the difficulties involved in taking action against the author and/or provider of disputed content²⁴, victims of various torts committed online have early on turned to the Internet intermediaries – easier to identify, with potentially deeper pocket and capable of more effective actions²⁵ – in order to obtain prohibitory injunctions and/or damages.

The very first cases against Internet Intermediaries – notably ISPs in a strict sense²⁶, Bulletin Board Services (BBS) and other early OSPs – were thus initiated in the United States at the beginning of the nineties, with differing outcomes²⁷.

Some actions were also brought in Europe against ISPs and other early Internet intermediaries (hosting providers, organizer of discussion forum, portals, operator of weblogs services, universities and libraries, etc.), also leading to differing outcomes²⁸.

²³ See WIPO Study, *Role and responsibility of Internet Intermediaries in the field of copyright and related rights* (prec. supra note 19)

²⁴ Notably in terms of identification of the Internet user, costs of action and lack of effectiveness of the eventual remedy that may be order by a Court against one single user.

²⁵ E.g. access or content blocking

²⁶ See note 1 supra.

²⁷ See e.g. **Playboy Enterprises, Inc v. Frena**, 839 F. Supp. 1552 (M.D. Fla. 1993), in which the court held that the operator of a BBS on which unauthorized copies of the plaintiff's copyrighted photographs had been uploaded was directly liable for copyright infringement (unauthorized distribution and display). By contrast, in **Religious Technology Center v. Netcom On-line Communication Services**, 907 F. Supp. 1361 (N.D. Cal.1995), involving similar circumstances, the court ruled that Online services are not liable for third party content, absent some elements of *volition* or *causation* which are deemed to be lacking where a defendant's system is merely used to create a copy by a third party. However, in **Sega Enterprises Ltd v. Maphia**, 948 F Supp 923, 933 (ND Cal 1996), the same Court held a similar operator of a BBS liable for contributory infringement (although not for direct infringement), because she *knew* that infringing activity was occurring on her website, and had even *solicited* others to upload unauthorized copy of the plaintiff's games.

From both parts of the Atlantic, the need for an harmonization of the emerging case law thus arose as early as the mid-nineties and sparked intense discussions and negotiations between OSPs – advocating for a special statutory regime giving them total immunity for third party content – and right holders – arguing for the highest possible protection against the unauthorized copying of their material online.

These discussions led to a compromise in the form of the DMCA²⁹ in the United States (with regard to copyright infringing material only), and of the e-commerce Directive³⁰ in Europe. In this respect, while OSPs prevailed in imposing a special statutory regime giving them – subject to their compliance with some threshold requirements – immunity from liability (or a “safe harbor” in U.S. terminology) for third party content, right holders were granted a simplified procedure enabling them to obtain the withdrawal of any content infringing their rights upon simple notice³¹.

Very broadly inspired by the DMCA, the legal framework laid down by the e-commerce Directive to regulate OSPs’ liability for third party content is not surprisingly largely similar to its U.S. counterpart (2.1). Maybe more surprisingly though, it appears that even beyond this special regime

²⁸ See, for some examples of **French** case law prior to the implementation of Council Directive 2000/31/EC: Paris Court of Appeal (14th ch.) Feb. 10, 1999, **Estelle Halliday v. Valentin Lacambre** (*Gaz. Pal.* 5-6 April 2000, *jurisp.* 19), (holding a web hosting provider hosting a website displaying nude photographs of a well known model liable for violation of privacy because “its role went manifestly beyond the mere transmission of information” and “it should therefore bear the consequence of an activity that he has deliberately chosen to carry out and that is profitable”); see also TGI Nanterre, Dec. 8, 1999 **Lacoste/multimania, Eterel and Cybermedia** (upheld by C.A. Versailles June 8, 2000), **TGI Lyon, May 28, 2000** and **TGI Toulouse June 5, 2002** (holding the providers of discussion fora liable for third party infringement on the ground on the control exercised over these websites). See also for some examples of early **Belgium** case law, **Association des Journalistes Professionnels de Belgique v. Central Station**, Brussels, CFI, Oct. 16, 1996, (*RIDA* 172 (1997) 238) and **IFPI Belgium v. Beckers**, Antwerp, CFI, June 26 and December 21, 1999, (*ECDR* (2000) 440) (holding ISPs liable for copyright infringement). By contrast, see e.g. **Dutch** early case law, **Church of Spiritual Technology v. Dataweb** (clearing an ISP from all liability for the mere hosting of copyrighted material). For further examples of early case law concerning ISP liability in Europe, see J.A.L. STERLING, *WORLD COPYRIGHT LAW* (Thomson Reuters Ltd, Sweet & Maxwell 2008) at 652 et sq.

²⁹ Digital Millennium Copyright Act, H.R. 2281, 105th Cong. (1998) enacted on October 28, 1998 (prec.)

³⁰ Council Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 (*on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market*) (prec.)

³¹ Markus Lubitz, *Liability of Internet Service Providers Regarding Copyright Infringement, Comparison of U.S. and European law*, IIC 2002, 26, 33.

of liability, the legal frameworks governing copyright and trademark infringement in Europe and in the United States are also largely similar. (2.2)

2.1 OSPs' liability under the DMCA and e-commerce Directive: a similar legal framework.

The substantive rules governing Internet Intermediaries' liability as set by the DMCA and e-commerce Directive are overall very similar (2.1.1), despite some differences in the statutory approach and in the procedural rules laid down by the two systems (2.1.2).

2.1.1 OSPs' liability under the DMCA and e-commerce Directive: a legal framework broadly consistent

2.1.1.1 (Online) Service Providers' exemption of liability under the DMCA

On October 28, 1998, after several months of turbulent negotiations, the U.S. Congress finally passed the Online Copyright Infringement Liability Limitation Act³², adding a newly created section 512 to the U.S. Copyright Act³³.

Generally, section 512 of the Copyright Act lays down four specific "safe harbors" exempting qualifying service providers from copyright infringement liability for four specific activities³⁴ (namely: mere conduit, caching, hosting and linking), subject to their compliance with (a) some general and (b) specific requirements.

³² Cf. Title II of the DMCA headed "Online Copyright infringement Liability Limitation"

³³ cf. 17 U.S.C. § 512 of the 1976 Copyright Act headed "Limitations on Liability relating to material online"

³⁴ See PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT, (Wolters Kluwer, Third Edition) at 8.3.2 (The statutory safe harbor) "Because the Act defines its safe harbors in functional rather than institutional terms, a single online service may find that it enjoys immunity for some of its activities, but not for others"

(a) General conditions for eligibility under the DMCA safe harbor.

According to the DMCA, to be eligible under any of the DMCA safe harbor, a party must:

- (i) qualify as a “service provider” in the meaning of Section 512 (k);
- (ii) *adopt*, reasonably *implement*, and *inform* its user of a policy providing for the termination of repeat infringers accounts; and
- (iii) accommodate and not interfere with “standard technical measures”³⁵ applied by copyright owners to identify or protect their work³⁶.

The first condition, pertaining to the qualification as a “service provider” in the meaning of section 512 (k)³⁷, has raised many controversies before U.S. courts.

Section 512 (k) indeed provides two definitions for “service provider”. The first applies for the purpose of the first safe harbor (relating to transitory communication) and defines a service provider in a strict meaning as “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.*”

³⁵ See 17 U.S.C. § 512 (i) (2) ““*standard technical measures*” means technical measures that are used by copyright owners to identify or protect copyrighted works and A) have been developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process; (B) are available to any person on reasonable and nondiscriminatory terms; and (C) do not impose substantial costs on service providers or substantial burdens on their systems or networks.”

³⁶ See 17 U.S.C. § 512 (i) (1): “The limitations on liability (...) shall apply to a service provider only if it:

- 1) has adopted and reasonably implemented 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; and
- 2) accommodates and does not interfere with standard technical measures.”

³⁷ Cf. 17 U.S.C. § 512 (k).

By contrast, the second, applying for the purpose of the other three safe harbors (caching, storing or linking services), defines service provider in a broad meaning as “*a provider of online services or network access, or the operator of facilities thereof.*”

Under the broader definition of s 512(k)(1)(B), any “*provider*” or “*operator*” of “*online services*” could thus theoretically qualify as an (Online) “service provider”.

In fact, it is largely admitted that to qualify as a “service provider” or “Internet Intermediary” in the meaning of the DMCA, one should additionally (i) be an *intermediary* i.e. be located between or among two or more parties (e.g. creator/generator of the content and Internet user) and (ii) not be at the origin of the creation or dissemination of the disputed content³⁸.

The figure reproduced below, published in a recent *Report of the OECD on The economic and social role of Internet Intermediaries*, gives an insight of the variety of actors that may possibly fall within such a broad definition of “service provider”.

Stylized representation of Internet intermediaries’ roles (source: OECD³⁹)

1st Category	Internet access and service providers (IAP/ISP) Function: Provide access to the Internet to households, businesses, and government e.g.: <i>Verizon, Comcast, NTT, BT, Free.fr and mobile operators offering Internet access such as Vodafone, Orange, T-mobile, MTN</i>			
2nd category	Web hosting, data processing and content delivery Function: Transform data, prepare data for dissemination, or store data or content on the Internet for others e.g. <i>Navisite, Akamai, OVH, Easyspace, Rackspace, Register.com, Go Daddy, GMO internet Inc</i>			
3rd category	Internet search engines & portals	E-commerce intermediaries	Payment systems	Participative networked platforms

³⁸ See OECD Report, *The economic and social role of Internet Intermediaries* (April 2010) (by Karine Perset) at 9 “Internet intermediaries bring together or facilitate transactions between third parties on the Internet. They give access to, host, transmit and index content, products and services originated by third parties on the Internet or provide Internet-based services to third parties. (...). *Id.* at 6: [Their main functions are] i) to provide infrastructure; ii) to collect, organize and evaluate dispersed information; iii) to facilitate social communication and information exchange; iv) to aggregate supply and demand; v) to facilitate market processes; vi) to provide trust; and vii) to take into account the needs of both buyers/users and sellers/advertisers.

³⁹ *Id.* at 9

	Function: aid in navigation on the Internet e.g. <i>Google, Yahoo!, Baidu, MSN</i>	Function: enable online buying or selling e.g. <i>Amazon, eBay, Ali Baba,</i>	Function: Process Internet payments e.g. <i>Visa, PayPal, MasterCard</i>	Function: Aid in creating content and social networking e.g. <i>Facebook, LinkedIn, YouTube, Ohmynews</i>
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In the figure above, it should be noted that while it is broadly admitted that the first two categories of operators are respectively shielded by the “routing” and “hosting” safe harbors, the third category of operators, providing a great variety of more or less “active” online services that were largely non-existent at the time of the DMCA, has raised extensive debate as to their eligibility under any of the DMCA safe harbor⁴⁰.

In addition to complying with these three threshold requirements, a service provider applying for a specific exemption shall also comply with the specific requirement attached to this exemption (b).

(b) Specific conditions for eligibility under each DMCA safe harbor.

(i) The “mere conduit” safe harbor (section 512(a))

In general terms, the first safe harbor relating to “*transitory communication*” refers to the service provider acting as a **mere conduit**, transmitting digital information from one point on a network to another, at someone else’s request⁴¹.

⁴⁰ See part 3.1.1 *infra*.

⁴¹ See U.S. copyright office summary of the DMCA: this exemption covers “*acts of transmission, routing or providing connections for the information, as well as the intermediate and transient storage of that material that are made automatically in the operation of a network*”

Specifically, section 512(a) provides that such a service provider shall not be liable for transmitting, routing, or providing connections to any infringing material, as well as for carrying on any intermediate and transient copying (required for the operation of their network), if it:

- (i) did not initiate the transmission;
- (ii) did not select the material
- (iii) did not select the recipients of the material;
- (iv) did not retain copies of the material longer than necessary for the purpose of carrying out the transmission, and
- (v) did not modify the content of the material transmitted⁴².

In exempting from liability, service providers acting as a mere conduit, for the content carried through their servers, this first safe harbor codifies the outcome of *Religious Technology Center v. Netcom On-line Communications Services*⁴³.

(ii) The “ caching ” safe harbor (section 512 (b))

The second safe harbor relating to “system caching”, refers to the intermediate and temporary storage of material carried out by a service provider for the purpose of making the information more readily available to the Internet user⁴⁴.

Section 512(b) lays down an exemption of liability to the benefit of service providers acting in this capacity, subject to their compliance with eight specific conditions essentially pertaining to their passive role with respect to the “cached” disputed content.

⁴² 17 U.S.C. § 512 (a) (1998)

⁴³ **Religious Technology Center v. Netcom On-line Communication Services**, 907 F. Supp. 1361 (N.D. Cal.1995) (prec.).

⁴⁴ Specifically, caching is used on some networks to increase performance and to reduce congestions and delays to popular site or frequently requested material: once a material is requested by an initial user, a copy of the material is stored on the ISP’s system or network for some period to facilitate subsequent access by other users. See generally S. REP. 105-190 105th Cong. 2nd Sess. (1998).

Specifically, this exemption requires that the service provider:

- shall not be the originator of the content
- shall act as an *intermediary* between the provider of the (disputed) content (content provider) and the user of this content (Internet user);
- shall not select the material (i.e. the storage of the material shall be carried out through an *automatic technical process for the purpose of making the information more readily available to the user*);
- shall not modify the content⁴⁵
- shall comply with any rules set by the content provider concerning the refreshing, reloading or other updating of the material, provided such rules are in accordance with generally accepted industry practices,
- shall not interfere with any “return technology” designed by the content provider, where such technology meet certain requirements
- shall comply with the access restrictions set by the content provider
- shall respond expeditiously to any infringement notice by removing or disabling access to infringing material, once it has been informed that such material has been removed from the originating site or that it will be removed in pursuant to a Court order.

(iii) **The hosting safe harbor (section 512 (c))**

The third safe harbor relating to “storage of information residing on systems or networks at direction of users”, addresses the “hosting” of third party material.

⁴⁵ *Id.* at 43 clarifying that a modification would be regarded to exist if a caching service provider decided to change the advertising in the originating site without authorization.

According to section 512(c)(1)(A) of the DMCA, “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 (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.”

Section 512(c)(1)(B) and (C) adds two further requirements, namely that the hosting provider:

- (i) shall *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
- (ii) shall *respond expeditiously to remove, or disable access to* infringing material upon notification of claimed infringement.

In a nutshell, section 512(c) therefore shields any hosting provider from liability if:

- (ii) it did not have actual or constructive⁴⁶ knowledge of the infringing activity,
- (iii) it did not directly benefit from the infringing activity in a case it had the right and ability to control such activity⁴⁷ and
- (iv) upon obtaining knowledge of the infringing activity, it expeditiously removed or blocked access to the infringing material.

⁴⁶ I.e. is not aware of facts or circumstances from which the infringing activity is apparent.

⁴⁷ See S. REP. 105-190 at 43-44 clarifying that in general, a service provider conducting a legitimate business will not be considered to receive a “financial benefit directly attributable to the infringing activity” where the infringer makes the same kind of payment as non-infringing users of the provider’s service, but explaining that such benefit would occur if the ISP were to receive a direct remuneration for providing access to infringing material. (For a similar position in prior U.S. case law, see *Marobie FL v. National Association of Fire Equipment Distributors*, 983 F. Supp. 1167 (N.D. Ill. 1997))

Section 512(c)(2) further provides that to qualify under this specific safe harbor, the hosting provider shall designate an agent to receive notification of claimed infringement.

Section 512(c)(3) finally clarifies the requirements⁴⁸ that the infringement notice should contain to be effective⁴⁹, while section 512(f)⁵⁰ and 512(g)⁵¹ provide certain safeguards in order to offset the effect of possible erroneous or fraudulent notifications or counter-notifications.

(iv) The “Linking” safe harbor (section 512(d)).

The last safe harbor relating to *information location tools* addresses the activity of referring or linking users to online locations that contains infringing material or infringing activity by using information location tools, such as online directories, search engines or hypertext links⁵².

The conditions for qualifying under this safe harbor are essentially the same than those of hosting, with some differences in the notification requirements and in the counter-notification procedure.

Under section 512(d), a provider of “information location tools” will therefore be shielded from liability if :

- (i) it did not have actual or constructive⁵³ knowledge of the infringing activity

⁴⁸ Under the notice and takedown procedure, a copyright owner submits a notification under penalty of perjury, including a list of elements specified in section 512(c)(3)(A) including (i) the signature of the right holder, (ii) the identification of the copyrighted work, (iii) the identification and location of the infringing material, (iv) the contact information of the complaining party, (v) a “good faith belief” statement and (vi) a “statement under perjury or penalty” by the right holder that its right were infringed .

⁴⁹ 17 U.S.C. § 512 (c) (3) (B) (1)

⁵⁰ See 17 U.S.C. § 512 c) (f) (providing penalties for knowing material misrepresentations in either a notice or counter-notice and awards damages to the persons who are wrongfully accused.)

⁵¹ Specifically, section 512(g) protects the service provider from any liability to any person for claims based on its having taken down allegedly infringing material, except (i) if a counterclaim complying with statutory requirements has been filed by the original provider of the information and (ii) the right owner, after receiving notification of the counterclaim, has failed to file an action seeking a court order to restrain the subscriber from engaging in infringing activity.

⁵² See 17 U.S.C. § 512 d); see S. REP. 105-190

⁵³ I.e. is not aware of facts or circumstances from which the infringing activity is apparent

(ii) it did not directly benefit from the infringing activity in a case it had the right and ability to control such activity and

(iii) it “expeditiously” removed or blocked access to the material upon obtaining knowledge of its infringing character.

(v) Specific rules regarding liability of non-profit educational institutions (section 512e)).

Section 512(e) finally includes some specific rules relating to the application of these exemptions to nonprofit educational institutions, such as universities and libraries, for providing online access to their faculty members and graduate students, and for the actions carried out by their users.

Specifically, section 512 (e) makes sure that, under certain conditions⁵⁴, such institutions may benefit from the forgoing safe harbors, by clarifying that:

(i) As to the first two safe harbors (mere conduit and caching), the Internet user (faculty member or graduate student) –rather than the institution – shall be considered the content provider, and is liable for the infringing activity or information.

(ii) As to the other two exemptions (hosting and linking), the knowledge or awareness of the faculty member or student of infringing activity will not be attributed to the institution

⁵⁴ See 17 U.S.C. § 512 (e)

2.1.1.2 Internet intermediaries' limitation of liability under the e-commerce Directive.

Just like the DMCA, the e-commerce Directive⁵⁵ was adopted on June 8, 2000 with the aim of fostering the development of electronic commerce and *Information Society Services* (ISS) by providing a unified legal framework in this area for all Member States⁵⁶.

In line with the DMCA approach, rather than giving OSP (or *Information Society Service Provider* (ISSP)⁵⁷ in the e-commerce Directive jargon) blanket immunity for third party content, the e-commerce Directive addresses separately the different functions carried out by ISSPs that may give rise to specific limitations of liability⁵⁸. The Directive further sets forth (a) one general condition (being an intermediary service provider) and (b) several specific conditions pertaining to each exemption.

(a) General conditions for eligibility under the limitations of liability provided by the e-commerce Directive.

The limitations of liability provided by the e-commerce Directive are enumerated under section 4 (Article 12 to 15) of the Directive entitled “*liability of intermediary service providers*”⁵⁹

To benefit from one of the specific exemptions provided by the e-commerce Directive, a party should thus, as a preliminary condition, qualify as a “service provider” providing “intermediary services”.

⁵⁵ Council Directive 2000/31/EC (prec.)

⁵⁶ See *id.* Recitals (1) to (9).

⁵⁷ Council Directive 2000/31/EC refers alternatively to “Information Society Service Providers” or “Internet Intermediaries” to designate both ISPs and OSPs.

⁵⁸ See WIPO Study, *Role and responsibility of Internet Intermediaries in the field of copyright and related rights* (prec. supra note 19)

⁵⁹ See Council Directive 2000/31/EC, section 4 of the Directive entitled “*liability of intermediary service providers*” including three categories of ISP: *mere conduit* (art. 12), *caching* (art. 13) and *hosting* (art. 14) merely defined by their functions.

A “**Service Provider**” is defined in the Directive as “any natural or legal person providing an *Information Society Service*, the later being defined⁶⁰ as “any service normally provided for remuneration⁶¹, at a distance, by electronic means⁶², at the individual request of a recipient of a service⁶³.”

Just like the DMCA, the e-commerce Directive therefore adopts a functional definition of “service provider”, qualifying the ISSP through the functions they are supposed to carry out (mere conduit, caching or hosting) and the way they are supposed to act (“normally for remuneration”, “at a distance”, “by electronic means” and “at the request of a user”), rather than through a list of immutable characteristics or requirements defining a specific category of operators.

Differently from the DMCA, the e-commerce Directive does not provide any general requirement (such as adopting a termination policy or accommodating with standard technical measure) beyond the mere requirement of being an “intermediary service provider”.

Moreover, the e-commerce directive does not formally disqualify a service provider from an exemption of liability as a result of receiving a “*benefit directly attributable to the activity*”⁶⁴.

Yet, as we will further develop below⁶⁵, domestic law and case law in Europe have added a similar practical requirement so that the general rules regulating ISPs liability in Europe and in the US resulted in a very similar legal framework.

⁶⁰ See Art. 2(b) of Council Directive 2000/31/EC (referring to art. 1(2) of Council Directive 98/34/EC as amended by Council Directive 98/48/EC.)

⁶¹ Although Rec. 18 of Council Directive 2000/31/EC notes that even if a free service may still be considered as an information society service if it forms part of an “economic activity”.

⁶² See Council Directive 98/34/EC art. 1(2): “by electronic means, means that the service is sent initially and received at its destination by means of electronic equipment for the processing (including digital compression) and storage of data, and entirely transmitted, conveyed and received by wire, by radio, by optical means or by other electromagnetic means.”

⁶³ *Id.* defining “Recipient of a service” as “any natural or legal person who uses an information society service”

⁶⁴ As a matter of facts, however, domestic courts in Europe have regularly referred to this (not legal) criterion to disqualify hosting intermediaries from safe harbor – see *infra* Part 3.1.2.4

⁶⁵ See *infra* Part 3.1.2

Likewise, the specific conditions for eligibility under each exemption of liability provided by the e-commerce Directive are largely inspired by their DMCA counterparts.

(b) Specific conditions for eligibility under each limitation of liability provided by the e-commerce Directive

(i) The different categories of exemptions provided by the e-commerce Directive

Just like the DMCA, the e-commerce Directive provides that a service provider may benefit from a limitation of liability only to the extent that it is carrying out one of three specific activities expressly defined by the Directive, namely: (i) “mere caching” (article 12), (ii) “caching” (article 13), and (iii) hosting” (article 14).

“*Mere caching*” - defined in the e-commerce Directive as the “*transmission in a communication network of information provided by a recipient of the service or the provision of access to a communication network*” - basically covers the same activity as “mere conduit” referred to in section 512(a) of the DMCA.

In turn, “*caching*” - defined as the “*automatic, intermediate and temporary storage of that information, performed for the sole purpose of making more efficient the information’s onward transmission to other recipients of the service upon their request*” - broadly corresponds to the “system caching” function referred to in section 512(b) of the DMCA.

“*Hosting*” - defined as “the storage of information provided by a recipient of the service” - finally corresponds to the “storage of information residing on systems or networks at direction of users” referred to in section 512(c) of the U.S. DMCA.

The three first safe harbors provided by the e-commerce Directive (mere caching, caching and hosting) are therefore basically the same than those provided by the DMCA (mere conduit, caching and hosting).

The e-commerce Directive does not however contain any specific provisions relating to the activity of “linking”⁶⁶, or any special regimes applying to nonprofit educational institutions although case law in Europe has generally applied the hosting exemptions to linking providers⁶⁷.

(ii) The specific conditions for eligibility under each of these exemptions.

Just like the general rules governing OSP liability, the specific conditions for eligibility under each specific exemptions of liability are very similar under the two regulations⁶⁸.

In particular, like the DMCA, a hosting provider under the e-commerce Directive will not be liable for third party (infringing) content or activity, unless it did not act expeditiously to remove or disable access to such content or activity, upon obtaining knowledge of their infringing character.⁶⁹

In line with section 512(m)(1) of the DMCA⁷⁰, Article 15 of the e-commerce Directive also establishes that member states shall not impose on ISSPs a general obligation to monitor third party content, or actively to seek facts or circumstances indicating illegal activity.

⁶⁶ However, some member states, specifically Austria, Hungary, Portugal and Spain have introduced special liability exemptions for search engines and other information location tools. Moreover, the European Court of Justice (E.C.J.) has now made clear that Google “Adwords” referencing service fell, under certain conditions, within the remit of the hosting exemption under Article 14 of Council Directive 2000/31/EC - see E.C.J. Joined Cases C-236/08 and C-238/08 Google France and Google v. Louis Vuitton and *infra* Part 3.2.1 for further details on the eligibility of search engines under the hosting exemption

⁶⁷ See *infra* part 3.2.1

⁶⁸ See Council Directive 2000/31/EC Art 12-14

⁶⁹ See Council Directive 2000/31/EC, Art. 14 (Hosting).

⁷⁰ See 17 U.S.C. § 512 (m)(1): “Nothing in this section shall be construed to condition the applicability of subsections (a) through (d) on a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i) ”

All in all, the substantial rules governing Internet intermediaries' liability in Europe and in the United States are therefore very similar.

Moreover, although there are some differences in terms of the *material scope* and *procedures* between the two regulations, these differences do not impair the overall consistency of the two systems.

2.1.2 Limited impact of the differences existing between the two systems

2.1.2.1 Differences in the scope of the two regulations

If the aim pursued by U.S. and EU lawmakers when enacting the DMCA and e-commerce was the same – i.e. limiting Internet intermediaries' liability in order to foster the growth of digital economy⁷¹ – their statutory approaches to this issue was quite different.

Indeed, while Europe adopted a “horizontal” approach, dealing with liability of Internet intermediaries in general, for any kind of unlawful third party content⁷², in the United States, different regimes of liability were created according to different kinds of content.

Specifically, in 1996, the U.S. Congress first adopted the CDA⁷³, providing a broad exemption of liability to the benefit of all *Interactive Computer Services* (ICS)⁷⁴ with respect to third party content⁷⁵. This law was adopted in reaction to the New York Supreme Court decision in *Stratton*

⁷¹ See S. REP. No 105-190, at 1-2 (1998) ([the DMCA is] “designed to facilitate the robust development and word wide expansion of electronic commerce, communication, research, development and education in the digital age.”)

⁷² Except gambling and privacy/data protection (see *infra*)

⁷³ Title 5 of the Telecommunications Act, Public Law 104-104 of the 104th Congress, enacted on February 8, 1996 and codified at 47 U.S.C. § 230. This section was captioned in the original text as “*protection for “good Samaritan ” blocking and screening of offensive material”*” but is usually referred to as the CDA.

⁷⁴ “*Interactive computer service*” has been interpreted broadly to cover most OSP.

⁷⁵ The CDA reflected the Congress' attempt to give OSP an incentive to get involved in the task of monitoring unlawful content, without incurring liability as “publishers” of such content

*Oakmont v. Prodigy*⁷⁶ that had found a hosting provider liable for filtering out inappropriate content and therefore arguably exercising editorial control over a chat room.

While most of the law was ruled unconstitutional⁷⁷, section 230(c)⁷⁸ – also known as the Good Samaritan Defenses – remains in force and has since then been interpreted broadly to grant total immunity to a large spectrum of intermediaries⁷⁹.

However, section 230(e)⁸⁰ explicitly exempts from its coverage (federal) criminal law, communication privacy law⁸¹ and intellectual property law.

In the United States, OSPs' liability therefore differs depending on the kind of content routed or displayed by the intermediary:

- (i) For all third-party content or activity - the CDA grants OSPs total immunity from liability⁸², unless they give rise to potential liability under IP law, federal criminal law or communication privacy law;
- (ii) For third party content or activity potentially giving rise to copyright-infringement liability, OSPs' liability is governed by the DMCA;
- (iii) For third-party content or activity potentially giving rise to liability under criminal law, communication privacy law or IP law other than copyright law, OSPs are subject to regular liability under the relevant statute or common law.

⁷⁶ *Stratton Oakmont, Inc v. Prodigy Services Co*, 1995 WL 323710 (N.Y. Sup. Ct. 1995)

⁷⁷ Specifically, unanimous Supreme Court declared the portion of DCA criminalizing filth on the Internet unconstitutional. For a complete review of this legislation, see generally, IAN C. BALLON, *E-COMMERCE AND INTERNET LAW: A LEGAL TREATISE WITH FORMS*, (Thomson/West Publishing, 2011) at chapter 37.

⁷⁸ See 47 U.S.C. §230(c)

⁷⁹ In particular, unlike the DMCA, the CDA does not provide any obligations for an ISP notified with a take notice to comply with it.

⁸⁰ See 47 U.S.C. § 230(e)

⁸¹ Specifically, the Electronic Communication Privacy Act (18 U.S.C.A. §§2510 et seq.) prohibiting the interception of email communications sent over the Internet or otherwise in interstate commerce.

⁸² 47 U.S.C. § 230

As regards IP rights (other than copyright) infringement claims – notably trademark infringement claims – Internet intermediaries will therefore face a different regime of liability in Europe (limited liability regime under the e-commerce Directive) compared with the U.S. (direct or indirect liability under a theory of vicarious or contributory liability).

However, U.S. courts have reached similar results when dealing with a copyright infringement claim under the DMCA safe harbor or a trademark infringement claim under the common law theories of vicarious and/or contributory liability⁸³. As a matter of facts, the requirements conditioning safe harbor eligibility under the DMCA (notably absence of knowledge, control, benefit and involvement in the infringing content or activity) are arguably the same as those exempting the service provider from liability under the theory of vicarious and/or contributory liability⁸⁴. As far as trademark infringement is concerned, the difference of scope between the U.S. and EU special regime of liability have thus had a limited impact on the consistency of the two systems.

Likewise, the differences existing in the procedures laid down by the two systems have had a limited impact on the global consistency of the two systems.

2.1.2.2 Differences in the procedural rules laid down by the two regulations

The DMCA and the e-Commerce Directive are different in their nature – the DMCA is a federal statute, directly enforceable, while the e-commerce Directive merely gives a legal framework that

⁸³ In particular, compare *Tiffany v. eBay* (S.D.N.Y., 2008) and *Lancôme v. eBay* (Brussels Commercial Court, July 31 2008) where the Southern District of New York and the Brussels Court reached a similar outcome applying respectively the common law theories of contributory trademark infringement and the e-commerce hosting exemption.

⁸⁴ See PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT (prec.) at §8.3.2; see also Jane C. Ginsburg, *Separating the Sony Sheep from the Grokster Goats. Reckoning the future Business Plans of Copyright Dependant technology entrepreneurs*, 50 ARIZ. L. REV. 577 at 595 - 601 (“it appears, despite the complexities of 512, that the statutory prerequisites for application of the safe harbor should sufficiently resemble the common law standards of secondary liability that the statute is not likely to herd Grokster goat-type businesses together with the Sony sheep.”)

member states must implement in their domestic legislations. Thus the two regulations do not have the same level of precision. Notably, the e-commerce Directive does not include any of the procedural rules - a field falling within the competence of member states – unlike that provided in the DMCA⁸⁵.

These procedural rules involve notably: (a) injunctive relief procedures, (b) notice and takedown provisions, and (c) subpoenas to identify infringers.

(a) Injunctive relief

While injunctive orders available against OSPs are substantially detailed and limited under the DMCA, the e-commerce Directive, beyond mentioning the principle of such injunctions, essentially refers to national law for their conditions and details⁸⁶.

(i) Under the DMCA

In the United States, section 512 (j) of the U.S. Copyright Act provides that only three kinds of injunctive orders can be issued against a service provider qualifying for a safe harbor (other than for mere conduit):

- (i) An order restraining the service provider from *providing access to infringing material or activity* residing at a particular online site on the provider's system or network;
- (ii) An order restraining the service provider from *providing access to a subscriber* or account holder of the service provider's system or network who is engaging in infringing activity and is

⁸⁵ See Miquel Peguera, *The DMCA Safe Harbors and Their European counterparts: a comparative analysis of some common problems*, 32 Colum. J. L. & Arts 481 at 488.

⁸⁶ See Rec. 45 of Council Directive 2000/31/EC (“The limitations of the liability of intermediary service providers established in this Directive do not affect the possibility of injunctions of different kinds; such injunctions can in particular consist of orders by courts or administrative authorities requiring the termination or prevention of any infringement, including the removal of illegal information or the disabling of access to it.”)

identified in the order, by terminating the accounts of the subscriber or account holder that are specified in the order;

(iii) such other injunctive relief as the court may consider necessary to *prevent or restrain infringement of copyrighted material* specified in the order of the court at a particular online location, if such relief is the least burdensome to the service provider among the forms of relief comparably effective for that purpose⁸⁷;

Moreover, the only injunctive relief available against a service provider qualifying as a “mere conduit” (under section 512(a)) is an order to *terminate a specific account* or to *block access* to a specific identified online location⁸⁸.

Before granting such injunctive order, the court must additionally consider:

(i) whether it will *significantly burden* either the provider or the operation of the provider’s system or network;

(ii) the *magnitude of the harm* likely to be suffered by the copyright owner if such steps are not taken;

(iii) whether implementation of such an injunction is *technically feasible and effective* and would not interfere with access to non-infringing material at other online locations and;

(iv) whether *other less burdensome and comparably effective means* of preventing or restraining access to the infringing material are available⁸⁹.

(ii) Under the e-commerce Directive and other applicable regulations in Europe

In contrast, the e-commerce Directive does not provide any limitation as regards the possibility of

⁸⁷ 17 U.S.C. §512(j) (1) (A)

⁸⁸ 17 U.S.C. §512(j) (1) (B)

⁸⁹ 17 U.S.C. §512(j) (2)

injunctive reliefs against a qualifying service provider, essentially referring to national law for the conditions of such injunctions⁹⁰.

Injunctive relief procedures are thus provided in each member states, either under specific laws (e.g. trademark or copyright law)⁹¹ or under general regulations or legal doctrines (civil procedure, tort law, etc.)⁹².

Article 8 (3) of the Copyright Directive⁹³ and Article 11 of the Enforcement Directive⁹⁴ additionally clarify that member states shall provide in their domestic legislations for injunctive relief against both the (direct) infringer *and* against intermediaries whose services are used by a third party to engage in infringements.

Injunctive reliefs against OSPs whose services are used to infringe IP rights are therefore available in most member states⁹⁵.

Like in section 512(m) of the DMCA, article 15 of the e-commerce Directive additionally limits the scope of the injunctions available against OSPs by preventing Member states from imposing on them any general monitoring obligations. Moreover, domestic laws generally provide additional requirements conditioning the availability of such reliefs⁹⁶.

⁹⁰ See Council Directive 2000/31/EC Recital 45 (prec.), art.12 (3), 13(2) and 14(3).

⁹¹ In France, for instance, specific injunctive relieves for copyright and trademark infringement are provided under art. L. 336-2, art. L.716-6 of the French Intellectual Property Code and art. 6.I.8 L.C.E.N. (implementing Council Directive 2000/31/EC).

⁹² For an insight of other injunctive procedures existing in Europe, see ULYS *Study On The Liability Of Internet Intermediaries* (Nov. 2007), study commissioned by the European Commission (by Thibault Verbiest, Gerald Spindler, Giovanni Maria Riccio and Aurélie Van der Perre) at 50.

⁹³ Council Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society, sometimes known as the *Information Society Directive* or the *Infosoc Directive*.

⁹⁴ Council Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights

⁹⁵ See *infra* 4.2.1.2 (on the range of injunctive procedures available in Europe)

⁹⁶ See notably principles of fairness, equitability and proportionality regulating compensation under general principles of law.

(b) Statutory notice and take-down procedure

While the DMCA provides specific notifications and counter-notification procedures⁹⁷, the e-commerce Directive does not detail such procedures, leaving to member States – or to the main stakeholders - the task of adopting such provisions⁹⁸.

Some member states have therefore implemented in their domestic legislation specific notification procedures⁹⁹ or guidelines¹⁰⁰, while others have left this task to courts or to the concerned stakeholders¹⁰¹.

Despite a certain disparity in the practices followed by the different member states, most of them have however implemented some kind of notification procedures. Moreover, in a recent communication, the EU Commission has announced that it will remedy this disparity by providing a harmonized notice and takedown procedure applicable in Europe. Hopefully, this procedure will be inspired by the U.S. notice and take down procedures¹⁰² and include a counter-notification

⁹⁷ See notification and counter-notification procedure under 17 U.S.C. §512 (c)(3) and (g) detailed supra

⁹⁸ See Council Directive 2000/31/EC, Rec. 40 and 49.

⁹⁹ See e.g. in France, the statute implementing Council Directive 2000/31/EC, entitled *Loi pour la Confiance dans l'Economie Numérique* (LCEN) (*law for confidence in the digital economy*) art. 6-1-5, provides a specific procedure for the notification of illicit content with a list of elements that such notification should contain including: date of the notification, identification of the complainant, identification of the recipient, description and location of the infringing material, legal justification for the removal of the content, copy of the correspondence sent to the author or publisher of the allegedly illicit material or activity asking for the interruption, removal or modification of such material or justification that such author or publisher could not be contacted. This procedure is not compulsory but shift the burden to prove lack of knowledge on the recipient.

¹⁰⁰ See e.g. U.K. implementation of Council Directive 2000/31/EC under *Electronic Commerce (EC) Directive Regulation 2002* (Reg. 22). Reg. 22 notably gives some guidelines in order to determine whether an ISP has actual knowledge including “the extent to which any notice includes (i) the full name and address of the sender of the notice; (ii) details of the location of the information in question; and (iii) details of the activity or information in question.”

¹⁰¹ See e.g. Codes of conduct issued by the French CCI (chamber of commerce), FEVAD (distant-selling companies association) AFA (ISP association), BVP (advert) and ACSEL (e-commerce), the Austrian Internet Service Providers Associations (ISPA), the Belgium Internet Service Providers Association (ISPA); the Danish Telecom Industries Association or the U.K. Internet Service Provider Association (ISPA)”.

¹⁰² ULYS *Study On The Liability Of Internet Intermediaries* (prec.) at 16 suggesting the adoption of a modified notice and take- down-procedure combined with a counter-notice and put-back option, similar to the ones existing in Finland and Lithuania.

procedure and some mechanisms to deter fraudulent notifications¹⁰³ so as to further bring the U.S. and EU legal frameworks together in this regard.

(c) Subpoenas

To balance the exemption of liability provided to the benefit of some OSPs, the DMCA also provides a simplified procedure to enable the right holder to identify easily direct infringers by filling out a subpoena¹⁰⁴ before a federal court. Upon receiving such a subpoena, the OSP is required to expeditiously disclose the information required to the copyright owner¹⁰⁵.

In contrast, the e-commerce Directive does not contain any such provision, deferring, once again, these specific procedures to member states' national laws.

As a matter of fact, subpoenas and/or other proceedings enabling the victim of an infringement to obtain from a service provider the communication of information regarding the infringement committed by one of its users, upon a simple request to a court or national authority, exist in most – if not all - domestic legislations of EU member states¹⁰⁶.

Subject to some differences of approaches and legal traditions, the legal framework set up by the e-commerce Directive and the DMCA to govern Internet Intermediary liability is thus very similar.

Maybe more surprisingly though, it appears that even outside the special regime of liability laid down by the e-commerce Directive and DMCA, the legal frameworks governing OSPs' liability for regular copyright and/or trademark liability are much more alike than they are different.

¹⁰³ See Markus Lubitz, *Liability of Internet Service Providers Regarding Copyright Infringement, Comparison of U.S. and European law* (prec.)

¹⁰⁴ See 17 U.S.C. § 512 (h) (2) mentioning that the subpoena shall contain “(A) a copy of a notification described in subsection (c)(3)(A); (B) a proposed subpoena; and (C) a sworn declaration to the effect that the purpose for which the subpoena is sought is to obtain the identity of an alleged infringer and that such information will only be used for the purpose of protecting rights under this title.”

¹⁰⁵ 17 U.S.C. § 512 (h) (5)

¹⁰⁶ For instance, in France, this procedure is governed by art. 6.II of the LCEN (domestic legislation implementing Directive 2000/31/EC) and the Code of Civil Procedure.

Indeed, although there are many formal differences between the regime of liability governing copyright and trademark infringement in Europe and in the United States, the principles and legal standards governing copyright and trademark liability turn out to be broadly consistent. (2.2)

2.2 OSPs' liability for copyright and/or trademark infringement outside any special regime of liability: a broadly consistent legal framework

As mentioned above, the special regime of liability laid down by the DMCA and the e-commerce Directive to the benefit of Internet intermediaries is subject to a certain number of requirements (e.g. qualifying as a “service provider”, carrying out an activity covered by the exemption, complying with the specific conditions of each safe harbor, etc.).

The failure for an intermediary to qualify under this special regime of liability does not however necessarily make it liable for copyright (or trademark) infringement.

In such case, its liability – and the defense it may raise – in relation with a claim for copyright and/or trademark infringement will simply be assessed in light of the law(s) and/or case law governing regular liability for copyright and/or trademark infringement in the territory where the action has been brought.

Generally speaking, regular liability for copyright and/or trademark infringement in Europe and in the United States is governed by a wide set of rules derived from different corpus of law, case law and/or traditions. While in the tradition of Continental European law – or civil law – the rules governing liability (and defenses) for trademark and/or copyright infringement are mainly laid down by specific statutes (specifically trademark and/or copyright law) and/or general theories (notably

general tort rules), in the US (and, to some extent, U.K.) common law tradition, such liability and defenses were historically largely governed by common law rules.

Yet, as we will see below, beyond the visible differences existing between the European and U.S. legal traditions, the standard of protection and legal requirement to prevail in an action for direct (2.2.1) or indirect (2.2.2) copyright or trademark infringement, as well as the defenses available to the OSPs targeted by such actions (2.2.3) remain surprisingly similar.

2.2.1 Direct liability for copyright and/or trademark infringement in Europe and in the United States

Whether *before* the enactment or *outside the scope* of the aforementioned special regime of liability, courts in both continents have had to consider the direct liability of Internet intermediaries under copyright law (2.2.1.1) trademark law (2.2.1.2) or under any other general tort rules (2.2.1.3). In each of these fields, the policy, standard of liability and legal requirement underpinning these rules turn out to be surprisingly similar.

2.2.1.1 Direct liability for *copyright* infringement in Europe and in the United States

(a) Two traditions not so far from each others

It the field of copyright, it is customary to draw a distinction between two different traditions:

- (i) a copyright tradition, associated with the common law system of England and its former colonies, including the United States¹⁰⁷;
- (ii) an author's rights tradition, rooted in the civil law system of the European Continent, itself subdivided between the French monist tradition of "droit d'auteur" and the German dualist tradition of Urheberrecht¹⁰⁸.

To that extent, it is generally taught that the common law copyright tradition would be utilitarian and society-oriented, copyright being conceived as a limited monopoly granted to the author as an incentive for the creation of further works to the benefit of the society as a whole¹⁰⁹, while in the civil law tradition of author's right, copyright would be conceived a natural right (or spiritual bond) vesting the author with control over every aspect of her work, itself considered to reflect her personality¹¹⁰.

In fact, beyond these visible differences, the standard of protection and the substantial rules governing copyright law in Europe and in the United States are strikingly similar¹¹¹.

¹⁰⁷ The first U.S. copyright legislation, "*Act of the encouragement of learning*" (1790) was closely modeled after the English Statute of Anne conferring on the author a 14 year monopoly (renewable once if the author was living) as an incentive to create new work in the interest of the public.

¹⁰⁸ PAUL GOLDSTEIN, *INTERNATIONAL COPYRIGHT, PRINCIPLES, LAW & PRACTICES* (Oxford University Press, 2001)

¹⁰⁹ See e.g. 1710 English Statute of Anne ("An act for the Encouragement of Learning, by vesting the Copies of Printed Books in the Authors or Purchasers of such copies, during the Times therein mentioned") and U.S. Constitution (1787) art I, § 8, cl. 8. ("The Congress shall have power . . . To Promote the Progress of Science and useful Arts, by securing for limited Times to authors and inventors the exclusive Right to their respective Writings and Discoveries.").

¹¹⁰ See e.g. Art. L.111-1 of the French Intellectual Property Code "The author of a work of the mind is vested, as a mere result of her creation, with an exclusive incorporeal property right over her work that she can enforce against anybody. This right includes intellectual and moral attributes as well as economic attributes ". See also e.g. e.g. **Cour de Cassation, crim. March 25, 1990**, for an example of (French) case law subjecting copyright protection to the condition that the work reflects "*the stamp of the personality of the author*". See generally Jane G. Ginsburg, *A tale of two copyrights: literary property in revolutionary France and America*, 64 TUL. L. REV. 99; Kim Treiger-Bar-Am, *Kant on copyright: rights of transformative authorship* (available at <http://www.cardozoelj.net/issues/08/Treiger.pdf>); Edward L. Carter, *Harmonization of copyright law in response to technological change: lessons from Europe about fair use and free expression*, UNIVERSITY OF LA VERNE L. REV. (April 2009) and HENRY DESBOIS, *LE DROIT D'AUTEUR EN FRANCE* (Dalloz, 3d ed. 1978) at 538 (explaining, notably that the Author's right tradition is notably inspired from the personality theory of Immanuel Kant and from romantic and authorial personality theories (spiritual bond between the author and her work/ work, reflect of the author's personality) developed in France in the XIX century (e.g. Lamartine, Victor Hugo).

¹¹¹ PAUL GOLDSTEIN, *INTERNATIONAL INTELLECTUAL PROPERTY, CASES & MATERIAL* (Foundation Press, 6th Edition, 2008).

As a matter of fact, copyright laws in Europe and in the United States find their roots in a common history and were inspired by a similar tension between private interests (of the copyright holders to receive fair compensation and effective protection for their work) and social benefits (of the society at large to have a wider access to content and information)¹¹².

Moreover, Europe and the United States have endeavored in the last decades – notably through adhesion to international conventions and treaties governing IP law¹¹³ – to harmonize their IP laws and practices as much as possible in order to strengthen their political and economic relationships and combat counterfeiting more effectively¹¹⁴.

Nowadays, copyright is therefore governed by substantially harmonized rules in Europe and in the United States. In particular, the Berne Convention¹¹⁵ - to which the United States finally adhered in 1989¹¹⁶ - the Universal Copyright Convention¹¹⁷, the WIPO Copyright Treaty¹¹⁸ and the TRIPS Agreement¹¹⁹ lay down a common standard for protection of copyright, acknowledging both the moral¹²⁰ and economic rights¹²¹ of the author.

¹¹² See Jane G. Ginsburg, *A tale of two copyrights: literary property in revolutionary France and America* (prec.)

¹¹³ The Berne Convention was ratified by the U.S. in 1989 and the TRIPS agreement (Annex 1c to the WTO Agreement) and the WIPO Copyright treaties (WCT and WPPT) were respectively signed in 1994 and 1996 (under the authority of WTO and WIPO to which both the U.S. and the E.U. member states are members).

¹¹⁴ Schwartz E. J., *An Overview of the International treatment of exceptions*, 57 J. COPYRIGHT SOC'Y 473 (2010).

¹¹⁵ Berne Convention for the Protection of Literary and Artistic Works (1886), Paris Text 1971

¹¹⁶ In accordance with Article 34 of the Berne Convention, the U.S. adhered to the most recent version of the convention, i.e. the 1971 Paris Text of the Berne Convention.

¹¹⁷ Universal Copyright Convention (UCC) (1952), Paris Text 1971

¹¹⁸ WIPO Copyright Treaty (WCT), Geneva, 1996 (prec.)

¹¹⁹ Agreement on Trade-Related aspects of Intellectual Property Rights, Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, Marrakesh, Morocco, 1994.

¹²⁰ Berne Convention, 1971 Paris Text, Art. 6 (*bis*)

¹²¹ Berne Convention, 1971 Paris Text, Art. 8, 9 (1), 11, 11(bis), 11(ter), 12 and 14.

(b) Standard of protection for copyright in Europe and in the United States

A few international treaties - to which the United States, the European Union and/or EU Member States have acceded, provide a universal threshold standard of protection for copyright in Europe and in the United States.

Of essential importance among them, the Berne Convention acknowledges the author's exclusive right to authorize the reproduction, adaptation, arrangement, translation, public performance, public communication and/or broadcasting of her work¹²². The WIPO Copyright Treaty adds the copyright owner's exclusive right to distribute, "make available" (through sales or other transfer of ownership)¹²³ and "authorize any communication" of her work to the public (by wire or wireless means)¹²⁴.

Similar rights were also recognized in the Copyright Directive harmonizing "certain aspects of copyright and related rights in the information society"¹²⁵ among the EU member states¹²⁶. Likewise, the United States Copyright Act¹²⁷ acknowledges the copyright's owner exclusive rights to reproduce, prepare derivative works, distribute to the public (by sale or other transfer of ownership), perform and/or display publicly her work.

Although copyright is still governed by domestic law and/or case law in Europe and in the United States, the threshold standard of protection for copyright in these areas is therefore largely identical.

¹²² Berne Convention, 1971 Paris Text, Art. 9 (I), 11, 11(bis), 12, 8, 14.

¹²³ WIPO Copyright Treaty, 1996, Art. 6

¹²⁴ WIPO Copyright Treaty, 1996, Art. 8

¹²⁵ EC Council Directive 2001/29/EC *on the harmonization of certain aspects of copyright and related rights in the information society* (see spec. art. 3: "right of communication to the public of works and right of making available to the public")

¹²⁶ See chapter II of EC Council Directive 2001/29/EC laying down the exclusive right of the author to authorize or prohibit the reproduction (art.2), Communication and making available to the public (art. 3) and Distribution (art. 4) of her work.

¹²⁷ See U.S. Copyright Act, §106. See also, PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT (prec.) at Chapter 7 (exclusive rights in copyrighted works).

Likewise, the standard of assessment of copyright infringement is strikingly similar in both systems.

**(c) Legal requirements for prevailing in a copyright
infringement claim in Europe and in the United States**

In both Europe and in the United States, a plaintiff claiming (direct) copyright infringement of her work has to prove (i) ownership of a valid copyright¹²⁸ and (ii) a violation of one of the exclusive rights she was granted over her work¹²⁹.

Copyright infringement being a strict liability offense in both systems, the author has nothing else – and notably no intent – to prove: anybody engaging in a copyright infringement can thus be held liable for such infringement regardless of her culpability or state of mind¹³⁰.

With the advent of Internet, several questions have arisen in Europe and in the United States as to how these traditional copyright rules could apply to the new digital environment, particularly as regards the question of the liability of Internet intermediaries for third party content.

In this regard, two essential questions have been raised pertaining to (i) whether these intermediaries could be deemed to be engaged in any violation of the copyright holder's exclusive rights when

¹²⁸ *Id.* (clarifying that to prove ownership of a valid copyright, the right holder must notably show that her work is original and fixed in a tangible medium of expression.)

¹²⁹ See 17 U.S.C. § 501(a): "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 121 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be." See e.g. *Feist Pub. Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 361 (1991) laying down the standard for establishing copyright infringement, i.e. (1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original."); See generally, PAUL GOLDSTEIN, *GOLDSTEIN ON COPYRIGHT* (prec.) at Chapter 9, The elements of infringement. In Europe, by contrast, neither the Copyright Directive nor the Enforcement Directive provides a definition for "copyright infringement". However, E.U. domestic copyright laws tend to define copyright infringement as the *violation of any of the author's exclusive rights*. (See e.g. Art. L.335-3 of the French IP Code: "Any reproduction, performance or distribution of a work by any means in violation of the author's right shall constitute an infringement")

¹³⁰ *Id.* at Chapter 7, Exclusive Rights in Copyright works, §7.0 Introduction.

merely *giving access* to such content and (ii) whether they could be deemed *directly* liable for such infringement.

As regards specifically the first question, courts in Europe¹³¹ and in the United States¹³² have struggled to determine whether the unauthorized display and/or making available by an intermediary of a work on the Internet could constitute a violation of the author's exclusive rights (specifically reproduction and/or distribution rights).

After much hesitation, courts now tend to consider that any unauthorized diffusion of a copyrighted content by an OSP (e.g. ISP or hosting provider) is in fact a violation of the author's exclusive rights of reproduction (and/or public display rights)¹³³, to the extent that several (unauthorized) copies are in fact made any time the content is uploaded to or downloaded from a service provider's website¹³⁴.

The WIPO Copyright Treaty has additionally strengthened this position by adding to the panoply of exclusive rights granted to copyright owner, a "making available right"¹³⁵ covering the copyright

¹³¹ See e.g. **Google v. Copiepresse**, C.A. Brussels, May 5, 2011 (holding that Google was liable for copyright infringement when (i) copying and making available to the public in its "cache memory" copies of copyrighted articles and (ii) reproducing in its "Google News" service, titles and relevant excerpts from these articles.)

¹³² See **MAI Systems Corp v. Peak Computer**, 1991 F.2d 511 (9th Cir. 1993) in which the court held that the uploading of a software by a repair person into the Random Access Memory (RAM) of a computer while repairing it constituted a copy in the sense of the Copyright act. This case law was then extended to ISP, notably in **Religious Technology Center v. Netcom On-line Communication Servs, Inc.** (907 F. Supp. 1361, N.D. Cal. 1995)(prec.) in which the court found that the copies created when downloading copyrighted information from the user computer to the BBS computer, and then from the BBS computer to the ISP computer's RAM to make them available on the Internet were copies within the meaning of the Copyright Act. In **Marobie-FI v. National Association of Fire Equipment Distributors** (938 F. Supp. 1167, 45 U.S.P.Q. 2d 1236 (ND Ill 1997) the court then held that the copy created by an hosting provider in its RAM - anytime it transmitted information requested by a user - was a copy in the sense of the Copyright Act to the extent that it could be perceived, reproduced or otherwise communicated, either directly or with the aid of a machine or a device.

¹³³ See **Playboy Enterprises, Inc v. Frena**, 839 F. Supp. 1552, 1556 (M.D. Fla. 1993) in which the court held that Frena - the operator of a BBS - in supplying a product that contained unauthorized copies of Playboy's copyrighted photographs and publicly displaying such photographs, was violating Playboy's exclusive rights. Likewise, in **Playboy Enterprises, Inc. v. Russ Hardenburgh**, the court held that by encouraging its subscribers to upload files, including adult photographs, onto the BBS system and by monitoring these photographs through a screening process, the defendant had engaged in direct infringement.

¹³⁴ On the ubiquitous nature of copies on the Internet, see David L. Hayes, *Advanced copyright issues on the Internet*, at 14 et seq. (available at http://www.fenwick.com/docstore/355/Advanced_Copyright_02-29-04.pdf).

¹³⁵ See art 8 WIPO Copyright Treaty (prec.)..

holder's exclusive right to authorize the display of her work online. However, the imperfect implementation of this new right in some domestic laws has re-opened this debate in some countries¹³⁶.

The second question, lying in determining whether the Internet intermediaries giving access or hosting infringing content can be deemed responsible, i.e. be a proximate cause, for such infringement has led to even more controversies and divergence of outcomes¹³⁷.

Although they have given rise to different interpretations, the standard of protection and legal requirement for prevailing in a claim for direct copyright infringement are thus very similar in Europe and in the United States.

Likewise, the standard of protection and legal requirement for prevailing in a claim for direct trademark infringement are also very similar in Europe and in the United States (b).

2.2.1.2 Direct liability for *trademark* infringement in Europe and in the United States

(a) Two approaches not so far from each others

¹³⁶ Compare e.g. Ken Nicholds: *The Free Jammie Movement: Is Making A File Available To Other Users Over A Peer-To-Peer Computer Network Sufficient To Infringe The Copyright Owner's 17 U.S.C. § 512 (C) And §106 (3) Distribution Right*, 78 FORDHAM L. REV. and Letter from Marybeth Peters, Register of Copyrights, to Rep. Howard Berman (Sept. 25, 2002) clarifying that the making available right would be included in the author's distribution and reproduction right. See generally Michael Schlesinger, *Legal issues in peer-to-peer file sharing, focusing on the making available right*, in PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW, Alain Strowel (2009) at 43 et seq

¹³⁷ See below part 3. Compare e.g. **Religious Technology Center v. Netcom On-Line Communication Services, Inc** (907 F. Supp. 1361, ND Cal 1995) in which the court held that "*although copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant's systems is merely used to create a copy by a third party*" (id. at 1370) with **Playboy Enterprises, Inc. v. Frena** (839 F. Supp. 1552, 1557, MD Fla. 1993) where the court held the defendant liable as a result of supplying a product that contained unauthorized copies of a copyrighted work.

Just like for copyright, it is generally said that Europe and the United States would have a different approach to trademark protection.

While a trademark right in the United States is merely a private right, whose protection mainly rests upon the trademark owner, in Europe, trademark rights can be viewed as a property right, benefiting from a broad protection against any trespass.

Likewise, while the main rationale of trademark in the United States is to protect consumers from confusion as to the source of their goods¹³⁸, European courts are more inclined to protect, in addition to the indicating origin function of the trademark, other functions subsequently attached to the trademark, such as the advertising and marketing functions of the trademark.¹³⁹

Here again however, these divergences are more theoretical than practical¹⁴⁰.

First of all, it stems from the legislative history of the Lanham Act that the rationale of U.S. trademark law is not only to protect the public from confusion as to the source of the products or

¹³⁸ Peter S. Menell. & David Nimmer, *Unwinding Sony*, 95 Calif. L. rev. 941,971 (2007) (“The core mission of trademark law is to protect consumers by improving the quality of information in the marketplace”); Stacey L. & Mark Lemley, *Grounding trademark Law through trademark Use*, 92 Iowa L.Rev.1669, 1690 (2007). Mark Lemley & Mark Mc Kenna, *Owning Mark(et)s* +, 109 Mich. L. Rev. 137, Mark Lemley & Mark Mc Kenna, *Irrelevant Confusion*, 62 Stan. L. Rev. 413.

¹³⁹ See E.C.J. Case C-10/89, *SA CNL-SUCAL NV v HAG GF AG*, at 13-14 (acknowledging the trademark functions of indicating origin and quality), E.C.J. Joined Cases C-427/93, C-429/93 and C-436/93, **Bristol-Myers Squibb et al. v Paranova A/S**, at 75, E.C.J. Case C-337/95, **Parfums Christian Dior SA and Parfums Christian Dior BV v. Evora BV** at 44-45 (acknowledging the trademark advertising functions, in particular through concentrating the goodwill and prestige acquired by the trademark) and E.C.J. Case C-323/09 **Interflora Inc v. Marks & Spencer** at 38-39 (acknowledging the indication of origin, advertising and investment functions of the trademark). See also E.C.J. Case C-487/07, *L’Oreal v. Bellure*, where the court held that “the taking of unfair advantage of the distinctive character or the repute of a mark, within the meaning of (art 5 (2) of Council Directive 89/104) *does not require that there be a likelihood of confusion or a likelihood of detriment* to the distinctive character or the repute of the mark or, more generally, to its proprietor. The advantage arising from the use by a third party of a sign similar to a mark with a reputation is an *advantage taken unfairly by that third party of the distinctive character or the repute* of that mark where that party seeks by that use to ride on the coat-tails of the mark with a reputation, in order to benefit from the power of attraction, the reputation and the prestige of that mark and to exploit, without paying any financial compensation, the marketing effort expended by the proprietor of the mark in order to create and maintain the mark’s image.”

¹⁴⁰ Symposium: *A Celebration Of The Twentieth Anniversary Of Mulieris Dignitatem, Part I, Note: Should Designers Pay The Price? A Look At Contributory Trademark Infringement As It Relates To Different Outcomes Of Inherent Auction Site Litigation* in the U.S. and France; cf. also Elizabeth K. Levin, *A Safe Harbor For Trademark: Reevaluating Secondary Trademark Liability After Tiffany V. EBay*, 24 BERKELEY TECH. L.J. 491, 504 (2009); GRAEME B. DINWOODIE & MARK D. JANIS: *TRADEMARKS AND UNFAIR COMPETITION: LAW AND POLICY* (Aspen, 3rd Ed., 2010).

services they are looking for, but also to protect the trademark owner against an unfair appropriation of his time and investments by a competitor¹⁴¹.

Moreover, U.S. courts have issued in recent years more and more decisions protecting the trademark owners against mere free riding of goodwill in their business or reputation of their trademark, outside any evidence of consumer confusion risk¹⁴².

As a result, both the standard of protection for trademark and the legal requirements for prevailing in a trademark claim are strikingly similar in Europe and in the United States.

(b) Standard of protection for trademark in Europe and in the United States.

Just like copyright law, trademark law has been the subject of various international treaties – most notably the TRIPS agreement¹⁴³ - that have broadly harmonized the standard of protection for trademark in Europe and the United States¹⁴⁴.

In Europe, trademark law is additionally broadly harmonized by E.C. Directive 2008/95 (formerly known as Directive 89/104¹⁴⁵ - hereinafter the Trademark Directive) which confer on the owner of a

¹⁴¹ See S. REP. No. 79-1333, at 3 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1277 (specifying the two primary justifications for trademark protection in the Lanham Act as being “(i) to protect the public so that it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and which it wants to get and (ii) to ensure that “where the owner of a trademark has spent energy, time and money in presenting to the public the product, he is protected in his investment from its appropriation by pirates and cheats.”

¹⁴² Mark A. Lemley A & Mark P. Mc Kenna, *Owning Mark(et)s* +, 109 Mich. L. Rev. at 137; Mark A. Lemley A & Mark P. Mc Kenna, *Irrelevant Confusion*, 62 Stan. L. Rev. 413, criticizing the recent trend of U.S. case law to extend the scope of trademark protection beyond their natural scope (mere protection against confusion as to the source of the products)

¹⁴³ Agreement on Trade-Related aspects of Intellectual Property Rights (TRIPS), Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, Marrakesh, Morocco, 1994.

¹⁴⁴ *Id.* Art. 16 (“The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed. The rights described above shall not prejudice any existing prior rights, nor shall they affect the possibility of Members making rights available on the basis of use.”)

trademark, the exclusive right to prevent any unauthorized third parties from using, in the course of trade, any sign identical or similar to her trade mark, in relation to goods identical or similar to those for which her trademark is registered. When the sign and/or the goods or services at issue are similar (but not identical), the trademark owner must additionally show that the use of such a sign by a third party is likely to cause consumer confusion to the origin of the product¹⁴⁶.

In the United States, trademark law is generally governed by state, federal and common law. Of central importance is however the Lanham Act, which provides for claims of trademark infringement, dilution, false designation of origin and false advertising¹⁴⁷.

As regard trademark infringement, section 32(1) of the Lanham Act imposes liability on a person that would reproduce or use in commerce another person's trademark without her permission "in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive¹⁴⁸."

The standard of protection for trademark is therefore very similar in Europe and in the United States. Likewise, the legal requirements to prevail in a trademark infringement claim are very similar in the two systems.

¹⁴⁵ Note that Council Directive 89/104 (the Trademark Directive) and Regulation n°40/94 (the Trademark EC Regulation) were respectively repealed by Council Directive 2008/95/EC (22 Oct. 2008) and Council Regulation EC n°207/2009 (Feb. 26 2009)

¹⁴⁶ See Council Directive 2008/95/EC art. 5.

¹⁴⁷ See Lanham Act (15 U.S.C §§ 1051 to 1127), especially section 32 (15 U.S.C §1114), 34 (D) (15 U.S.C §1116(d)) and 43(a) (15 U.S.C §1125). See also Trademark Counterfeiting Act of 1984 (§ 1502(a)) and the Anti-counterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, 110 Stat. 1386 (1996).

¹⁴⁸ 15 U.S.C §1114(1)

(c) **Legal requirements to prevail in a trademark infringement
claim in Europe and in the United States**

In Europe, as in the United States, for the right holder to succeed in a trademark infringement action, the plaintiff (i) must have a *valid trademark* and show (ii) a *use* by a third party, (iii) *in the course of trade* (iv) *without its consent* (v) *of a sign identical or similar to its trademark*, (vi) *in connection with goods or services* for which the trademark are covered, (vii) such use being likely to *cause confusion*¹⁴⁹ in the mind of the consumer¹⁵⁰.

Moreover, the E.C.J. has added in recent years a further requirement pertaining to the *functions* of the trademark¹⁵¹ that such use should affect (or be liable adversely to affect). This later condition, stemming from the tenth recital to the Trademark Directive¹⁵², has however given rise to different interpretations within different courts in Europe.

Just like for copyright infringement, courts in Europe and in the United States have struggled to apply these standard to the online environment (and specifically the issue of OSPs' liability), especially as regards the concepts of “*use*”, “*in the course of trade*”, “*in relation to products and services*” and “*likely to have an adverse effect on the functions of the trademark*”¹⁵³.

¹⁴⁹ One difference between the two systems being that while in Europe the risk of association is included in the assessment of the risk of confusion (see E.C.J. Case C-251/95, *SABEL v. Puma* (1997) C-39/97, *Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer* (1998) and C- 426/00, *Marci mode v. Adidas*), in the U.S., it is an autonomous cause of action (see Section 43(a) of the Lanham Act. See also U.S. case law *1-800 Contacts, Inc v. WhenU.com, Inc*, 414 F.3d 400 (2d Cir. 2005)

¹⁵⁰ Another difference may be that while the Lanham Act requires the claimant to show that the defendant's use of the mark is likely to cause confusion in any circumstances, such demonstration is not necessary in “double identity” cases (i.e. identity between the signs and the services at issue) under the Trademark Directive. However, in such case, the likelihood of confusion is, like under the TRIPS standard, generally implied and other defenses remain available to the defendant

¹⁵¹ See E.C.J. Cases C-323/09 **Interflora Inc v. Mark and Spencer** (2011), at 34; Joint cases C-236/08 and C-238/08 **Google France and Google v. LVMH** (2010) at 75-79; C-558/08 (2010) **Portakabin**, at 29; C-278/08 **BergSpechte** (2010), at 18; Case C-487/07 **L'Oreal et al. v. Bellure et al.** (2009), at 60-65; C-17/06 **Céline** (2007) at 16; C-245/02 **Anheuser-Busch** (2004) at 59 and C-206/01 (2002) **Arsenal** at 51.

¹⁵² See Trademark Directive, Recital 10 and 11.

¹⁵³ Compare esp. E.C.J. Joint cases C-236/08 and C-238/08 (2010) **Google France and Google v. LVMH** (holding that an Internet referencing service provider which stores, as a keyword, a sign identical with a trade mark and organizes the display of advertisements on the basis of that keyword does not use that sign within the meaning of the Trademark

The main question raised in this new context was specifically to determine whether an OSP was making any “use” of the claimant’s trademark when merely hosting or giving access to trademark infringing content¹⁵⁴.

As far as the regulations are concerned, the legal standards of liability for copyright and trademark infringement are therefore broadly similar in Europe and in the United States and have raised the same questions when applied to the online environment.

Likewise, although they are still governed by very distinct traditions and bodies of law, the rules governing regular liability for torts and/or negligence are moving towards one another.

2.2.1.3 Direct liability under other general theories: civil liability negligence and tort in Europe and in the United States

(a) In Europe

The concept of “civil liability” (or “*responsabilité civile*” in the 1804 French Napoleonic Code where this civil law concept finds its roots¹⁵⁵, sometimes translated as general tort¹⁵⁶) codified in

directive) and **Rescues Corp. v. Google Inc. U.S. 2nd District (2009)** (holding that the use by Google of a sign as a reference service is a use in trade in relation to the advertised product, but remanding on the question of confusion.) On a different approach, see E.C.J. case C-324/09 **L’Oréal v. eBay** (2011) at 100-104 in which the court held that although it was not clear whether eBay itself had made any use of L’Oreal’s trademark under the Trademark Directive, its liability had to be assessed under the Council Directive 2000/31/EC, under which it could still incur liability provided it has played an active role of such kind as to give it control ad/or knowledge over the data stored).

¹⁵⁴ See e.g. E.C.J. Joint Cases C-236/08 and C-238/08 **Google France and Google v. LVHM** at 49-59 and case law cited below Part 3.2.1

¹⁵⁵ Note however that the French concept of *Responsabilité civile* in the 1804 Napoleonic Code finds itself its rules in Roman law.

¹⁵⁶ See e.g. ARTHUR. T. VON MEHREN AND JAMES R. GORDLEY, *THE CIVIL LAW SYSTEM* (Brown and Company, 1977) at 555-589 (although the concepts of civil liability in civil law does not exactly cover the concept of tort under common law – see infra (b)).

most civil law countries¹⁵⁷, is a central concept according to which a party shall be liable for the damages she causes to another.

Under the civil law concept of “civil liability”, a person is notably responsible for the harm resulting not only from her wrongful actions, but also from her negligence¹⁵⁸. Negligence typically arises from the violation of a theoretical “duty of care” generally assessed in the light of a “*bonus Pater familias*” standard i.e. the behavior a normally careful person would be expected to have in the same circumstances.

Under this concept, the plaintiff has to prove (i) a wrongful action (i.e. a fault) or negligence, (ii) damage suffered (injury or loss) and (iii) causation between the fault and/or negligence and the damage suffered by the plaintiff (causation nexus).

In Europe, especially in France, several claims have thus been brought against Online Service Providers on the ground that their alleged fault or negligence (e.g. lack of monitoring of their websites) would have resulted in damages for the trademark or copyright owner (i.e. a copyright or trademark infringement)¹⁵⁹.

In these “civil liability cases”, the crux of the matter was therefore to determine whether the OSP had any *duty of care* to prevent the infringement of third parties’ rights on its website.

With the exception of France¹⁶⁰, these claims had limited success before EU courts.

¹⁵⁷ See e.g. art.1382 and 1383 of the 1804 French Civil Code (respectively reading: “any act of man, which causes damage to another obliges the one by whose fault it occurred to compensate (for) it” and “Everyone is liable for the damage he causes not only by his acts, but also by his **negligence** or imprudence.”) and article 823 of the German civil Code (reading “A person who, willfully or negligently, unlawfully injures the life, body, health, freedom, property or other right of another is bound to compensate him for any damage arising there from.”).

¹⁵⁸ See e.g. art. 1383 of the French civil code (prec.)

¹⁵⁹ See e.g. LVMH v. eBay (further developed PART 3.2.2 infra)

¹⁶⁰ See e.g. Cour de Cassation (French Supreme Court), Oct. 21 2008, **Sedo GmbH v. Hotel Meridien, Stephane H** (available at www.legalis.net) holding that “every operator acting in business owes to third party a duty not to harm third party’s business”.

(b) In the United States

Although it is not the exact equivalent of the continental European doctrine of “civil liability”, the common law tort of negligence also provides that, in certain circumstances, one should be responsible for his wrongful action or negligence¹⁶¹. The basic premise of negligence law is additionally that we generally owe third parties a duty to exercise reasonable care in the conduct of our own affairs¹⁶².

To prevail under a claim for negligence, a plaintiff has to prove (i) a duty of reasonable care, (ii) breach of that duty, (iii) causation and (iv) resulting damages¹⁶³. In most cases, the standard of reasonable care requires the defendant to act, as would a “*reasonably prudent person*” under the same or similar circumstances¹⁶⁴. The “reasonable person” standard of care under common law is therefore not very different from the “*bonus Pater familias*” standard of care under civil law¹⁶⁵.

Just like in Europe, right holders in the United States have tried to argue that Online Service Providers were liable for the damage they suffer (copyright or trademark infringement)¹⁶⁶ since such damage resulted from the service providers’ negligence (lack of monitoring).

U.S. courts have however not gone so far as to recognize any duty of care for service providers to seek out for copyright infringement or prevent such infringement from occurring¹⁶⁷, beyond their

¹⁶¹ See **Blyth v. Proprietors of the Birmingham Waterworks**, 156 Eng. Rep. 1047, 1049 (1856); **Macpherson v. Buick Motor Co.**, 217 N.Y. 382, 111 N.E. 1050 (New York, 1916)) and **Donohue v. Stevenson** (U.K. H.L., 1932) for first decisions and opinions defining negligence. See also Restatement (Second) of Torts § 283 “to avoid being negligent, actor must act a “a reasonable man under like circumstances”).

¹⁶² JOSEPH W. GLANNON, *THE LAW OF TORTS* (Wolters Kluwer, Fourth Ed. 2010) at 118

¹⁶³ See, e.g., **Winn v. Posades**, 913 A.2d 407, 411 (Conn. 2007); **Durham v. HTH Corp.**, 870 A.2d 577, 579 (Me. 2005); **Brown v. Brown**, 739 N.W.2d 313 (Mich. 2007); **Paz v. Brush Engineered Materials, Inc.**, 949 So. 2d 1, 3 (Miss. 2007); **Barr v. Great Falls Int’l Airport Auth.**, 107 P.3d 471, 477 (Mont. 2005); **Avery v. Diedrich**, 734 N.W.2d 159, 164 (Wis. 2007).

¹⁶⁴ See Restatement (Second) of Tort § 283 (“Unless the actor is a child, the standard of conduct to which he must conform to avoid being negligent is that of a reasonable man under like circumstances.”).

¹⁶⁵ Diamond John L, Lawrence C Leveine Anita Bernstein, *Understanding Tort*, Lexis Nexis, Fourth Edition

¹⁶⁶ See e.g. in **Zeran v. AOL**, 129 F. 3d 327 (4th Cir. 1997), the claimant alleged that as a distributor, AOL was negligent in failing to respond adequately to the bogus notices on its bulletin board after being made aware of their malicious and fraudulent nature.

legal obligations under vicarious and/or contributory liability¹⁶⁸. However, elements of due care has begun to appear in recent years in U.S. law and case law¹⁶⁹.

Notably section 512(i) of the DMCA, conditioning eligibility under safe harbor to the implementation by the service providers of certain responsible practices (policies against infringement, accommodation of standard technical protection, etc.) could be a first translation into U.S. law of a certain level of due care obligation bearing on OSPs.

Likewise, U.S. case law has interpreted the failure by a service provider to implement available filtering technology¹⁷⁰ and/or the refusal to take any steps against obvious infringement (e.g. blinding oneself of obvious infringing activity¹⁷¹) as circumstances giving rise to liability.

The legal framework defining OSP direct liability for copyright or trademark infringement under copyright, trademark and even tort rules is thus increasingly similar.

In addition to assessing the *direct* liability of OSPs in relation to third party content, case law in Europe and in the United States have also developed similar theories in order to address the possible *indirect* liability of these OSPs for their *involvement in* or *control over* the infringing activity (2.2.2).

¹⁶⁷ To prevail in a negligence claim under common law, a plaintiff has indeed to prove that the defendant had a legal “duty of care” towards the plaintiff, as a result of their specific relationship or according to other principles developed by case law - See Restatement (Second) of Torts, § 315 “there is no duty so to control the conduct of a third person as to prevent him from causing physical harm to another unless (a) a special relation exists between the actor and the third person which imposes a duty upon the actor to control the third person's conduct, or (b) a special relation exists between the actor and the other which gives to the other a right of protection.” See also restatement (Third) of Torts, § 6 and § 37 (no duty of care with respect to risks not created by Actors) and **Tarasoff v. Regents of University of California** (1976) 17 Cal. 3d 425, 435; but see Restatement (Third) of Torts, §7a (“an actor ordinarily has a duty to exercise reasonable care when the actor’s conduct creates a risk of physical harm”)

¹⁶⁸ See esp. **Tiffany Inc. v. eBay Inc.**, 576 F Supp 2d 463, 506 (S.D.N.Y 2008)

¹⁶⁹ On the possible emergence of an obligation of a good faith effort to avoid infringement, see Jane C. Ginsburg, *Separating the Sony Sheep from the Grokster Goats, reckoning the future business plans of copyright-dependent technology entrepreneurs*, 50 ARIZ. L. REV. 577.

¹⁷⁰ See *Metro Goldwyn Mayer Studios Inc. v. Grokster* (prec.) at 22: “this evidence of unlawful objective is given added significance by MGM’s showing that neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software. While the Ninth Circuit treated the defendants’ failure to develop such tools as irrelevant because they lacked an independent duty to monitor their users’ activity, we think this evidence underscores Grokster’s and Stream Cast intentional facilitation of their users’ infringement.”

¹⁷¹ See e.g. *In re Aimster* Copyright Litigation, 334 F 3d 643 (2^d Cir. 2003).

2.2.2 Indirect liability for third party infringing activity in Europe and in the United States

Based on the assumption that in most cases OSPs are not involved in infringing activities as actual wrongdoers but rather as causal contributors, OSPs' liability has generally been sought on the ground of their "indirect liability", notably because they arguably *encouraged, assisted, were involved in, controlled and/or benefitted from* a third party infringing activity.

Parallel theories of contributory infringement (or their EU equivalents: "*authorization, complicity, knowing assistance, supply of means, etc.*") (2.2.2.1) and vicarious infringement (or their EU equivalent: "*liability for the acts of others*") (2.2.2.2) were thus developed in Europe and in the United States.

2.2.2.1 Contributory infringement in the United States and in Europe

(a) Contributory liability for copyright and trademark infringement under U.S. common law

Although the Copyright Act and the Lanham Act do not impose liability on anyone other than the direct infringers, U.S. common law, referring to general tort principles¹⁷², has long recognized that, under certain circumstances, one who has not directly infringed a copyrighted work or a trademark, but has willfully "*contributed to*" or "*encouraged*" such infringement, may be liable for

¹⁷² cf. Peter S. Menell & David Nimmer, *Legal Realism in Action: Indirect Copyright Liability's Continuing Tort Framework and Sony's De Facto Demise*, 55 UCLA L. Rev. 143 (2007)

“contributory infringement”¹⁷³.

The basic test for contributory liability, expounded in *Inwood Laboratories v. Ives Laboratories*¹⁷⁴, is that one who *intentionally induces* another to infringe, or who *continues to supply* its product to one whom it *knows or has reason to know is* engaging in infringement, is contributorily responsible for any harm done as a result of the deceit.

According to this doctrine, in order to prevail in a contributory infringement claim against an alleged contributory infringer, a plaintiff has to show:

- a direct infringement by a third party
- actual or constructive knowledge of this infringement by the alleged contributory infringer¹⁷⁵ and
- that the alleged contributory infringer, *induced caused or materially*

¹⁷³ For an evolution of the doctrine of contributory trademark and copyright infringement see Peter S. Menell & David Nimmer, *Unwinding Sony*, 95 Calif. L. rev. 941,971 (2007).; Matthew C. Berntsen, *knowledge and misfeasance: Tiffany v. eBay and the knowledge requirement of contributory trademark infringement*, 16 BU J. Sci. & Tech. L. 102 (2010).; Elisabeth K. Levin, *A safe harbor for trademark: reevaluating secondary trademark liability after Tiffany v. eBay*, 24 Berkeley Tech. L.J. 491; see also IAN BALLON, *E-COMMERCE AND INTERNET LAW: A LEGAL TREATISE WITH FORMS*, (Thomson/West Publishing, 2nd Ed. 2011) at 49. PAUL GOLDSTEIN, *GOLDSTEIN ON COPYRIGHT* (prec.) at §8.3.1; PAUL GOLDSTEIN AND ANTHONY REESE, *COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES, CASES AND MATERIALS ON THE LAW OF INTELLECTUAL PROPERTY*, (Foundation Press, sixth edition) mentioning the following landmark cases: **William R. Warner & Co v. Eli Lilly & Co** 265 U.S. 526 (1924), **Coca Cola v. Snow Crest Beverage** 162 F. 2d 280 (1st Cir. 1947); **Gershwin Publishing Corp. v. Columbia Artists Management, Inc** 443 F.2d 1159, 1162 (2^d Cir. 1971); **Inwood Labs., Inc v. Ives Labs. Inc** , 456 U.S. 844 (1982); **Hard Rock Cafe Licensing Corp. v Concession Servs Inc** 955 F.2d 1143 (7th Cir. 1992); **Fonovisa Inc. v. Cherry Auction, Inc**, U.S. (9th Cir. 1996); **re. Aimster** Copyright Litigation, 252 F. Supp. 2d 634, 657 (N.D. Ill, 2002), **MGM Studios Inc, v. Grokster Ltd**;

¹⁷⁴ cf. **Inwood Labs. v. Ives Labs. Inc** 456 U.S. 844 (1982) – this test, first applied in a manufacturer-distributor relationship, has been expanded to other circumstances such as landlords- tenants relationship (see e.g. **Hard Rock Cafe Licensing Corp. v Concession Servs Inc** 955 F.2d 1143 (7th Cir. 1992)) and domain name registrar-domain name registrant relationship in the online environment (see e.g. **Lockheed Martin Corp. v. Network Solutions, Inc**, 194 F. 3d 980, 984 (9th Cir. 1999).

¹⁷⁵ cf. **Hard Rock Cafe Licensing Corp. v Concession Servs Inc** 955 F.2d 1143 (7th Cir. 1992) holding that the organizer of a swap meet is responsible for the infringement carried on by (third party) vendors on its premises if he knows or has reason to know that the vendor(s) will engage in counterfeiting or if he was willfully blind of ongoing violation.

contributed to the infringing activity.¹⁷⁶

This doctrine was developed in the field of copyright and trademark infringement in similar terms¹⁷⁷, although the test for secondary infringement should be more narrowly drawn for trademark than for copyright infringement¹⁷⁸.

In 1984, the Supreme Court also added a new requirement in *Sony*, holding that a service provider may further be exempted from liability if the service, tool or technology it is providing offers *substantial non-infringing uses*¹⁷⁹. However, defendants have raised this defense with uneven success before U.S. courts¹⁸⁰ and this defense has been systematically dismissed when the service provider had actual knowledge of specific infringement¹⁸¹.

In the United States, the doctrine of contributory liability has thus been extensively used by right holders in their claims against Online service providers (for third party infringing content) on the

¹⁷⁶ **Gershwin Pub's Corp. v. Columbia Artists Mgmt, Inc.**, 443 F.2d 1159, 1162 (2^d Cir. 1971)- see also Restatement (Third) of Unfair Competition § 27 (1995), Restatement (First) of Torts § 302 (b) (1934) and Restatement (second) of Torts § 877 (c) (1965)(liability attaches if one permits use of premises or instrumentalities, knowing or having reason to know that another is acting or will act tortuously).

¹⁷⁷ cf. Rebecca M. Haynes, Symposium: *a celebration of the twentieth anniversary of mulieris dignitatem (prec.)*; see also Elisabeth K Levin (prec.) at 208-209 (noting that although differences between copyright and trademark scope of protection are regularly upheld by the courts, in practice, a substantially equivalent test is applied to copyright and trademark contributory infringement claims.)

¹⁷⁸ See e.g. **Sony Corp of Am. v. Universal City Studios, Inc.** 464 U.S. 417, 439 n.19 (1984) in which the Supreme Court, stressing the fundamental differences between the rationale of copyright law and trademark law (narrower protection granted to trademarks) refused to apply the Inwood standard to copyright law. This approach was upheld in **Perfect 10 Inc v Visa int'l Serve, Ass'n**, 494 F 3d 788, 806 (9th cir. 2007) and **Hard Rock Cafe Licensing Corp.** (7th Cir.1992)

¹⁷⁹ See *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 220 U.S.P.Q. 665 (1984) - This theory reflected patent law's traditional staple article of commerce doctrine, according to which the distribution of a component of a patented device does not violate the patent if it is suitable for use in other ways (35 U.S. C §271(c)) But see *MGM Studios v. Grokster* (prec.) for a limitation of this doctrine.

¹⁸⁰ Peter S. Menell & David Nimmer, *Legal Realism in Action: Indirect Copyright Liability's Continuing Tort Framework and Sony's De Facto Demise*, 55 UCLA L. Rev. 143 (2007) (mentioning that “ in but one exception (itself effectively overruled by later amendment), no reported decision has found the Sony safe harbor to immunize a technology company accused of indirect liability. In fact, the developers and distributors of Napster, Aimster, Grokster, Morpheus, and KaZaA - peer-to-peer systems that have noninfringing uses - have all been held liable for contributory infringement, Sony notwithstanding. ”)

¹⁸¹ See **A&M Records Inc v Napster, Inc** 239 F 3d (9th Cir. 2001) at 1020-1021- *See also* ., GOLDSTEIN ON COPYRIGHT (prec.) §8.3.1 (Contributory Infringement and Vicarious liability).

ground that they arguably (i) *furnished the means, induced*¹⁸², *facilitated*¹⁸³ or *incentivized*¹⁸⁴ infringement (ii) *while being aware* of such infringement¹⁸⁵.

(b) “Authorization”, “knowing assistance”, “complicity”
and/or supply of means in Europe

In Europe, neither the Copyright, nor the Trademark Directive, includes any provision relating to contributory trademark or copyright infringement¹⁸⁶.

However most – if not all – EU members lay down in their national legislations some rules extending civil or criminal liability to whoever *encouraged, assisted* or *benefit* from another person’s tort in some specific circumstances.

With regard to copyright and trademark infringement, most EU countries have thus carved out of copyright law¹⁸⁷, general tort rule¹⁸⁸, competition law¹⁸⁹ and/or criminal law, provisions relating to

¹⁸² See e.g. **MGM Studios v. Grokster**, 545 U.S. 913 (2005), 380 F.3d 1154, in which the Supreme Court, borrowing from patent law, created a new ground for contributory copyright infringement under the form of a “copyright inducement claim”.

¹⁸³ **Sega Enters. Ltd v. Maphia**, 948 F. Supp 923 (N.D. Cal. 1996) (prec. note 27) (holding a BBS operator liable for providing technologies to facilitate infringement with knowledge that such infringement were occurring.)

¹⁸⁴ See e.g. **Playboy Enters Inc v. Russ Hardenburgh**, Inc, 982 F. Supp 503, 514 (N.D. Ohio 1997);.

¹⁸⁵ See e.g. for one of the first case applying this test to the online environment **Lockheed Martin Corporation v. Network Solutions Inc** (prec.). See also, for an application of this test in the digital environment, **Tiffany (NJ) Inc v. eBay**, Inc 576 F. Supp. 2d (S.D.N.Y 2008) (action denied because defendants were not deemed to have the requisite level of knowledge) See by contrast, **Gucci Am. Inc. v. Hall & Assocs.**, 135 F. Supp. 2d (SDNY, 2001) and **A&M Records Inc v Napster, INC** (9th Cir. 2001) (hosting service provider and file-sharing platform liable for third party content) – see infra Part 3 for further details.

¹⁸⁶ In most E.U. Countries, the only specific provision relating to contributory infringement concern patent law, with provisions incriminating the supply of means relating to an essential element of the invention, when it is known (or it is reasonable to expect such knowledge) that those means are suitable and intended to put the invention into effect. See e.g. Section 60(2) of the U.K. Patents Act 1977 and art. L 613-4 of the French IP code. Similar provisions are provided in Belgium, Denmark, Finland, Germany, Netherland, Sweden, Switzerland, Spain and Spain .For further details on the situation of other E.U. countries with respect to contributory infringement regulations, see AIPPI Rapport de Synthèse, Question Q204: “*la responsabilité pour contrefaçon par fourniture de moyens de droits de propriété intellectuelle*”.

¹⁸⁷ See e.g. U.K. Copyright Act 1956 Sec. 1 (1)

¹⁸⁸ See e.g. (French) **Cour de Cassation**, civ., 7 mars 1984 holding the owner of a photocopying business liable for the copying of copyrighted books on the ground of civil liability (art. 1382) as a result of his knowledge that the copying machine were used to infringe copyrighted books.

¹⁸⁹ See e.g. in Belgium, infringement by supply of means of IP rights other than patent is governed by civil liability (outside a business context) or competition law (within a business context) – (cf. AIPPI Rapport de Synthèse (prec.)

theories of “*complicity*”¹⁹⁰ or “*indirect liability*” for copyright and trademark infringement (e.g. concept of “*authorization*”¹⁹¹, “*knowing assistance*”¹⁹², “*joint tortfeasor liability*”, “*aiding and abetting*” or “*complicity of infringement by supply of means*”).

Broadly speaking, these theories generally require the plaintiff to show (i) an infringement by the direct wrongdoer, (ii) some kind of assistance (e.g. providing the means for the commission of the infringement) and (iii) knowledge (or reason to know) of the infringing activity by the defendant.

Like in the United States, right holders in Europe have raised such contributory liability claims¹⁹³ in the online environment, seeking to hold OSPs such as Google¹⁹⁴, Dailymotion¹⁹⁵, eBay¹⁹⁶ and/or other peer-to-peer platforms¹⁹⁷, liable for contributory trademark or copyright infringement. Such claims have yet met uneven success before domestic courts in Europe¹⁹⁸.

¹⁹⁰ See e.g. in France, Denmark, Netherlands and Germany where contributory copyright and/or trademark infringement theories are carved out of regular civil liability and/or criminal provisions governing aiding and abetting. - cf. AIPPI Rapport de Synthèse (prec.)

¹⁹¹ See e.g. U.K. Copyright Act 1956 Sec. 1 (1) and **Falcon v. Famous Players Film Co.** (1926 2 KB 474) reflecting the U.K. statutory and common law “*authorization*” theory, incriminating the fact to “*authorize*” (i.e. purport to grant a license, sanction, approve and/or countenance) another person to infringe copyright.

¹⁹² See e.g. S. Ct. Norway, Jan. 27, 2005, **TONO v. Bruvik**, civil case n°2004/822 (defendant found liable for third party unlawful file sharing on its site for “*deliberately assisting*” and *encouraging* such uploading.)

¹⁹³ From a criminal law point of view, complicity requires a criminal intention to be found in the accomplice. Criminal intention includes (i) a voluntary participation to the act and (ii) consciousness and will to participate to the main offence.

¹⁹⁴ See e.g. C.A. Versailles (French Court of Appeal of Versailles), March 10, 2005, **Google v. Viaticum and Luteciel**, holding Google liable for contributory trademark infringement (by supply of means) on the ground that Google had not adequately monitor its adWords services thereby enabling its user to register third party’s trademarks as adWords. See also C.A. Aix en Provence, Dec. 6, 2007, **TWD Industry v. Google France and Google Inc** (same solution) But see E.C.J. cases C-236/08 and C-238/08 *Google France and Google v. LVHM* March 23, 2020, holding Google not liable for use of third party trademarks by its customers as AdWords, unless it has played an active role in the choice of this keyword, possibly overruling French case law (see *infra* 3.1.1 and 3.2.1).

¹⁹⁵ Tribunal de Grande Instance (TGI) (French Trial Court) Paris, July 13, 2007, **Christian C. and Nord Ouest production v. Dailymotion**, holding Dailymotion, a French equivalent for YouTube, liable for “enabling its users to upload copyrighted material in circumstances where it was expected to know that this material was uploaded unlawfully” (but *rev’d* by Court of Appeal, see *infra* 3.2.3)

¹⁹⁶ See TGI Paris, May 13, 2009, *L’Oreal et al. v. eBay et al.*, where the court held eBay was not liable for contributory infringement because (i) differently than for patent law, no regulation in trademark law provides an *infringement by supply of means* incrimination and (ii) “*aiding and abetting*” in criminal law requires a showing of volitional elements that is lacking in this case.

¹⁹⁷ See C.A. Aix en Provence, 5e ch. Corr. March 10, 2004, **E. Alliel v. Ubisoft Marketing et communication et al.**, holding the owner of a website offering links to peer-to-peer websites liable for contributory copyright infringement (complicity of copyright infringement by supplying the means); see also C.A. Paris September 26, 2011, holding a website offering anti-circumvention technologies liable for contributory infringement (by supply of means).

¹⁹⁸ Compare e.g. TGI Paris May 13, 2009 *L’Oreal et al. v. eBay et al.* *supra* (dismissing contributory infringement claim

2.2.2.2 Vicarious liability in Europe and in the United States

(a) Vicarious liability for copyright and/or trademark infringement in the United States

Just like the doctrine of contributory infringement, the doctrine of vicarious liability originates in tort law. It was specifically developed in the Second Circuit as an outgrowth of the agency principles of *respondeat superior*¹⁹⁹.

The doctrine of vicarious liability lies on the premise that under some circumstances, one can be liable for the torts committed by another person because of the specific relationship (involving control and/or authority) she has with this other person²⁰⁰.

In **Shapiro Bernstein & Co v. H.L. Green Co**²⁰¹ – the landmark case in this regard – the Second Circuit specifically held that a party may be vicariously liable for *copyright* infringement if:

- it has the *right and ability to control* the infringer's act and
- it receives a *direct financial benefit* from the infringing activities

because no statute provides this offense) and EWHC, Feb. 20, 2012, **Dramatico Entertainment Ltd & others v British Sky Broadcasting Ltd & others** (holding The Pirate Bay liable for “authorizing” copyright infringement by its users)

¹⁹⁹See generally, Judge Keeton's opinion in **Polygram v. Nevada**, 855 F. Supp. 1314 (D.C. Mass. 1994) on the evolution of the doctrine of vicarious liability for copyright infringement. See also PAUL GOLDSTEIN AND ANTHONY REESE A. COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES, CASES AND MATERIALS ON THE LAW OF INTELLECTUAL PROPERTY, at 811 for landmark cases on this issue.

²⁰⁰ The classical example is that of employer and employee: the employer is liable for the torts of his employees, provided that they are committed in the course of their employment. This doctrine was then extended to various situations involving a relation of control or authority. For a comparative approach of Vicarious liability, see e.g. Paula Giliker, *Vicarious liability in tort, a comparative perspective*, CAMBRIDGE STUDIES IN INTERNATIONAL AND COMPARATIVE LAW (2010)

²⁰¹ **Shapiro, Bernstein & Co. v. H.L. Green Co.**, 316 F. 2d 304 (2nd Cir. 1963) – in this case, the second circuit extend the agency rule of respondeat superior beyond the classical employer-employee situation (but in a situation of intertwined economic interest) in holding the owner of a chain of department store liable for the copyright infringement committed by one of his concessionaire. See also **Gerswhin Publ'g Corp. v. Colombia Artists Mgm, Inc**, 443 F. 2d, (2nd Cir. 1971) at 1162 extending the vicarious liability theory to a situation where the defendant had (i) the right and ability to supervise the infringing activity and (ii) a direct financial interest in such activity”

U.S. courts have also developed a parallel doctrine of vicarious liability for *trademark* infringement according to which a party may be held liable for the act of another if both parties:

- (i) have an *apparent or actual partnership*
- (ii) have *authority to bind one another* in transaction with third parties or
- (iii) exercise *joint control* over the infringing product²⁰².

Unlike contributory liability, vicarious liability does not require any knowledge or involvement in the infringing activity, but a *control* over such activity, understood as the legal right as well as the practical ability to stop or limit the infringing conduct²⁰³.

This doctrine was extended quite broadly, notably in **Fonovisa Inc. v. Cherry Auction, Inc**²⁰⁴, where the 9th Circuit found that the operator of a swap meet could be held vicariously liable for the infringement of its vendors because (i) *he exercised control* over their activity (i.e. he had the right to terminate vendors for any reason, control their access to the swap meet area and to promote the swap meeting) and (ii) he had reaped *substantial financial benefits* from admission fees, concession stand sales and parking fees, all of which flown directly from customers who wanted to buy counterfeit recordings.

Right holders in the United States have also used this theory extensively to seek the liability of OSPs for copyright or trademark infringement committed by their users, on the ground that:

- (i) they had the right and ability to control their infringing activity (i.e. to monitor, delete and/or to block user's access)

²⁰² See **David Berg & Co. v. Gatto Int'l Trading Co.**, 884 F.2d (7th Cir. 1989) at 311, **Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.** 955 F. 2d 1143 (7th Cir. 1992) at 30.

²⁰³ See **Perfect 10, Inc v. Amazon. Com, Inc**, 508 F.3d 1146, 1173 (9th Cir. 2007)

²⁰⁴ Compare e.g. **Fonovisa Inc. v. Cherry Auction, Inc**, (9th cir. 1996) with **Hard Rock Café Licensing Corp v. Concession Services, Inc** (where the court held that a flea market owner was not vicariously liable under trademark law for infringement by vendors who rented space there because the owner did not exercise control over the vendors beyond that exercised by a landlord over his tenant).

(ii) they received a direct financial benefit from the user's infringing conduct (notably through the collection of increased revenue)²⁰⁵.

Here again, these claims had uneven success before U.S. courts, depending on the kind of activities carried out by the service provider at stake and the specific circumstances of the case²⁰⁶.

(b) Liability for the acts of others in Europe

The civil law equivalent for vicarious liability is the concept of "liability for the acts of others".

Unlike its common law equivalent, the concept of liability for the acts of others in civil law is generally found in statutory provisions and is theoretically limited to situations expressly provided by the law.

In particular, in the Roman tradition of this concept²⁰⁷, one can be liable for the acts of another only in determinate situations where the law has determined that a person should have a specific authority or responsibility over another person²⁰⁸. The Germanic tradition of this concept²⁰⁹, in turns, theoretically rejects any concept of liability without fault.

²⁰⁵ See *A&M Records, Inc. v. Napster, Inc.*, 239 F. 3d 1004 (9th Cir. 2001) at 1023

²⁰⁶ Compare e.g. *A&M Records, Inc. v. Napster, Inc.*, 239 F. 3d 1004 (9th Cir. 2001) (where the Ninth Circuit held Napster vicariously liable for the infringement committed by its users on the ground that it (i) had *the right and ability to supervise its user's conduct* (ability to block infringers' access to a particular environment for any reason and ability to locate infringing material listed on its search indices) and (ii) it financially benefitted from the activity) and **Viacom International Inc et. Seq. vs. YouTube (SDNY, 2010)** (partially reversed by the 2nd Cir. 2012) (see *infra*) or **UMG Recordings, Inc. v. Shelter Capital Partners LLC**, 667 F.3d 1022 (9th Cir. 2011) (aff'g **UMG Recordings v. Veoh Networks Inc**, 665 F. Supp. 2d 1099, 1108 (C.D. Cal, 2009)) finding that the defendants qualify for DMCA safe harbor protection with respect to all claims of direct and secondary copyright infringement.

²⁰⁷ Notably reflected under article 1384 of the 1804 Napoleonic civil code (FR) – see *infra*

²⁰⁸ See art. 1384 of the French civil code providing cases of strict liability for the act of others in five specific situations: parents, masters, employers, teachers and craftsmen for the acts of person(s) under their care or tutelage. Liability is based on a presumption of fault but may be rebutted by the defendant (in all situation but for the employers) by showing that they have exercised reasonable care. .

²⁰⁹ See § 831(1) of the German Civil Code (BGB) placing on the principal a presumption of fault that the later can rebut by showing that he is not at fault or that he could not have prevented the injury ("A person who uses another person to perform a task is liable to make compensation for the damage that the other unlawfully inflicts on a third party when carrying out the task. Liability in damages does not apply if the principal exercises reasonable care when selecting the person deployed and, to the extent that he is to procure devices or equipment or to manage the business activity, in the

In practice, case law in both traditions has interpreted this concept of strict liability quite broadly, beyond the statutory provisions²¹⁰.

In this regard, Article 14(2) of the e-commerce Directive, precluding OSPs from relying on the hosting exemption “*when the recipient of the service is acting under (their) authority or control*” could be a specific application of this theory to OSP liability²¹¹.

However, because of the traditional narrow scope of this concept²¹², the availability of other theories of liability, and the reluctance with which courts in Europe normally extend strict liability claims to new situations²¹³, vicarious liability claims have had little success in this context before EU courts.

All in all, similar theories of direct and indirect liability, with similar requirements and standards of protection, have thus been developed on both sides of the Atlantic to address the issue of OSP liability for third party content.

Likewise, beyond apparent divergences, the defenses available to the OSPs targeted by such claims remain surprisingly similar in Europe and in the United States (2.2.3).

procurement or management, or if the damage would have occurred even if this care had been exercised ”.) See Paula Giliker (prec. note 200) at 271 (Appendix).

²¹⁰ *Id.* at 133, stressing, in particular that since landmark case *arrêt Bliet (Association des centres éducatifs du Limousin et autre v/ Consorts Bliet, Supreme Court*, Cour de Cassation, Ass. Plén., 29 March 1991), French case law has interpreted art. 1384(1) of the French Civil Code as placing liability for the wrongful acts of others on anybody organizing, managing and/or controlling said wrongful acts of others, while German case law has turned to contract law to place vicarious liability on principals despite the wording of art. 831 of the German Civil Code.

²¹¹ However, the qualifications for such liability has not yet been defined by the E.C.J. and remains extremely vague in national law cf. WIPO Study (prec. note 19)

²¹² See however Pierre Catala’s *Avant-projet de réforme du droit des obligations et de la prescription* (La documentation Française, Paris, 2006). (*Proposal Of Reforms For The Law Of Obligation And The Law Of Prescription*) suggesting to introduce a new article 1355 in the French Civil Code providing that “ *A person is liable strictly for harm caused by persons whose way of life he governs or whose activity he organizes, regulates or controls in his own interest* ” (English translation by John Cartwright and Simon Whittaker).

²¹³ See Paula Giliker, *Vicarious liability in torts* (prec. note 200) at 138-139 – See e.g. on French academics discussions regarding the general principle of liability for the acts of others, see Jean Molly, *Peut-il exister une véritable responsabilité civile du fait d'autrui ?* 9 RESPONSABILITE CIVILE ET ASSURANCES (Sept. 2008, étude 10) ; PATRICE JOURDAIN, *LA RESPONSABILITE DU FAIT D'AUTRUI, ACTUALITE ET EVOLUTIONS* (Litec, 2000).

2.2.3 Exceptions and defences available to the intermediaries targeted by third party's infringement claims

Just like the standard of protection for copyright and trademark infringement, the treatment of the exceptions and/or limitations to these exclusive rights is said to belong to different traditions in Europe and in the United States.

To that extent, it has been said that while in the United States *freedom of use is the rule and rights are the exception*, in Europe *exclusive rights* would be the *rule*, while exceptions would be defined narrowly and interpreted restrictively²¹⁴.

Here again however, beyond apparent divergences arising from different legal traditions (2.2.3.1), similar policies and a real trend towards international harmonization have led to an increasingly similar treatment of the exceptions in the two systems (2.2.3.2).

2.2.3.1 Exceptions and defences in Europe and in the United States: two different traditions

The most obvious difference to emerge from a comparison between the U.S. and EU legal treatment of exceptions is that while the U.S. legal system merely provides a broad set of guidelines, including an open “fair use” exception (a), the EU legal system provides a closed catalogue of statutory exceptions²¹⁵ (b). Beyond this visible difference, the two systems have however more similarities than differences.

²¹⁴ Martin Senftleben, *Bridging the differences between copyright's legal traditions – the emerging EC fair use doctrine*, 57 J. Copyright Soc'y 521 at 524. See also Eric J. Schwarts, *An overview of the international treatment of exceptions*, 57 J. copyright Soc'y 473 at 474; Joseph M. Beck, and Allison M. Scott, *Digital-age claims for old-world rights in Symposium: The Changing Face of Copyright Law: Resolving the Disconnect Between 20th Century Laws and 21st Century Attitudes*, 17 J. INTELL. PROP. L. 1-120 (2009) at 5-19.

²¹⁵ See Anne Lepage, *Overview Of Exceptions And Limitations To Copyright In The Digital Environment*, e-copyright bulletin, January –March 2003.

(a) **Broad guideline and fair use defence in the United States**

In line with the common law tradition, U.S. legal system merely provides a broad guideline defining the defenses that a plaintiff may raise, notably in response to a copyright infringement claim.

Predominant amongst these defenses, the fair use theory was developed by U.S. case law for more than a century, before being enacted in section 107 of the Copyright Act²¹⁶.

As defined by section 107 of the Copyright Act, fair use immunizes in certain circumstances certain conducts that would otherwise violate copyright law, notably when the work is used for purposes such as “criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship or research”²¹⁷.

According to section 107, in evaluating whether a fair use defense is available, courts must weigh four non-exclusive factors:

- (i) the purpose and character of the use, including whether such is of a commercial nature or for nonprofit educational purposes;
- (ii) the nature of the work²¹⁸;
- (iii) the amount and substantiality of the portion used in relation to the copyrighted work as a whole²¹⁹ and;
- (iv) the effect of the use upon the potential market for, or value of the copyrighted work.

²¹⁶ See GOLDSTEIN ON COPYRIGHT (prec.) at 2.2 *Statutory elements of fair use*, noting that the fair use doctrine can be traced back to Justice Story’s observation in *Folsom v. Marsh*, 9 F. Cas. 342, 348 (C.C.D. Mass. 1841) No 4901 (involving copyright infringement of a collection of George Washington’s writings)

²¹⁷ See 17 U.S.C. § 107

²¹⁸ With respect to the second factor, U.S. case law has established that the fair use exception is to be interpreted more narrowly with respect to (i) unpublished (as opposed to published) and (ii) creative (as opposed to informational) work because of the greater protection enjoyed by these works. See *Harper & Row Publishers, Inc. v. Nation Enters*, 471 U.S. 539 (1985) at , 562; *Playboy Enters. Inc. v. Frena*, 839 F. Supp. 1552 (M.D. Fla. 1993) at 1558 (finding that the second factor weighed against fair use, because the copyrighted works at issue (adult photographs) were works of fantasy and entertainment.)

²¹⁹ See *Ass’n of American Medical Colleges. v. Mikaelian*, 571 F. Supp. 144 (E.D. Pa. 1983) at 153 “The greater the amount of copyrighted work used, the less likely it is that the fair use exception is applicable”

In accordance with the first sentence and rationale of section 107, the use should also fall within the general scope of fair use²²⁰, although courts do not always place emphasis on this threshold condition²²¹.

In response to copyright infringement claims raised against them for content or activities carried out by their users, OSPs have early on raised fair use defenses – relating either to their own conduct or to the conduct of their users²²², leading U.S. courts to assess the breadth of the fair use defense in light of the new online environment.

With respect to the first factor, U.S. case law has first established that the commercial character of the use, although presumptively an unfair exploitation of the author's monopoly privilege²²³, should not necessarily preclude a finding of fair use²²⁴. Likewise, if U.S. courts have sometimes denied the benefit of a fair use exception to an OSP²²⁵, notably on the ground that its use of copyrighted material was *not transformative*²²⁶, this test has also been held to be non-determinative²²⁷.

²²⁰ See GOLDSTEIN ON COPYRIGHT (prec.) at 12.2.1 (scope of fair use) (“at the highest level of generalization, all of these uses characteristically involve situations in which the social, political and cultural benefits of the use will outweigh any consequent losses to the copyright proprietor, and in which the time and expense of negotiations – or in the case of criticism and comment, the unwillingness of the copyright owner to permit these uses at an acceptable price – will often foreclose a negotiated transaction.”)

²²¹ *Id.* See also **Sony Corp of America v. Universal City Studios, Inc.**, 464 U.S. 417, 220 U.S.P.Q. at 449 (1984).

²²² Since vicarious and contributory liability both require a direct infringement, a finding of fair use for the direct infringer will normally insulate the alleged secondary infringer from any liability. See e.g. **Sony Corp of America v. Universal City Studios, Inc.**, 464 U.S. 417, 220 U.S.P.Q. 665 (1984) (in which the Supreme Court, insulate Sony from secondary liability because the primary use of the videotape recorder by users – time-shifting – was found fair use.

²²³ **Harper & Row Publishers, Inc. v. Nation Enters.**, 471 U.S. 539, 562 (1985) (holding that “every commercial use of copyrighted material is presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright”); See also **Sony Corp of America v. Universal City Studios, Inc.**, 464 U.S. 417, 220 U.S.P.Q. at 449 (1984)

²²⁴ See **Religious Technology Center v. Netcom Online Communication Servs., Inc.**, 907 F Supp. 1361, 1378 (N.D. Cal., 1995) (holding that although Netcom's use of the plaintiffs work had a commercial purpose, this use was however fair since “(i) it benefitted the public in allowing for the functioning of the Internet and the dissemination of creative works and (ii) Netcom did not receive any financial benefit from the acts of infringement”). See also **Campbell v. Acuff-Rose music, Inc.**, 510 U.S. 569, 584 (1994) (holding that the commercial or nonprofit educational character of a work was “not conclusive” and rather a factor “to be weighed along with others in fair use decisions”).

²²⁵ See **A&M Records, Inc v. Napster, Inc.**, 239 F. 3d 1004 (9th Cir. 2001) (dismissing the fair use defense rose by Napster on the ground, notably, that file-sharers' (Napster's users) use of copyrighted music (MP3 files downloading) was not transformative.

²²⁶ See **Campbell v. Acuff-Rose music, Inc.** (prec. supra) at 579 where the Supreme Court carved out of fair use fair factor this “transformative test”. (“the central purpose of (the first factor's) investigation is to see (...) whether the new work merely "supersede[s] the objects" of the original creation, (...) or instead adds something new, with a further

As regards the second factor, U.S. courts have then established that the nature of the work used in the digital environment will again not be determinative of the OSP's eligibility under a fair use defense. Indeed, in the context of a digital transmission, the nature of the work is often broadly irrelevant since the use of the work that is made by the service provider (i.e. copy for the sole purpose of making the work available to third party) has most of the time a different purpose than the use made by the direct infringer (i.e. e.g. make money out of, take advantage of and/or get a free ride on copyrighted material)²²⁸.

As for the third factor, U.S. courts have further stressed that if the copying of an entire work normally militates against a finding of fair use, where copying of the entire work is necessary in view of the beneficial purpose of the copying, a fair use defense is still open to the defendant²²⁹.

This third factor is thus not central to the determination of fair use in the digital environment.

By contrast, the fourth factor, raising the question of the adverse impact of the infringing conduct (notably should it become widespread) on the potential market of and/or on the value of the work is generally considered as the most important factor in order to assess the availability of a fair use defense²³⁰ in the digital environment.

purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is "transformative." (...) The more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use. ")

²²⁷ See *Sony (prec.)* at 455 ("The distinction between "productive" and "unproductive" uses may be helpful in calibrating the balance, but it cannot be wholly determinative").

²²⁸ See *Religious Tech. Ctr. (prec.)* at 41 (finding that the second factor, i.e. nature of the work, was irrelevant because "Netcom's use of the works was merely to facilitate their posting to the Usenet BBS, which is an entirely different purpose than the posting individual's use.")

²²⁹ *Id.* at 43 (finding that Netcom had no practical alternative way to carry out its socially useful purpose since the prescreening process of postings for potential copyright infringement is not feasible); See by contrast *Sega v. Maphia*, (prec. note 27) (in which the court found that the third factor weighed against a finding of fair use because "the defendant's subscribers were uploading and downloading Sega's copyrighted video games in their entirety and defendant had not shown any public benefit for the complete copying).

²³⁰ See *Harper & Row Publishers, Inc v. Nation Enters.*, 471 U.S. 539, 566, 225 U.S.P.Q. 1073 (1985); *Triangle Pub'g Inc v. Knight-Ridder Newspapers, Inc.*, 626 F. 2d 1171, 1175, 207 U.S.P.Q. 977 (5th Cir. 1980); *Princeton Univ. Press v. Michigan Document Servs., Inc.*, 99 F. 3d 1381, 1385, 40 U.S.P.Q. 2d 1641 (6th Cir. 1996)

As for trademark law, differently from copyright law, it only includes a single “fair use” provision, essentially allowing for the descriptive use of registered trademarks²³¹.

In the online environment, this defense has however been raised with success in the context of keyword advertising²³².

Moreover, in addition to this statutory exception, U.S. case law has carved out of the Lanham Act and/or recognized, based on the First Amendment principles²³³, a wide range of additional exceptions authorizing the use of a third party’s trademark notably (i) where it is not likely to create confusion as to the source of the products, (ii) when it was made for purposes of parody²³⁴, allusion, criticism, news reporting, commentary or comparative advertising²³⁵ and (iii) when it embodied an artistic expression²³⁶ or an aesthetic functionality²³⁷.

(b) Specific statutory exceptions in Europe

Differently from the United States, EU regulations do not include any statutory “fair use” exceptions. Rather, each domestic copyright statute has developed its own catalogue of exceptions.

²³¹ cf. 15 U.S.C. § 1115(b) 4

²³² See **Tiffany Inc. v. eBay, Inc.**, 576 F. Supp. 2d 463, 527 (S.D.N.Y. 2008) (holding that eBay’s use of Tiffany’s trademarks in its advertising, on its homepage, and in sponsored links purchased through Yahoo and Google, is a protected, nominative fair use of Tiffany’s marks)

²³³ See U.S. Constitution, First Amendment.

²³⁴ See e.g. **Mattel Inc v. MCA Records, Inc.**, 296 F. 3d (9th Cir. 2002), where the Ninth circuit held that the use of the Barbie trademark in the (parodic) song *Barbie Girl* was protected by the first Amendment. But see **American Dairy Queen Corp. v. New Line Productions, Inc.** 35 F. Supp. 2d 727 (D. Minn. 1998), dismissing fair use exception for the use of the trademark “Dairy Queen” as the title of a movie concerning a beauty contest in rural Minnesota, because it was supposedly likely to cause confusion and dilution to the claimant’s trademark.

²³⁵ See e.g. **August Storck K.G. v. Nabisco, Inc.**, 59 F 3d 616 (7th Cir. 1995)

²³⁶ See **Rogers v. Grimaldi**, 875 F. 2d 994 (2d Cir. 1989) (holding that First Amendment protected the use of the (trademarked) name of the famous dancer Ginger Roger (dancing partner of Fred Aster) by Fellini in its movie “Ginger and Fred”, although the film was not about the dancers but about the dream of two Italian cabaret dancers to become as famous as these dancers.)

²³⁷ See **International Order of Job's Daughters v. Lindeburg & Co**, 727 F.2d 1087 (regarding the incorporation in the design of a ring of a fraternal organization’s emblem registered as a trademark). For further detail on this case and on trademark’s fair use, see John McDermott, *Permitted use of trademarks in the United States*, IPAJ, VOL 5, N°4 2009 (also available at ipaj.org)

Some member states²³⁸ have thus provided in their legislation specific exceptions to copyright such as that of “private copies²³⁹”, “short quotations” (for purposes of illustration or comment)²⁴⁰, “press reviews”²⁴¹, “parody, pastiche and caricatures²⁴²”, etc. theoretically insulating from liability any defendant using a copyrighted work with one of these purposes.

In 2001, the Copyright Directive has further added the explicit requisite that, for any of these exceptions to apply, it should be subject to the threshold requirement that it (i) does not conflict with a normal exploitation of the work and (ii) does not unreasonably prejudice the legitimate interests of the right holder²⁴³.

The Copyright Directive also includes one mandatory exception (for temporary acts of reproduction)²⁴⁴ and a long list of optional exceptions and limitations that member states may include in their legislations²⁴⁵.

As for trademark law, the Trademark Directive only provides one specific limitation, most notably authorizing the use of a trademark for descriptive purposes²⁴⁶.

Just like in the United States however, EU domestic courts, as well as the E.C.J., have carved out of trademark law further limitations to trademark rights, including limitations based on other general principles of law and fundamental rights.

²³⁸ Including in the U.K. where the Copyright, Designs and Patent Act of 1988 sets out a series of exceptions to copyright, including for criticism, information or educational purposes (but not for private copy). These exceptions must however be interpreted by the judge in the light of *fair dealing* which present many similarities with the fair use doctrine under U.S. law. On this point, see Ian Hargreaves, *Digital Opportunity, A review of Intellectual Property and Growth*, Independent Report commissioned by the U.K. Government (May 2011).

²³⁹ cf. e.g. art. L.122-5 2° of the French intellectual Property Code

²⁴⁰ cf. e.g. art. L.122-5 3°a) of the French intellectual Property Code

²⁴¹ cf. e.g. art. L.122-5 3° b) of the French intellectual Property Code

²⁴² cf. e.g. L. 122-5 4° of the French Intellectual Property Code

²⁴³ See Copyright Directive, art. 5(5)

²⁴⁴ See Copyright Directive, art. 5(1) relating to transient or incidental temporary act of reproduction which are part of a technological process and whose sole purpose is to enable a transmission between third parties in a network or a lawful use (and which have no independent economic significance).

²⁴⁵ See Copyright Directive, Art. 5(2) to 5(4)

²⁴⁶ See Trademark Directive, art 6.

Specifically, courts in Europe have used the legal standard of trademark infringement to authorize trademark use where it did not affect the scope of the trademark (i.e. use, in the course of trade, of a sign similar or identical to a trademark, to designate a similar product or services, provided it affects one of the trademark functions).

In parallel, defendants in Europe have attempted to extend specific copyright exceptions - such as parody or short quotations - to trademark law, sparking much academic interest but having limited success before the courts²⁴⁷.

Beyond the apparent divergences existing between the U.S. and EU systems of exceptions, the two systems are in fact very similar.

2.2.3.2 Beyond some visible differences, a similar treatment of exceptions

(a) A similar policy: striking a balance between contrasting interests

Beyond the visible divergences outlined above, Europe and the United States legislators have both endeavored, when drawing up their legal framework for copyright and trademark exceptions, to strike a comparable balance between similar private interests (i.e. of the right holder to obtain

²⁴⁷ See e.g. French case law *RATP v. Valentin Lacambre et al.* (TGI Paris, 3rd ch. 3rd sec. March 21, 2000 (sum. Judgment), *Gervais Danone Co. v. M Olivier M.*, TGI Paris April 23, 2001 (sum. Judgment), *Greenpeace v. Esso* (TGI Paris July 8, 2002) (all dismissing defenses based on “parody of trademark” on the ground that no such exception is provided in trademark law but rejecting infringement claims based on absence of confusion risk or on freedom of expression principles). But see *Areva v. Greenpeace* (TGI Paris summary judgment August 2, 2002, acknowledging the existence of a right of Trademark use for purposes of “critic, parody and caricature”).

adequate protection for its rights)²⁴⁸ and social benefits (i.e. of the public' access to information, education, knowledge, democracy, etc.)²⁴⁹ .

To that extent, the balance between the interest of the public – to have access to as much information as possible – and of the authors – to receive fair compensation for their work and effective relief against widespread infringement of their rights - is comparable in the two systems, as are their social, political and economic situations.

(b) A real trend towards international harmonization

Moreover, the parallel adhesion of the United States and of the EU Member States to international conventions, most notably the Bern Convention, the Universal Copyright Convention (UCC), the WIPO Copyright Treaty and the TRIPS Agreement, has considerably strengthened the common ground between the two legal systems²⁵⁰.

In particular, article 9(2) of the Bern Convention²⁵¹ requires as a common threshold condition to the availability of any exception in Europe or in the United States that it should:

- (i) be limited to certain special cases,
- (ii) not conflict with a normal exploitation of the work, and
- (iii) not unreasonably prejudice the legitimate interests of the author:

²⁴⁸ i.e. private interest of the author to get a fair compensation – or at least a sufficient incentive to produce new works.

²⁴⁹ See generally GOLDSTEIN ON COPYRIGHT (prec.) at 12.1.1 (Fair use and Statutory exemptions compared) and 12.2.1.(Scope of Fair Use) on the balance between social benefits and private costs.

²⁵⁰ See Eric J. Schwartz, *An overview of the international treatment of exceptions*, 57 J. COPYRIGHT SOC'Y 473 at 473 and 491.

²⁵¹ The Berne convention was amended in 1967 to add an explicit Reproduction right and an accompanying exception to this right under Art. 9(2) ("it shall be a matter for legislation in the countries of the Union to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author."). See generally SAM RICKETSON & JANE C. GINSBURG, *INTERNATIONAL COPYRIGHT AND NEIGHBOURING RIGHTS: THE BERNE CONVENTION AND BEYOND* (Oxford Univ. Press 2d ed. 2006).

These threshold requirements, known as the three-step test, have been included in the TRIPS²⁵² and WIPO Copyright Treaty²⁵³, as well as in the Copyright Directive²⁵⁴ and has therefore become the international standard governing the scope of any exceptions to the author's exclusive rights in Europe and in the United States²⁵⁵.

On the other hand, section 108 through 122 of the Copyright Act add to the general fair use section (107), a long list of statutory exceptions exempting some particular uses (e.g. some public performances, cable and satellite retransmissions, etc.) or users (e.g. libraries, archives), in line with the European treatment of the exceptions.

International conventions - to which both Europe and the United States have adhered – have also brought the two systems closer together by acknowledging the existence of specific exception, such as that of short quotation for purpose of illustration or comments²⁵⁶ or descriptive use of trademarks²⁵⁷.

Moreover, in applying such legal exceptions to practical matters, U.S. and EU courts tend to take into account similar considerations.

To that extent, although no statutory exceptions in the United States exempt uses such as parody or private copies²⁵⁸ – typically exempted under EU domestic law - there are reasonable chances that (i) if the parody is a *true* parody, i.e. does not supersede the *object* or the *original market* for the work

²⁵² See TRIPS Agreement, art. 13 (and 17)

²⁵³ See WIPO Copyright Treaty (WCT) art. 10 and WIPO Performances and Phonograms Treaty (WPPT) art16.

²⁵⁴ And, as a consequence, in the domestic legislations of most of the member states of the E.U. which have implemented the Copyright Directive.

²⁵⁵ But see Senfleben (prec. Note 214) and Edward L. Carter, *Harmonization of copyright law in response to technological change: lessons from Europe about fair use and free expression* (30 U. LA VERNE L. REV.) at 312, both criticizing the restrictive approach adopted by the WTO panel and European Courts when interpreting this standard (as a further limitation to already existing statutory exceptions, rather than as an instrument to create new limitations and exceptions) and advocating for an interpretation of this clause in keeping with U.S. fair use.

²⁵⁶ Art. 10 of the Berne Convention

²⁵⁷ Art. 17 of the Trips Agreement

²⁵⁸ See GOLDSTEIN ON COPYRIGHT (prec.) at § 12.3.1 (*Private Copies*).

parodied, but instead adds something new, with a further purpose or different character²⁵⁹ or (ii) if a private copy is truly limited to a limited non commercial use, such uses will be considered fair under the US fair use doctrine²⁶⁰.

The regulations governing OSPs' liability and defense in relation to copyright and/or trademark infringement claims for third party content are thus very similar, whether within or outside the special regime of liability laid down by the DMCA and e-commerce Directive.

However, these similar legal concepts have been interpreted in a very different way in Europe and in the United States, leading U.S. and certain EU courts to adopt very different outcomes towards identical or similar intermediaries (3).

3. A DIFFERENT INTERPRETATION OF THIS LEGAL FRAMEWORK BY U.S. AND EU COURTS

As discussed above, the legal framework governing Internet intermediaries' liability for third party copyright and/or trademark infringement is substantially the same in Europe and in the United States.

Yet, U.S. and some E.U courts have interpreted these similar concepts in a different way (3.1), leading them to reach different outcomes towards identical or similar intermediaries (3.2).

²⁵⁹ See *Campbell* (prec.) at 580 (citing Oxford English Dictionary 2nd ed. 1989's definition of parody) ("a literary or artistic work that imitates the characteristic style of an author or work for comic effect or ridicule").

²⁶⁰ *William & Wilkins Co. v. United States*, 487 F. 2d 1345, 180 U.S.P.Q. (Ct. CL. 1973) affirmed by an equally divided Court, 420 U.S. 376, 184 U.S.P.Q. 705 (1975) (confirming fair use of an extensive photocopying of copyrighted work by non profit research institution for research purpose). See also *Campbell v. Acuff-Rose music*, (prec.) at 29 (holding the parodic rap version of the plaintiff's song, "oh, pretty woman" as fair use); see generally Goldstein on Copyright (prec.) at §12.3.2 (noting that "since Campbell most courts have upheld the parody fair use defense, at least in case involving true parodies")

3.1 A different interpretation of similar legal concepts

If the legal framework governing ISP in Europe and in the United States is essentially similar, the interpretation given by U.S. and EU courts towards similar legal concepts is substantially different. These differences arise not only as regards the threshold question as to whether a determinate OSP may be eligible under any of the relevant safe harbors (3.1.1) but also as regards the interpretation of the essential conditions triggering OSP liability within (3.1.2) and outside (3.1.3) the specific regime of liability laid down by the DMCA and e-commerce Directive.

3.1.1 A different interpretation of the conditions of eligibility under the hosting (and linking) safe harbors

As detailed above, to be eligible under any of the safe harbor – or limitation of liability –laid down by the e-commerce Directive or the DMCA, one must qualify as a “service provider” and engage in one of the activities – routing, caching, hosting and/or linking (as far as the DMCA is concerned) addressed by one of these exemptions²⁶¹.

However, while the scope of the routing, caching and, arguably, “linking” safe harbors are rather straightforward, the scope of the hosting safe harbor has raised an important debate, particularly in Europe.

Indeed, if both the DMCA and e-commerce Directive define “hosting” as the “*storage of information*” “*provided by the recipient of the service* (in the e-commerce directive)²⁶²” or “*at direction of a user*”²⁶³ (in the DMCA), none of these regulations defines “*recipient of the services*” or “*user*”.

²⁶¹ Miquel Peguera, *The DMCA Safe Harbor And Their European Counterparts: A Comparative Analysis Of Some Common Problems* (prec. note 85)

²⁶² cf. art. 14 of the e-commerce Directive.

²⁶³ See 17 U.S.C. § 512(c)(1)(A)(i).

Yet, “recipient of the services” or “user” can refer to both the consumer/end-user of the service and/or the owner/operator of an online service using “hosting services” (i.e. an Internet Intermediary). “Hosting” can therefore be constructed in a strict or in a broad sense²⁶⁴.

In a strict sense, hosting would refer to the mere activity of storing websites or data on behalf of others (content generator/ operator of a website) in exchange for a flat fee. In this sense, the hosting provider is a mere technical operator (such as e.g. OVH, iPage, justhost.com, bluehost, fatcow, etc.²⁶⁵), invisible to the public, whose main economic partner is the operator of a website or the generator of a data to be stored on a website.

By contrast, in a broad sense, hosting would refer to the activity of storing third party content, as part of a broader online interactive service. In this broad sense, many UGC websites (e.g. Google, eBay, Twitter, Facebook, iTunes, Wordpress, etc.), storing on their websites third party’s content could qualify as “hosting provider”, to the extent that they are “hosting” third party content, rather than displaying their own content.

U.S. courts tend to adopt this later (broad) interpretation of “hosting provider”, generally holding UGC websites eligible under the “hosting” safe harbor, provided their liability is sought for third party (infringing) content, stored and/or displayed on their website²⁶⁶.

In **UGM Recording v. Shelter Capital Partners**²⁶⁷ for instance, the 9th Circuit, affirming a decision of the Central District of California, held that video sharing platform Veoh was eligible

²⁶⁴ See Conseil Supérieur de la Propriété Littéraire et Artistique (CSPLA), Rapport Prestataire de l’Internet (by Pierre Sirinelli) at 42-49 (available at [http://www.cspla.culture.gouv.fr/CONTENU/Rapport Prestataires de l%27Internet.pdf](http://www.cspla.culture.gouv.fr/CONTENU/Rapport%20Prestataires%20de%20l%27Internet.pdf))

²⁶⁵ See e.g. list of the 10 more popular web hosting companies

²⁶⁶ cf. **Hendrickson v. eBay, Inc.**, 165 F. Supp. 2d 1082-1088, (CD Cal. 2001) at 1088 (“There is no dispute over whether eBay is an “Internet Service Provider” within the meaning of section 512. eBay clearly meets the DMCA’s broad definition of online service provider”). See also **Viacom International Inc et. Seq. vs. Youtube**, 718 F. Supp. 2d 514 (S.D.N.Y. 2010) “ as a provider of online services or network access or the operator of facilities thereof as defined in 17 U.S.C, Youtube is a service provider for purposes of 512 c)”

²⁶⁷ **UMG Recordings, Inc. v. Shelter Capital Partners LLC**, 667 F.3d 1022 (9th Cir. 2011) at 3, aff’ing **UMG Recordings v. Veoh Networks Inc.**, 690 F. Supp. 2d at 1088-89 (C.D. Cal, 2009) (holding that the DMCA language “*by reason of the storage at the direction of the user*” was “ clearly intended to cover more than just electronic storage lockers ” and certainly “ encompasses the access-facilitating processes that automatically occur when a user uploads a

under the hosting safe harbor since the legislative history, the wording and the structure of the statute would clearly show that § 512 (c) was “meant to cover more than the mere electronic storage of data, to specifically encompass the access-facilitating processes offered by a video sharing platform service”. The 9th circuit also clarified that section 512(c) did not require the infringing conduct to be merely “storage”, but simply required that the infringing conduct should occur “by reason of a storage”.

By contrast, in Europe, substantial debate is still ongoing as to the scope of the “hosting” safe harbor before the E.C.J. and member states’ domestic courts. Notably, many courts in Europe have struggled to apply the hosting safe harbor to UGC websites (e.g. auction websites, search engines, social media, sharing platform, etc.) - hosting third party content as part of a broader economic activity.

In addition to the imprecision of the definition of “host”, part of this issue comes from the fact that web hosting has dramatically evolved since the time the e-commerce Directive and DMCA were passed²⁶⁸. While hosting providers existing at that time were mostly “hosting websites”, essentially making available their servers (disk-space and processors) for the recipient of the service to develop their own websites, new online operators, more involved in the process and management of third party content and offering services which undoubtedly go far beyond “mere hosting” (auction websites, video-sharing platforms, social networking, news readers, etc.) are now claiming the hosting exemption²⁶⁹.

Moreover, in Europe, this debate is complicated by Recital 42 of the Directive which specifies that the special regime of liability it provides only covers service providers’ activities “limited to the

video to Veoh ”.)

²⁶⁸ See Introduction supra part 1.3

²⁶⁹ See Mario Viola de Azevedo Cunha, Luisa Marin and Giovanni Sartor, *Peer-to-Peer Privacy Violations and ISP Liability: Data Protection in the User-Generated Web*, EUI LAW, 2011/11.

technical process of operating and giving access to a communication network (...) for the sole purpose of making the transmission more efficient”. Recital 42 further clarifies that “this activity is of a *mere technical, automatic and passive nature*, which implies that the information society service provider has *neither knowledge of, nor control over* the information which is transmitted or stored”.

To that extent, while the E.C.J. Advocate General in *L’Oréal v. eBay*²⁷⁰ had took the view that Article 14 of the e-commerce Directive (i.e. the hosting exemption) should not be read in relation to recital 42, which would only refer to the *mere conduit* and *caching* exemption, but in relation to recital 46, which specifically relates to the hosting exemption²⁷¹, the E.C.J. in *Google v. LVHM*²⁷² and in *L’Oreal v. eBay*²⁷³ has made clear that the hosting exemption has in fact to be read in relation to recital 42.

Specifically, in *L’Oreal v. eBay*, the E.C.J. held that if an Internet service, such an online marketplace - whose services consist of facilitating relations between sellers and buyers of goods - is in principle a *service provider* for the purposes of Directive 2000/31, the fact that this service *includes* the storage of third party information is not sufficient to conclude that this service falls, in all situations, within the scope of article 14 (1) of Directive 2000/31. On the other hand however, the fact that the operator (i) stores on its server offers for sale, (ii) sets the terms of its service, (iii) is remunerated for that service or (iv) provides general information to its customers, will not disqualify

²⁷⁰ E.C.J. Advocate General opinion in *L’Oreal v. eBay* at 140-142

²⁷¹ See Rec. 46 of Council Directive 2000/31/EC

²⁷² E.C.J. Joint cases C-236/08 and C-238/08 *Google France and Google v. LVHM* March 23, 2010 at 113 -114 (“In that regard, it follows from recital 42 in the preamble to Directive 2000/31 that the exemptions from liability established in that directive cover only cases in which the activity of the information society service provider is ‘of a *mere technical, automatic and passive nature*’, which implies that service provider ‘has neither knowledge of nor control over the information which is transmitted or stored’. Accordingly, in order to establish whether the liability of a paid internet referencing service provider may be limited under Article 14 of Directive 2000/31, it is necessary to examine whether the role played by that service provider is *neutral* in the sense that its conduct is merely technical, automatic and passive, pointing to a lack of knowledge or control of the data which it stores”) (emphasis added)

²⁷³ E.C.J. case C-324/09 *L’Oréal v. eBay* at 112-114 and 119.

it from the hosting exemption either. In contrast, where the service provider “plays an active role of such a kind as to give it knowledge of, or control over, the data relating to those offers”, such as by “providing assistance which entails, in particular optimizing the presentation” or promotion of these (infringing) offers²⁷⁴, it will be held liable for such third party content or activity.

Likewise, in **Google France and Google v. LVMH**, the court held that if Google was to be considered, when performing its paid referencing service, a hosting provider²⁷⁵, in order for this service provider to fall within the scope of the hosting exemption, its role had to remain “neutral”, i.e. that of an “intermediary service provider”²⁷⁶.

Here again, the court clarified that the mere fact that (i) the referencing service was subject to payment, (ii) that Google set the payment terms or (iii) that it provided general information to its clients, could not have the effect of depriving Google of the hosting exemption. By contrast, the role played by Google (i) in the drafting of the commercial message accompanying the advertising link or (ii) in the establishment or selection of keyword, was held a relevant circumstance to determine whether it ad played an “active role”²⁷⁷.

In both these landmark case law, the E.C.J. did not rule out the possibility that an OSP or UGC website (such as a referencing or online auction service provider) might be liable for third party content under a regular regime of liability, notably in situation where their role would not be “neutral” (i.e. of a mere “*technical, automatic and passive nature*”) and/or where they would play

²⁷⁴ Being noted that this assessment has to be made by the referring Court – see E.C.J. case C-324/09 L’Oréal v. eBay at 111-117

²⁷⁵ For the E.C.J., Google should be considered as a hosting service provider since it (i) transmits information from the recipient of a service, i.e. the advertiser, over a communication network accessible to internet users and (ii) stores, i.e. hold in memory on its server, certain data such as the keywords selected by the advertiser, the advertising link and the accompanying commercial message.

²⁷⁶ E.C.J. C-236/08 and C-238/08 Google France and Google v. LVHM (prec.) at 111-114

²⁷⁷ See E.C.J. case C-236/08 and C-238/08 Google France and Google v. LVHM (prec.) at 116-118

an “*active role*” of such kind as to give them” *knowledge of, or control over, the data stored*”²⁷⁸.

Likewise, domestic courts in Europe have in various occasions declined to apply the hosting safe harbor to UGC websites.

For example, French courts have held in various occasions that OSPs such as **Tiscali**²⁷⁹, **Sedo**²⁸⁰, **Myspace**²⁸¹, **eBay**²⁸² or **Google**²⁸³, were not eligible under the hosting safe harbor, because their activities not limited to the mere “hosting” of third party content, included further functions not expressly covered by any specific exemption of liability.

Specifically, in **Tiscali v. Dargaud Lombard**, the French Supreme Court (Cour de Cassation) held that Tiscali was liable under a regular regime of liability (for hosting on its portal a blog featuring unauthorized reproduction of copyrighted comics owned by Dargaud), because its function was that of a *co-publisher*, particularly “when allowing its users to create their personal web pages through its website and encouraging third parties to place advertisement directly on user’s pages in order to generate additional revenue”. Likewise, in **Sedo v. Hotel Meridien**²⁸⁴, the French Supreme Court confirmed two lower court rulings that domain name registrar Sedo was not eligible under the safe harbor provision since it had “published a website dedicated to the selling of internet domain names

²⁷⁸ E.C.J. case C-236/08 and C-238/08 Google France and Google v. LVHM March 23, 2010

²⁷⁹ Cour de Cassation (1^{ère} civ.), 14 Jan. 2010, **Telecom Italia** (formerly Tiscali Media) **v. Companies Dargaud Lombard and Lucky Comics**

²⁸⁰ Cour de Cassation, Oct. 21 2008, **Sedo GmbH v. Hotel Meridien, Stephane H.** www.legalis. Net (“the limited liability regime should be limited to intermediary with a purely technical role and not extended to companies that runs a commercial activity selling internet domain name.”)

²⁸¹ TGI Paris, 22 June 2007, **Jean-Yves Lafesse v. Myspace** (available at legalis.net) (eventually, the court vacated the ruling but on a procedural ground because the defendant had not been properly serviced in the U.S., see, C.A. Paris, Oct. 29, 2008.)

²⁸² C.A. Paris, Sept. 3, 2010, **LVMH v. eBay**, (aff’g Commercial Court Paris June 30, 2008) and C.A. Reims, July 20, 2010, **Hermes v. eBay**, (aff’g TGI Troyes June 4, 2008). See also C.A. Paris, Jan. 23, 2012, **eBay International v. Burberry et al.**

²⁸³ TGI Paris Nov. 14, 2011. **Olivier Martinez v. Google and Prisma Presse?**

²⁸⁴ Cour de Cassation, Oct. 21 2008, **Sedo GmbH v. Hotel Meridien, Stephane H.** www.legalis. Net

and had commercially operated this website through the selling of advertising hyperlinks.”

Similarly, a Paris Court ruled that **Myspace** was a *publisher* rather than a hosting service provider because it (i) allowed its users to upload their videos through a specific frame structure and (ii) reaped benefit from advertisement placed on the website²⁸⁵.

In **Hermes v. eBay**²⁸⁶, **LVMH v. eBay**²⁸⁷ and **eBay v. Burberry et al.**²⁸⁸, the Reims and Paris Courts of Appeal, upholding lower court decisions, also denied eBay the qualification of “hosting provider”.

In **Hermes v. eBay**, the court specifically held that eBay was a “*publisher of an online communication service for intermediation (brokerage) purpose*” and was therefore liable for not policing its own site for illegal activity. The court reached this conclusion on the ground that, in addition to hosting third party content, eBay (i) provided tools allowing infringing goods to be sold, (ii) created and arranged the layout for the items to be sold and (iii) created the functioning rules and the architecture for its online auction services.

²⁸⁵ TGI Paris, 22 June 2007, **Jean-Yves Lafesse v. Myspace**. In this case, French humorist Lafesse sued MySpace claiming infringement of his author’s and personality’s rights after several videos of his skits appeared on the company’s website. Myspace was ordered to remove the infringing content or face a daily 1,000 Euros fine and to pay 61,000 Euros for infringement of moral and personal rights of the plaintiff. (But note that the judgment was finally vacated on other grounds).

²⁸⁶ Reims Court of Appeal July 20, 2010 **Hermes v. eBay** (aff’ing Troyes First instance Court (TGI), June 4, 2008): in this case Hermes International brought a lawsuit against eBay France and eBay International after discovering the selling of counterfeit Hermes products (notably the Birkin bag) by third parties on eBay’s website, claiming that eBay had, with knowledge of third party’s infringing activities, provided the means and benefit from such activity.

²⁸⁷ Paris Commercial Court June 30, 2008, **SA Louis Vuitton Malletier v. eBay Inc, eBay International AG; Parfums Christian Dior et al. v. eBay Inc, eBay International AG; Christian Dior Couture v. eBay Inc, eBay International AG** (aff’d by Paris Court of Appeal of Paris (Pole 5, ch. 2) Sept. 3, 2010). In this case, LVMH brought a lawsuit against eBay after noticing that 90% of the Louis Vuitton bags and Dior perfumes sold on eBay’s website were arguably counterfeit, claiming that eBay had failed to carry out a duty of care to ensure that its online business did not generate illicit acts to the detriment of other economic operators. LVMH also asserted that eBay was negligent when failing to implement any effective means aimed at preventing the sale of goods infringing LVMH’s rights, despite numerous notifications sent by LVMH from 1999. LVMH finally alleged that by circulating advertisements referring to so-called “replicas” or infringing items and by receiving commissions from all of the disputed sales, eBay **fostered illicit trade and derived income from it**.

²⁸⁸ **eBay International v. Burberry et al.**, C.A. Paris, Jan. 23, 2012

Likewise, in **LVHM v. eBay**, the court found that eBay operated not as a “*passive host*” but rather as an “*active broker*”, playing an essential role in the commercialization of counterfeit and profiting from these sales²⁸⁹. The Court stressed that eBay had indeed created an online auction service, assisted the sellers in the description of the item to be sold, followed up on the sale during the whole process, promoted the sales and encouraged its users to buy these items by sending unrequested emails. As a *broker*, the court held, eBay could not benefit from the “hosting” safe harbor dedicated to “technical intermediaries” and had to bear the risks and costs of its own commercial activity.

In **Burberry et al. v. eBay**²⁹⁰, issued after the above-mentioned E.C.J. decision in *L’Oreal v. eBay*, eBay was again denied protection under the hosting safe harbor on the ground that it had played an “*active role*” in the assistance, following up and promotion of the sales.

Google has suffered a similar fate before some courts in France. In **Olivier Martinez v. Google and Prisma Press**²⁹¹ for instance the Paris Court of Appeal denied Google safe harbor protection for its AdWords service, on the ground that its role was allegedly “not purely technical, automatic and passive”.

By contrast however, other jurisdictions in France and/or in other countries have held these very same service providers and/or other similar providers eligible under the hosting safe harbor.

In **Nord-Ouest Production v. Dailymotion**²⁹² for instance, Dailymotion (a French equivalent for YouTube) was held by French courts to qualify as a “host” and “technical intermediary”, despite

²⁸⁹ Paris Commercial Court, June 30, 2008 (noting that “eBay acts as a major actor in the sales on its sites and plays a very active role, in particular in commercial campaigns meant to increase the number of transactions”)

²⁹⁰ C.A. Paris, Jan. 23, 2012, **eBay International v. Burberry et al.**

²⁹¹ TGI Paris, Nov. 14, 2011, **Olivier Martinez v. Google and Prisma Press**.

²⁹² TGI Paris July 13, 2007, **Christian C., Nord Ouest Production v. Dailymotion, UGC Images**. In this case, Nord-Ouest Production sued video sharing platform Dailymotion after a copy of its film, *Joyeux Noël*, was reposted on Dailymotion’s website despite this content had been the subject of two former notifications for infringement. The Court held that because Dailymotion did not control the content posted by their users, they were not a publisher, but a “technical intermediary” (host). However, the Paris Court (first instance) held that Dailymotion was nonetheless liable, as the exemption from monitoring obligation did not apply when the unlawful activity was generated or *induced* (in an effort to increase the traffic to their site) by the service providers. This decision was reversed by the Paris Court of Appeal, which held that by limiting itself to taking down the information and content expressly notified by the right

having a business model (advertising, including contextual or behavioral) similar to other interactive online services not qualified as hosts²⁹³. In qualifying Dailymotion as a host, French courts insist on the fact that it had "*no intellectual control* over the [infringing] content or information". To that extent, the court clarified that "(i) carrying out technical operation such as re-encoding or formatting, which are a necessary part of the hosting provider activity, (ii) setting up presentation frames and making available tools for classifying content, and (iii) operating a website commercially through the selling of advertising space", did not disqualify a service provider from the hosting safe harbor, as long as the service provider "(i) was not at the origin of the dissemination of the content and (ii) did not select or affect the content placed on line".²⁹⁴

A similar decision was issued in **Olivier Martinez v. Blooblox-net** where the French Supreme Court concluded that the publisher of fuzz.fr, a "digg-like" interactive website²⁹⁵, was also a "*technical intermediary*" on the ground that it was not the author of the titles or hyperlinks claimed to be infringing and had no control over the content of the site.²⁹⁶

Likewise, in **Zadig Productions v. Google Video**²⁹⁷, a Paris Court held that although Google Video offered the "architecture and technical means" to upload and access infringing content, Google had to be considered a host since the disputed content was provided by third parties.

holders, Dailymotion had complied with its obligations under the e-commerce Directive (Decision aff'd by the French Supreme Court, Cour de Cassation February 17, 2011)

²⁹³ See e.g. **Jean-Yves Lafesse v. Myspace** (prec.)

²⁹⁴ See **Nord Ouest Production et al v. Dailymotion, UGC Images** (prec. supra).

²⁹⁵ *Digg-like website* are websites syndicating several sources of information through the subscription of various RSS feeds. They generally display under pre-defined categories, headings and/or snippets of subscribed information and hyperlinks pointing to the original websites on which it appear.

²⁹⁶ Cour de Cassation, Feb. 17, 2011, **M.O. X v. Blooblox-net** (aff'g Paris Court of Appeal Nov. 21, 2008). But see TGI Paris Feb. 28, 2008, qualifying a similar digg-like website as a "publisher" on the ground that "by subscribing to the unlawful RSS thread and displaying its contents in a specific layout of its own design, the defendant was acting as a *publisher* and therefore was liable for this violation of privacy." (emphasis added)

²⁹⁷ **Zadig Production v. Google Video**, TGI Paris. In this case, Zadig Productions sued Google Video after the video Tranquility Bay was repeatedly posted on Google's website. Each time the video appeared, Zadig filed formal takedown notices to which Google complied. The Court however held Google liable for the subsequent re-posting of this video as soon as it was informed of its infringing character.

In other instances, French courts have both found for and against the hosting provider status, exempting service providers from liability where they were acting “in their capacity as hosting provider” (i.e. when merely storing third party’s information), while holding them liable where they were providing further services beyond hosting²⁹⁸.

Like in France, other domestic courts in Europe have struggled to apply the hosting safe harbor to a new generation of service providers, increasingly involved in the production and management of content, and have reached contrasting outcomes in this regard.

In **Reti Televisive Italiane SpA v. Italia On-Line**²⁹⁹ for instance, the court of Milan denied safe harbor protection to Italia Online Srl (IOL) for the video sharing service it was running, since it was found to have played an “active role” in “organizing the service and the videos uploaded to its website, offering additional services with a view to commercial benefit”.

The same court³⁰⁰ similarly held Yahoo! Italia S.r.l. liable on the ground it had failed to prevent RTI TV shows from being made available on the video sharing platform it was running, even after receiving several notices from the right holder containing evidence of infringement. Yahoo! was additionally deemed an “active host” on the ground that it had (i) placed advertising next to the videos, (ii) suggested to its customers related videos and (iii) provided functionalities enabling users to report violations.

Some months later however, the court of Rome held that Google (in its capacity as a blog hosting

²⁹⁸ **TGI Paris, May 13, 2009, L’Oreal et al. v. eBay et al**, holding eBay a hosting provider for some of its activities, (e.g. brokerage service)s and an “intermediary” liable under general tort rule for other activities (e.g. promotion of its services). See also **Court of Appeal of Paris, January 14, 2011, Google Inc. / Compagnie des phares et balises** (concerning the movie “*Le genocide arménien* ”); **Google Inc./ Bac Films, the Factory** (movie “*l’affaire Clearstream*”); **Google Inc./ Bac Films, the Factory, Canal +** (movie “*Les dissimulateurs*”) and **Google Inc./Les Films de la Croisade, Goatworks Films** (movie “*Mondovino*”) holding Google a *hosting provider* when it links to third party’s website but a *publisher* when directly giving access to disputed content to the direction of its own users.

²⁹⁹ Court of Milan, Jan. 20, 2011, **Reti Televisive Italiane SpA v. Italia On-Line**,

³⁰⁰ Court of Milan, September 9, 2011 **Reti Televisive Italiane S.p.A. (RTI) v. Yahoo! Italia S.r.l.**,

provider) and Yahoo, Inc (in its capacity as a search engine) were respectively eligible under the hosting and caching safe harbors and therefore exempted from liability, provided they complied with infringement notices³⁰¹.

By contrast, in **Google v. Copiepresse**, the Belgian Court of Appeal denied safe harbor protection to Google for its Google news service, on ground that (i) its liability would result from its own practice of selecting and copying excerpts of copyrighted article (rather than from third party content) and (ii) Article 21 of the e-commerce Directive would in any case exclude search engines from any specific exemption of liability.

Hence, there are still diverging opinions between – and even inside – different jurisdictions in Europe, on the threshold issue of the eligibility of a wide range of OSPs under the hosting safe harbor.

Beyond this threshold question, courts in Europe and in the United States have also taken different views on the interpretation of the essential conditions triggering liability under the special regime of liability laid down by the DMCA and e-commerce Directive.

³⁰¹ See Court of Rome December 2, 2011 **RTI v. Google and others** and Court of Rome March 22, 2011 (provvedimento cautelare/summary judgment) **RTI v. Yahoo, Inc!** holding Yahoo! Inc eligible under the caching safe harbor but ordering it, in its capacity as caching service provider, to remove any link to infringing content under penalty. This decision was eventually vacated by Court of Rome July 22, 2011 (decision on the merit) which exempted Yahoo! from all liability since it had not received appropriate notice of infringing content.

3.1.2A different interpretation of the essential conditions triggering liability under the DMCA and e-commerce Directive special regime of liability.

Both the DMCA and e-commerce Directive “hosting” safe harbor³⁰², provide that a hosting service provider can be liable for third party content only if (i) it has *actual knowledge* or *sufficient awareness* of its illicit character and (ii) it did not *act expeditiously to remove or block this content* after obtaining such knowledge.

In a language seemingly echoing the common law requirement for vicarious liability, the DMCA adds that the service provider may also be liable if (i) having *the right and ability to control* such activity (ii) it *financially benefitted* from the infringing activity³⁰³. Although they are not formerly provided in the e-commerce Directive, these two further requirements are also taken into consideration by EU courts when assessing whether a determinate OSP should be held liable for third party content.

The threshold requirements triggering liability under the DMCA and e-commerce Directive are therefore very similar. Yet, they have been interpreted in a very different way.

In particular, the knowledge standard (3.1.2.1), the adequate response after knowledge (3.1.2.2), the absence of control (3.1.2.3) and the absence of financial benefit requirements (3.1.2.4) have received different interpretations before U.S. and EU courts.

³⁰² And linking as far as the DMCA is concerned

³⁰³ See 17 U.S.C. § 512 (c) (1) (B)

3.1.2.1 Applicable knowledge standard

As seen above, the crucial inquiry under both the DMCA and e-commerce Directive in order to determine whether a service provider should be held liable for third party infringing content or activity is to determine whether it had *knowledge* of such infringing activity.

Both the DMCA and e-commerce Directive further provide that the knowledge standard for OSP is *actual knowledge* of illicit content or activity, or *awareness of facts and circumstances from which infringing activity is apparent*. In theory, the knowledge standard is thus the same under both regulations.

In fact, U.S. and EU courts have interpreted this “knowledge standard” in an inconsistent manner, specially as regard the second prong of the knowledge standard i.e. the concept of “*awareness of facts and circumstances from which the infringing activity is apparent*”.

(a) Interpretation of the knowledge standard by U.S. courts (under the DMCA and U.S. doctrine of contributory liability)

(i) Required level of awareness under the DMCA

In the United States, the knowledge standard under the DMCA – directly inspired from the knowledge standard under the doctrine of contributory liability³⁰⁴ – is a two prong standard including (i) actual knowledge or (ii) sufficient awareness of facts and circumstances from which the infringing activity is apparent.

³⁰⁴ The knowledge standard under the DMCA is directly inspired from the knowledge standard (actual or constructive knowledge) under the doctrine of contributory copyright or trademark infringement. See generally Jane C. Ginsburg, *Separating the Sony Sheep from the Grokster Goats. Reckoning the future Business Plans of Copyright Dependant technology entrepreneurs*, 50 ARIZ. L. REV. 577 at 595 – 601.

According to the Senate Report on the DMCA, the second prong of the knowledge standard - usually referred to as “red flag test” – would require a service provider to take action (i.e. to take down or disable access to infringing material residing on its system or network) any time it is aware of “*red flag*” of obvious infringement i.e. of any circumstances from which infringement would have been apparent “*for a reasonable person acting under the same or similar circumstances*”³⁰⁵.

Thus, while “actual knowledge” is normally triggered by an appropriate notification from the right holder³⁰⁶, “sufficient awareness” should be triggered by any other information(s) constituting “red flags” of infringement.

In fact, U.S. courts have recently tended to require a very high standard of “sufficient awareness” sometimes amounting to “actual knowledge”³⁰⁷.

In **Perfect 10 v. CCBill LLC**³⁰⁸ for instance, involving the provision by a service provider of hosting and payment services to a series of websites openly displaying non-authorized photographs of celebrities (under non-ambiguous URL such as “illegal.net” or “stolencelibritypics.com), the Ninth Circuit held that if investigations of “facts and circumstances” were necessary to determine whether the material was infringing, these facts and circumstances should not be deemed red flags and the service provider could not be deemed to have knowledge of specific infringement.

Likewise, in **UMG Recordings, Inc. v. Veoh Networks, Inc.**, the Ninth Circuit, affirming a decision of the Central District of California, held that Veoh’s general knowledge that it hosted copyrightable material and that its services could be used to infringe, was insufficient to impute to him knowledge or even a sufficient level of awareness³⁰⁹.

³⁰⁵ See S. REP 105-190 at 45 and H. REP 105-796 at 54

³⁰⁶ See 17 U.S.C. § 512 (c) (1)-(3)

³⁰⁷ See *Tiffany and Perfect 10 (infra)*

³⁰⁸ **Perfect 10, Inc. v. CCBill LLC**, 488 F.3d 1102 (9th Cir. 2007)

³⁰⁹ **UMG Recordings, Inc. v. Shelter Capital Partners LLC**, 667 F.3d 1022 (9th Cir. 2011) at 3, aff’g **UMG Recordings v. Veoh Networks Inc**, 665 F. Supp. 2d 1099, 1108 (C.D. Cal, 2009) at 13-14. In affirming the district court’s decision that Veoh did not have actual knowledge of the infringing activity, the court held that “merely hosting a

Similarly, in **Corbis Corp. v. Amazon.com, Inc.**³¹⁰, the court ruled that the issue was not whether (the service provider) had a *general awareness* that a particular type of item may be easily infringed, but whether (it) *actually knew* that specific vendors were selling items that infringed (the claimant)'s copyrights."

Again, in **Viacom v. YouTube**³¹¹, the Southern District of New York ruled that for YouTube to lose the benefit of the hosting exemption, it should have had knowledge of *specific and identifiable* infringement of particular individual items. The Court added that the service provider's alleged general knowledge that infringement was ubiquitous did not impose on him a duty to monitor or search its service for infringements. This principle was confirmed on appeal by the Second Circuit, although the decision was vacated on other grounds³¹².

(ii) Required level of constructive knowledge under the US doctrine of contributory infringement

A similar trend can be seen under the U.S. doctrine of contributory infringement where a very high level of constructive knowledge – sometimes amounting to actual knowledge – tends to be required to hold a service provider liable for third party content.

In **Tiffany v. eBay**³¹³ for instance, the court ruled that although eBay possessed generalized knowledge of the fact that sellers were offering counterfeit Tiffany jewelry on its website, such

category of copyrightable content, such as music videos, with the general knowledge that one's services could be used to share infringing material, is not sufficient to meet the actual knowledge requirement under Section 512(c)(1)(A)(i) of the DMCA". See generally, Andrey Spektor, *The Viacom Lawsuit: Time To Turn Youtube Off?* 91 J. PAT. & TRADEMARK OFF. SOC'Y 286.

³¹⁰ **Corbis Corp. v. Amazon.com, Inc.** 351 F. Supp. 2d 1090, 1108 (W.D. Wash. 2004)

³¹¹ **Viacom International Inc et. al. v. YouTube**, 718 F. Supp. 2d 514 (S.D.N.Y. 2010).

³¹² **Viacom Int'l, Inc., Football Ass'n Premier League Ltd. v. YouTube, Inc.** (2nd Cir. 2012), Docket 10-3270-cv (Apr. 5, 2012)

³¹³ **Tiffany Inc. v. eBay Inc.**, 600 F.3d 93 (2d Cir. April 1, 2010)

general knowledge was neither sufficient to impute knowledge on eBay of *specific* acts of infringement, nor sufficient to impose on eBay an affirmative duty to remedy the situation.

For the court, the only relevant test was whether eBay “continued to supply its services to sellers after obtaining knowledge of *specific instances* of infringement³¹⁴”. Finding that eBay had no more than a general knowledge or reason to know that its service was being used to sell counterfeit goods, the court held that eBay was under no duty to seek out infringement³¹⁵.

This trend is however not uniform before every U.S. court.

In **Louis Vuitton Malletier v. Akanoc Solutions**³¹⁶, the Court of Appeals for the Ninth Circuit held a web-hosting company liable for contributory copyright and trademark infringement after it failed to take affirmative steps to curtail infringement albeit having “*actual or constructive knowledge*” that users of their services were engaging in infringement. In this decision, no specific knowledge was required to meet the knowledge standard.

In other instances, U.S. courts have applied the concept of “willful blindness³¹⁷” (rather than specific knowledge) to hold service providers liable for third party infringement when they were deemed to have “deliberately avoided learning about infringement”³¹⁸.

U.S. case law have applied this standard notably in *Napster*³¹⁹, holding notorious file-sharing website Napster vicariously liable for “facilitating the transmission of copyrighted music between its users free of charge” and “failing to affirmatively use its ability to patrol its system and preclude

³¹⁴ Id at 470 (“Quite simply the law demands **more specific knowledge** as to which items are infringing and which seller is listing those items before requiring eBay to take action.”)

³¹⁵ Kate Goldwasser, *Knock It Off: An Analysis Of Trademark Counterfeit Goods Regulation In The United States, France And Belgium*, 18 CARDOZO J. INT’L & COMP. L. 207 at 231 arguing, specifically, that the court would have misapplied the two prongs of the knowledge standard.

³¹⁶ **Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.**, 658 F.3d 936 (9th Cir., 2011)

³¹⁷ See S. REP 105-190 at 48-49 and H. REP 105-796 at 57-58

³¹⁸ See re. Aimster Copyright Litigation, 252 F. Supp. 2d 634 (N.D. Ill, 2002) at 657 ([*The safe harbor*]“is not presumptive, but granted only to “innocent” service providers who can show that they do not have a defined level of knowledge regarding the infringement on their system”).

³¹⁹ *A&M Records Inc v Napster, Inc* (9th Cir. 2001)

access to potentially infringing users”, while “turning a blind eye to detectable acts of infringement”³²⁰. This view was reiterated in *re Aimster* where the 9th Circuit Court denied hosting protection to file-sharing website Aimster on the ground that it had arguably encouraged and deliberately avoided learning about copyright infringement, by teaching its users how to encrypt their data³²¹. A similar concept was recently applied in *Perfect 10 v. Megaupload*³²² where the Southern District of California held Megaupload liable on the ground it had *incentivized* infringement by offering payment to their users to upload popular copyrighted content.

The willful blindness standard is however rather difficult to meet under U.S. law. In *Tiffany v. eBay* for instance, the court clarified that willful blindness can be characterized only where (i) the defendant knew of a high probability of illegal conduct and (ii) purposefully avoided learning of it by taking affirmative steps.

As a result, under U.S case law, a service provider will generally be held liable only where it had *actual* or *specific* (which often amounts to the same thing) knowledge of infringement and/or where it took affirmative steps to avoid learning of online infringement.

(b) Interpretation of the knowledge standard under the e-commerce Directive

By contrast, European courts have adopted a broader interpretation of the knowledge standard under the e-commerce Directive. In *L’Oreal v. eBay* for instance, the E.C.J. held that a service provider

³²⁰ *Id.* at 1027

³²¹ See *In re Aimster* (prec.) at 655 (“The common element of its safe harbors is that the service provider must do what it can reasonably be asked to do to prevent the use of its service by “repeat infringers. Far from doing anything to discourage repeat infringers of the plaintiffs’ copyrights, Aimster invited them to do so, showed them how they could do so with ease using its system, and by teaching its users how to encrypt their unlawful distribution of copyrighted materials disabled itself from doing anything to prevent infringement.”)

³²² See *Perfect 10 v. Megaupload*, No. 11cv0191-IEG (BLM), (S.D. Cal., 2011) available at <http://dockets.justia.com/docket/california/casdce/3:2011cv00191/343262/>

should be denied entitlement to the hosting safe harbor, any time when it was “aware of facts or circumstances on the basis of which a diligent economic operator should have identified the illegality in question and declined to take appropriate action”. The E.C.J. further clarified that for such standard to be met, it was sufficient that the service provider could “*uncover, as the result of an investigation undertaken on its own initiative, an illegal activity or illegal information*”³²³.

Differently from U.S. courts, the E.C.J. has therefore set a level of “awareness” that is generally less specific than “actual knowledge”. In particular, the E.C.J. does not exclude that such awareness could derive from investigations undertaken by the service provider (regardless of whether the service provider is legally required to undertake such investigations).

Likewise, some domestic courts in Europe have set a “knowledge standard” substantially lower than the one set by U.S. courts.

In **LVHM v. eBay** for instance, the Paris TGI (French civil Court, first grade) and Court of Appeal held that eBay could not claim lack of knowledge since “as a broker, it was supposed to make sure the goods sold on its website did not infringe third party’s trademark rights or distribution networks”.

Likewise, in **Twentieth Century Fox et al. v. British Telecommunications (BT) PLC**³²⁴, the U.K. High Court found sufficient that BT had general knowledge that their services were being used to infringe copyright in general to order BT, as an Internet Service Provider, to block its customers from accessing an illegal file-sharing site. No specific knowledge was required in this regard.

Here again, however, this trend is not harmonized between and even inside the different

³²³ E.C.J. Case C-324/09 L’Oréal v. eBay at 120-122.

³²⁴ **Twentieth Century Fox et al. v. British Telecommunications PLC**, (hereinafter **TCF v. BT**) U.K. High Court July 28, 2011

jurisdictions in Europe.

In **Société des Auteurs des arts visuels et de l'Image Fixe (SAIF) v. Google**³²⁵ for instance, the Paris Court of appeal held that the sole awareness by a service provider that its service may be used for copyright infringement did not entail its liability since it had shown to be willing to de-index the infringing images, upon notification of the information enabling their identification and localization. A similar conclusion was reached in **Nord-Ouest Production et al v. Dailymotion, UGC Images**³²⁶.

Hence, courts in Europe and in the United States and even within Europe and the United States still disagree on the threshold question as to what should constitute the requisite level of awareness making a service provider liable for third party content.

Likewise, there is still no agreement among U.S. and EU courts on what should constitute the “adequate” response (insulating the service provider from any liability) after receiving a notice of infringement.

3.1.2.2 Adequate response after knowledge of infringement

In Europe, just like in the United States, in order to avoid liability, a service provider qualifying for one of the safe harbor is required, upon obtaining knowledge of infringing content or activity, to remove or disable access to the infringing material³²⁷.

³²⁵ Paris Court of Appeal, Jan. 26, 2011, **Société des auteurs des arts visuels et de l'image fixe (SAIF) v. Google France, SARL and Google Inc** (“the mere fact that the defendants are aware that the automatic indexation is likely to infringe copyrighted work is not sufficient to entail their liability since they are ready to “de-index” such content).

³²⁶ **Nord Ouest Production et al v. Dailymotion, UGC Images**, Cour de Cassation February 17, 2011

³²⁷ Cf. 17 U.S.C. § 512 (c) 1)(A)(iii) and Art. 14(1)(b) of Council Directive 2000/31/EC

By contrast, absent specific knowledge (or sufficient “awareness”) of infringing activity, the service provider cannot be bound by any general monitoring obligation, in the DMCA, just like in the e-commerce Directive³²⁸.

Under both regimes, OSP are thus essentially subject to an obligation to take down content upon notification of infringement and are specifically not supposed to seek out copyright infringement.

However, while this rule has been interpreted strictly by U.S. courts, some courts in Europe have interpreted this rule more broadly.

(a) Adequate Response according to U.S. courts

For U.S. courts, generally, a service provider qualifying under the hosting safe harbor will be shielded from any liability as soon as it removes or disables access to infringing content after receiving notice of their infringing character³²⁹.

In line with section 512 (j)³³⁰ and (m) of the DMCA, no broad injunction - let alone an injunction for the future - can be imposed on a service provider and service providers are not expected to do more than what is strictly requested by the law³³¹.

This position was clearly expressed in **UMG Recordings, Inc. v. Shelter**³³², in which the 9th circuit upheld the Californian Central District’s opinion that absent specific knowledge of particular

³²⁸ See article 15(1) of the Directive 2000/31/EC (“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.”) (*Emphasis added*)

³²⁹ See e.g. **Viacom International Inc et. Seq. vs. Youtube** 718 F. Supp. 2d 514 (S.D.N.Y. 2010) (partially reversed by the 2nd circuit) , **UMG Recording v. Shelter** (*prec.*)

³³⁰ See 17 U.S.C. § 512 (j) (limiting the circumstances under which an injunction can be ordered, notably to the circumstance where it is the least burdensome relief amongst the forms of relief comparably effective for that purpose.)

³³¹ See e.g. **Tiffany Inc. v. eBay Inc.** (S.D.N.Y, 2008), 576 F Supp 2d 463, 506 at 470 (aff’d by 2nd cir., 2010)

³³² **UMG Recordings, Inc. v. Shelter Capital Partners LLC**, 667 F.3d 1022 (9th Cir. 2011), aff’g **UMG Recordings v. Veoh Networks Inc**, 665 F. Supp. 2d 1099, 1108 (C.D. Cal, 2009) .

infringing activity, a video sharing platform had no duty to monitor and/or seek out copyright infringement.

This position was also upheld under the doctrine of contributory liability in **Tiffany v. eBay** where the Second Circuit, affirming a decision from the Southern District of New-York, dismissed Tiffany's claim that eBay should implement filters in order to avoid the sale of infringing items on its website, notably on the ground that absent specific knowledge of specific instances of infringement, eBay had no affirmative duty to remedy the situation³³³.

(b) Adequate response according to the ECJ and domestic courts in Europe

In contrast, the E.C.J. has held in several instances that if member states are prohibited from imposing any *general* monitoring obligation upon service providers (in accordance with Article 15 of the e-commerce Directive), they can still impose on service providers *specific* injunctions (in accordance with the Recital of the e-commerce Directive³³⁴, article 11 of the Enforcement Directive³³⁵ and article 8 (3) of the Copyright Directive³³⁶), aimed at *putting to an end or preventing* any future specific infringement.

³³³ The Court also dismissed this claim because (i) the efficiency and reliability of such filters was not demonstrated at that time, (ii) no study had been done on the impact such filtering would have had on eBay's business and (iii) eBay was already implementing some filters aimed at curtailing infringement (e.g. delaying the publication of offers including brand names in order to carry out manual review, implementing software in order to automatically assess the number of items offered in a given listing, prohibiting one day and three days auctions for certain brand names, restricting cross border trading, etc.)

³³⁴ See Recital (45) and (47) of Council Directive 2000/31/EC ((45) "The limitations of liability of intermediary service providers established in this Directive *do not affect the possibility of injunctions of different kinds*; such injunctions can in particular consist of orders by court or administrative authorities requiring the termination *or prevention* of any infringement, including the removal of illegal information or the disabling of access to it." (47) "Members states are prevented from imposing a monitoring obligation on service providers only with respect to obligations of a general nature; *this does not concern monitoring obligations in a specific case* and, in particular, does not affect orders by national authorities in accordance with national legislations.) (emphasis added)

³³⁵ See, in particular, Recital 23-24, art. 3 and art. 11 of Council Directive 2004/48, on the Enforcement of Intellectual Property Rights-

³³⁶ See Article 8 (3) of Council Directive 2001/29/EC of the European Parliament and of the Council of 22 may 2001 (*on the Harmonization Of Certain Aspects Of Copyright And Related Rights In The Information Society*) ("Member state shall ensure that right holders are in a position to apply for an injunction against intermediaries whose services are used

In **Scarlet v. SABAM**³³⁷ and in **SABAM v. Netlog**³³⁸ for instance, the E.C.J. held that an injunction that would require either an ISP or an OSP to install at his own expense, for an unlimited period of time, a filtering system involving the active observation of all electronic communications passing via their services, in order to prevent any future infringement of any of the rights held by the claimants, would be at odds with the prohibition - laid down by article 15 of the e-commerce Directive - to impose a general monitoring obligations upon a service provider.

In contrast however, the court clarified that other injunctions (that would not have an overbroad character and that would strike a fair balance between the interests of right holders, intermediaries and the users) still remain widely available under EU regulation, notably under Recitals 45 and 47 of the e-commerce Directive, Article 8(3) of the Copyright Directive and article 11 of the Enforcement Directive³³⁹.

On this ground, some courts in Europe tend to impose on intermediaries a somewhat proactive duty to filter out recurring infringing activity or content³⁴⁰.

In **Twentieth Century Fox et al. v. British Telecommunications (BT) PLC**³⁴¹ for instance, the U.K. High Court ordered the main U.K. ISPs to block some of their customers' access to a content sharing platform where most of the content was unauthorized. In this case, the injunction was ordered by the U.K. Court because, differently from Scarlet, it targeted specific IP addresses and specific URLs and offered to use an existing (and therefore technically feasible) filtering system³⁴².

by a third party to infringe a copyright or related right. – See also Recital 59 (in many cases such intermediaries are best placed to bring such infringing activities to an end”).

³³⁷ Scarlet v. Sabam, E.C.J. case C-70/10, November 24, 2011. See TTLF newsletter n°1/2012 p. 6 (Béatrice Martinet, *ECJ declines to impose general filtering obligations upon social network operator*) for further details on this case

³³⁸ SABAM v. Netlog, E.C.J. case C-360-10 See TTLF newsletter n°2/2012 p.5 for further details on this case

³³⁹ See L'Oréal v. eBay, E.C.J. case C-324/09 at § 131-135 and Scarlet v. Sabam E.C.J. case C-70/10, at § 30-32.

³⁴⁰ See generally, ULYS *Study On The Liability Of Internet Intermediaries* (prec. note 90) at 48-49

³⁴¹ EWHC July 23, 2011, **Twentieth Century Fox, Universal, Warner Bros., Paramount, Disney, Columbia v. British Telecommunications PLC** (prec. note 319)

³⁴² See also EWHC, Feb. 20, 2012, **Dramatico Entertainment Ltd & others v British Sky Broadcasting Ltd &**

Likewise, in France, a dominant trend of case law, particularly in copyright law, is to consider that OSPs are subject to an obligation to prevent the recurrence of already notified infringing content, or at least to implement reasonable means to that end.

In **André Rau v. Google and Aufeminin.com**³⁴³ for instance, the Court of Appeal of Paris held that as a soon as it was put on notice of infringing content or activity, a hosting provider had the duty to implement all possible means to take down such content and avoid its future dissemination, notwithstanding that the new “posting” came from a different user³⁴⁴.

Similarly in the above mentioned **Zadig Productions v. Google Video**³⁴⁵ case, the Paris TGI held that despite being a host and having complied with all takedown notices, Google was liable for the new “posting” of an infringing video since it had failed to implement all technical means to avoid its further dissemination. Google was thus fined 30,000 Euros as a result of its failure to employ “targeted and temporary surveillance”.

This position was recently confirmed in **YouTube v. SPPF**³⁴⁶, where the Paris TGI held that hosting providers had the duty to implement all reasonable means to prevent the recurrence of content already notified as infringing. However, the Paris Court also clarified in this decision that the plaintiff had to collaborate with the intermediary on this process and exempted YouTube from all

others, determining in a preliminary proceeding that not only the users of the Pirate Bay but also the Pirate Bay itself were jointly liable for copyright infringement and remanding to a further proceeding on the question of the injunction asked against ISPs to block U.K. users’ to this website.

³⁴³ C.A. Paris Feb. 4, 2011, **André Rau v. Google and Aufeminin.com**,

³⁴⁴ See also C.A. Paris Jan. 4, 2011 (Four judgments), **Google Inc. v. BAC Films et al**, TGI Paris Oct; 9, 2009 **H & K SALR and M/A v. Google France, Google Inc and Aufeminin.com**; TGI Paris, Nov. 14, 2008. TGI Paris, Oct. 19, 2007 **J.Y. Lafesse et al. v. Youtube**; **Zadig Production v. Google Inc, Afa**;

³⁴⁵ See TGI Paris, Oct. 19 2007, **Zadig Production v. Google Inc, Afa** (prec.) (see supra note 297). (Google liable for subsequent posting of a video already notified as infringing). *Accord*, Paris Commercial Court, February 2008, **Flach Film v. Google France, Google Inc.**

³⁴⁶ **Youtube v. SPPF**, TGI Paris, Apr. 28, 2011.

liability as a result of the plaintiff's failure to use the technology implemented by YouTube to detect infringement (Content ID)³⁴⁷.

If preventive filtering certainly raises more technical and legal issues with regard to trademark than with regard to copyright - not the least because it is not possible to "fingerprint" a trademark and it can be harder to tell in advance whether a determinate use of a trademark is licit or not- some courts in Europe have nevertheless carved out some specific criteria or "red flags" (e.g. description, price, quantity, etc.) under which a service provider should pay additional attention to a determinate content or activity.

In **Ricardo v. Rolex and eBay v. Rolex**³⁴⁸ for instance, the German Federal Court ruled that a price inferior to 800 dollars for a Rolex should raise a red flag that the watch is likely to be counterfeit and consequently ordered eBay to filter out "obviously infringing" Rolex watches.

Likewise, in **LVHM v. eBay**, the French Court held that factors such as (i) multiple notices of infringement received from the right holder concerning the same kind of rights or content, (ii) description of the item as being a "copy or replica" as well as (iii) eBay's involvement in the promotion of these sales by way of sending unrequested advertising emails, should have raised sufficient awareness of infringement for eBay³⁴⁹.

In this later decision, the court further detailed the steps that eBay could have taken in order to prevent online infringement, including: (i) requiring the sellers to supply, upon request, the purchase

³⁴⁷ Cf. also C.A. Paris, ch. 4, sec. A. May 5, 2009, **Dailymotion v. Nord Ouest Production et al.**, clarifying that plaintiff could not complain about copyright infringement if it had declined to follow up on offers from Dailymotion to fingerprint its work, since such fingerprinting would have enabled Youtube to identify – and possibly take down – the disputed content.

³⁴⁸ See Bundesgerichtshof (BGH) [German Federal Court of Justice] Apr. 30, 2008, I ZR 73/05 **Ricardo v. Rolex, SA**, BGH, Apr. 19, 2007, I ZR 35/04 **Rolex, S.A. v. eBay GmbH** and BGH, March 11, 2004 IZR 304/01 **Rolex v. Ricardo**. In these cases, involving the massive sale of "fake Rolex" on eBay, the German Federal Court of Justice (BGH) held eBay liable for having failed to take effective measure to prevent the recurrence of clearly infringing offers on its site (such as offers including the word "fake" or "counterfeit" in their description and/or offers with such a low price that they likely concern counterfeit goods).

³⁴⁹ See also for a similar decision, Paris, Commercial Court (Sum. Judg.), July, 26 and Oct. 31, 2007, **Kenzo v. DMIS** (Vivastreet)

invoice or a certificate of authenticity of the products offered for sale, (ii) sanctioning any guilty vendor by finally terminating her account as soon as the breach was ascertained, or (iii) immediately withdrawing any illicit advertisement notified by the plaintiff.

In a parallel decision issued by the High Court of Justice and involving the same parties³⁵⁰, the English Court, albeit mentioning eBay had no general monitoring obligations, similarly outlined ten measures that eBay could have taken in order to curtail infringement (preventive filtering, restrictive selling conditions with regards to items most likely to be infringed, etc.) before referring the case to the E.C.J.

Unlike U.S. courts, some courts in Europe therefore tend to consider that the adequate response to awareness of infringing activity should not be limited to the sole action of taking down content upon notification of their infringing character and may specifically extend to targeted monitoring of already notified infringing content.

3.1.2.3 Absence of control requirement

The absence of control requirement is mentioned in both the DMCA and e-commerce Directive but has been, once again, interpreted in a rather inconsistent way.

³⁵⁰ U.K. High Court (EWHC), **Lancôme v. eBay**, (pending before the English High Court after ruling of the E.C.J.)

(a) Interpretation by EU courts of the absence of control requirement

Article 14(2) of the e-commerce Directive provides, in a somehow sibylline wording, that the hosting exemption “shall not apply when *the recipient of the service* is acting *under the authority or the control of the provider*”³⁵¹.

While the DMCA “control standard” requires the OSP not to exercise any control over the *infringing activity*, the “control standard” in the e-commerce Directive apparently requires the OSP not to exercise any control over its customer (*the recipient of the service*), which is a rather unlikely situation.

As a result courts in Europe have tended to downplay, reformulate and/or combine this “control standard” with other criteria.

For the E.C.J. notably, the relevant inquiry in order to determine whether a service provider is eligible under the hosting exemption is whether it has played “an *active role*” of such kind as to give it “*knowledge of or control over the disputed data*”, or rather has “confined itself to provide services neutrally by a merely technical and automatic processing of the data provided by its customers.”³⁵²

For the E.C.J., the absence of control requirement is thus a mere factor, to be combined with the knowledge standard, in order to assess the active or passive character of the role played by the service provider.

Likewise, domestic case law in Europe does not usually refer primarily to this criterion to determine whether a service provider may benefit from the hosting safe harbor.

³⁵¹ See Article 14 (2) of Council Directive 2000/31/EC

³⁵² See E.C.J. Joint Case C-236/08 and C-238/08 Google France and Google v. LVHM March 23, 2010 at 113 -114 and E.C.J. case C-324/09 L’Oréal v. eBay at 112-114 and 119 (prec.)

In **LVMH v. eBay**³⁵³ for instance, the Paris Court of Appeal, affirming a decision from the Paris Commercial Court, held that the “absence of control” inquiry should not depend on the service provider’s decision to effectively implement any monitoring tools, but should instead be determined in light of the nature of the service offered by this service provider. For the Paris Court, the inquiry is therefore not whether the service provider has the right and ability to control, but rather whether he *should* exercised such control in light of the commercial activity (and risks) it has chosen to carry on.

Even where the control standard is mentioned, it is typically combined with other standards, such as the “active role” or “knowledge” standard. In **Nord-Ouest Production v. Dailymotion**³⁵⁴ for instance the French Supreme Court held that the relevant inquiry should be whether the service provider has “*intellectual control*” over the information, thereby combining the control and knowledge standard.

(b) **Interpretation by U.S. courts of the absence of control requirement (under the DMCA and vicarious liability doctrine)**

In language apparently echoing the requirement for vicarious copyright liability, the DMCA provides that an online service provider is not eligible under the hosting safe harbor if it “receives a financial benefit directly attributable to the infringing activity in a case it has the right and ability to control such activity”.

³⁵³Paris Commercial Court June 30, 2008, **SA Louis Vuitton Malletier v. eBay Inc, eBay International AG; Parfums Christian Dior et al. v. eBay Inc, eBay International AG; Christian Dior Couture v. eBay Inc, eBay International AG** (aff’d by Paris Court of Appeal of Paris (Pole 5, ch. 2) Sept. 3, 2010.)

³⁵⁴ TGI Paris Jul. 13 2007, **Christian C., Nord Ouest Production v. Dailymotion, UGC Images** (prec. note 195)

As a result, the “absence of control” standard has been more central in the U.S. approach to OSP liability, especially under the common law doctrine of vicarious liability, where it finds its roots (i). Additionally, it might also be called to play a more important role under the DMCA in the years to come (ii).

(i) Absence of control requirement under the U.S. vicarious liability doctrine

In Lockheed Martin Corp. v. Network Solutions Inc., one of the first case to apply vicarious liability to the online environment, the court specifically held that regardless of whether the venue was online or not, the relevant inquiry, in order to assess whether a service provider should be held contributory liable for third party activity, was *the extent of control* exercised by the service provider over third party’s means of infringement. With that in mind, the court dismissed a trademark infringement claim raised against an Internet domain name registrar on the ground it has no *direct control and monitoring* over the instrumentality used by the third party to infringe the trademarks. Generally speaking, the control standard has been broadly interpreted under the common law doctrine of vicarious liability.

In **Fonovisa Inc v. Cherry Auction**³⁵⁵ for instance, the operator of a (physical) swap meet’s was found vicariously liable for third parties (vendors)’ infringing activity on the ground that it “exercised control” over these vendors (and reaped benefit from infringing activity). In this decision “control” was found on the mere ground that the operator had “the right to terminate the vendors for any reason”.

³⁵⁵ **Fonovisa Inc v. Cherry Auction** (9th Cir. 1996) (prec.)

Likewise, in **A&M Records Inc v Napster, Inc.**³⁵⁶, famous file-sharing platform Napster was held vicariously liable for infringement committed by its users because it was found to have the right and ability to control them (i.e. to block their access to any environment for any reason) and yet failed to use this ability to patrol its system³⁵⁷.

(ii) Absence of control requirement under the DMCA

Under the DMCA, the “absence of control” test has been interpreted in a sensibly narrower sense but may be called to play a more central role in the years to come.

In **UMG Recordings v. Shelter**³⁵⁸ for instance, the 9th Circuit affirmed the District Court decision that for Veoh to be held liable on the ground it had “control” over the infringing activity, the claimant had to show it had “specific knowledge” of the infringing activity. The Court clarified that “control” under the DMCA required “*something more*” than “mere ability to terminate users’ access as interpreted under the vicarious liability doctrine in *Napster*³⁵⁹.”

A similar interpretation was adopted by the Southern District of New York in **Viacom v. YouTube**³⁶⁰. However, this interpretation has since been reversed on appeal by the Second Circuit³⁶¹, holding that the Southern District of New York had “erred by requiring ‘item-specific’ knowledge of infringement in its interpretation of the “right and ability to control” standard under 17 U.S.C. § 512(c)(1)(B)”. In reaching this decision, the Second Circuit stressed that importing a

³⁵⁶ **A&M Records Inc v Napster, Inc.**, 239 F.3d (9th Cir. 2001) at 1023-24

³⁵⁷ See **A&M Records Inc v Napster, Inc (9th Cir. 2001)** (*prec.*) at 1027. But see Perfect 10 v. Megaupload, case No 11cv0191 - IEG (BLM) (SD Cal., July 26, 2011) (denying claimants’ vicarious liability claim against Megaupload on the ground that differently from Napster, Megaupload was not a closed system requiring user registration).

³⁵⁸ **UMG Recordings, Inc. v. Shelter Capital Partners LLC**, 667 F.3d 1022 (9th Cir. 2011) at 17

³⁵⁹ See *Napster* (*prec.*) at 1024.

³⁶⁰ **Viacom International Inc et. Seq. vs. Youtube (SDNY, 2010)** rev’d on this point by Viacom Int’l, Inc., Football Ass’n Premier League Ltd. v. YouTube, Inc. (2nd Cir. 2012) (see below)

³⁶¹ **Viacom Int’l, Inc., Football Ass’n Premier League Ltd. v. YouTube, Inc.** (2nd Cir. 2012), Docket 10-3270-cv (Apr. 5, 2012)

specific “knowledge” requirement into the “control requirement” would render this last requirement duplicative (of the knowledge requirement) and therefore superfluous³⁶². On the other hand, the Second Circuit also confirmed that the control standard under the DMCA required “something more” than this same standard under the common law doctrine of vicarious liability. The Court concluded that the control standard under the DMCA may be found where a service provider is “exerting substantial influence on the activities of users, without necessarily—or even frequently—acquiring knowledge of specific infringing activity”³⁶³.

Based on this decision, the DMCA “control standard” may therefore be called to play a more central role in the years to come.

3.1.2.4 **Absence of financial benefit requirement**

If the “control standard” is met, section 512(c)(1)(B) of the DMCA adds that the service provider can be denied hosting protection if it receives a direct financial benefit from infringing activity”³⁶⁴.

By contrast, the e-commerce Directive does not provide any condition disqualifying a service provider from protection under any safe harbor as a result of possibly receiving a benefit from infringing activity.

³⁶² *Id.* at 25 (“The trouble with this construction is that importing a specific knowledge requirement into § 512(c)(1)(B) renders the control provision duplicative of § 512(c)(1)(A).”)

³⁶³ *Id.* at 28

³⁶⁴ 17 U.S.C. § 512 (c)(1)(B)

(a) **Impact of the financial benefit standard on OSPs' liability
for EU courts**

Although it is not formally provided in the e-commerce Directive, the financial benefit criterion has been taken into consideration by many courts in Europe in the assessment of OSPs' liability for third party content.

In various occasions, French case law has for instance denied protection to service providers under the hosting safe harbor because, among other reasons, they were arguably reaping benefit from third party's infringing activities through e.g. subscription fees, percentage fees or advertising fees, whose amount could vary in function of the price or popularity of the infringing content³⁶⁵.

In many instances, courts reasoned that if a service provider was reaping increased benefit as a result of a specific content, it had to exercise control over such activity.

(b) **Impact of the financial benefit standard on OSPs' liability
for U.S. courts**

By contrast, U.S. courts have early on adopted a quite restrictive interpretation of the financial benefit requirement and tended to downplay its role.

³⁶⁵ See e.g. Paris Court of Appeal Sep. 3, 2010, **eBay Inc et al. v. Parfums Christian Dior et al** (prec.) (holding eBay liable for third party's infringing offers as a result of eBay's active role in "the promotion and orientation of such offers so that they may lead to an effective sale on which eBay will reap a percentage fee"). See also Cour de Cassation, Jan. 14, 2010, **Telecom Italia v. Dargaud Lombard and Lucky Comics** (holding Tiscali liable as a result of displaying (paying) advertising next to the infringing content); Cour de Cassation, Oct. 21, 2008, **Sedo v. Hotels Meridien et al.** (holding Sedo liable notably as a result of the commission reaped on the sale of infringing domain name); Cour de Cassation, Oct. 21, 2008 **Lafesse v. Myspace** (denying hosting exemption to Myspace because it reaped benefit from advertisement placed on the website every time the infringing video was seen). But see Cour de Cassation, Feb. 2, 2011, **Nord Ouest Production et al. v. Dailymotion** (prec.) (holding that advertising fees were irrelevant since it did not involve a control over the information).

In **Hendrickson v. eBay**³⁶⁶ for instance, the court held that because eBay did not have the right and ability to control infringing activity, there was no need to address whether it received “direct financial benefit” as a result of infringement. Similarly, in **UMG Recordings Inc et al v. Veoh Networks Inc et al**³⁶⁷, the court did not address the question of financial benefit since it had already dismissed MGM’s claim that Veoh had the ability to control infringing activity.

Even when they address this standard, U.S. courts tend to adopt a restrictive interpretation of “financial benefit”.

In **Viacom v. YouTube**³⁶⁸ for instance, the New York court reiterated the position expressed in the Senate’s Report on the DMCA³⁶⁹ that, in general, a service provider conducting a legitimate business will not be considered as receiving a “*financial benefit directly attributable to the infringing activity*” “where the infringer makes the same kind of payment as non-infringing users of the provider's service”. The court added, in line with the above-mentioned Report, that receiving a one-time set-up fee and flat periodic payments for service from a person engaging in infringing activities should not amount to receiving a financial benefit directly attributable to the infringing activity. By contrast, where the value of the service lies in providing access to infringing material, the court stressed that the service providers may be considered as reaping benefit from the activity.

In **Perfect 10, Inc v. CCBill LLC**, the 9th Circuit added that the relevant inquiry should be “whether the infringing activity constitutes a draw for subscribers, not just an added benefit”.

Under such interpretation, to be denied safe harbor protection under the “financial benefit” standard, a service provider should offer a service mainly or exclusively dedicated to infringing activity and

³⁶⁶ **Hendrickson v. eBay** (CD Cal 2001) (prec.)

³⁶⁷ **UMG Recordings, Inc. v. Shelter Capital Partners LLC**, 667 F.3d 1022 (9th Cir. 2011) at 15

³⁶⁸ **Viacom International Inc et. Seq. vs. Youtube (SDNY, 2010)** (prec.) (vacated on other ground by the 2nd circuit – see *Viacom Int’l, Inc., Football Ass’n Premier League Ltd. v. YouTube, Inc. (prec.)*)

³⁶⁹ See S. REP. 105-190 at 44-45

receive a payment as a result of this service. In such case however, it is likely that the service provider will be denied protection upstream, based on a knowledge or inducement standard.

As a result of such restrictive interpretation, the financial benefit criterion is likely to remain in the background in the United States, while it may become more essential in Europe (although it does not result from any specific text), through the broader “active role” test laid down by the E.C.J.

Like the conditions triggering liability under the special regime of liability, the conditions triggering liability outside this special regime of liability have been interpreted in a very different manner (3.1.3).

3.1.3 Standard of liability outside the special regime of liability in Europe and in the United States

Outside the specific regime of liability laid down by the DMCA and the e-commerce Directive, service providers can be liable for third party content either under the theory of vicarious and/or contributory liability in the United States, or under general tort rule, criminal liability or unfair competition in Europe³⁷⁰.

Here again, the outcomes of the decisions issued with regard to service providers’ liability in light of a regular regime of liability have been very different on both parts of the Atlantic.

In Europe, the traditional scheme of civil liability is indeed built around the idea that anyone is liable for the consequences of its activity. A service provider involved at any level in the commission of an infringement, be it for its own actions, omissions or negligence, will be, in many EU jurisdictions, typically expected to implement all possible means to put an end, and - to the

³⁷⁰ See development supra (part 2)

extent possible - prevent such infringement from happening again in the future. A failure to take such steps can thus result in a finding of liability under a regular regime of liability³⁷¹.

In **LVMH v. eBay** for instance, the Court of Appeal of Paris, affirming the Paris Commercial court, held eBay liable for a third party's infringing offers on the ground of its (i) failure to ensure that its activity did not generate illicit activity to the detriment of other companies and (ii) deliberate refusal to set up effective and appropriate measures to combat infringement.

By contrast, several decisions in the United States have exempted service providers from liability outside any specific regime of liability, merely by applying the common law doctrines of contributory and/or vicarious liability.

In **Tiffany v. eBay**³⁷² for instance, the Court of Appeal, applying the doctrine of contributory liability under the Inwood test, affirmed the Southern District of New York's decision to dismiss Tiffany's claim for contributory trademark infringement, on the ground that eBay's generalized knowledge that a portion of Tiffany's items sold on its website might be counterfeit was insufficient to impose upon eBay an affirmative duty to remedy the problem.

These two contrasting decisions issued in very similar circumstances reveal a fundamental difference of approach between U.S. and EU courts as regards the possible existence of a "duty of care" bearing on any businesses to make sure its activity does not prejudice another.

While in civil law countries, there is a long tradition under the doctrine of civil liability that anyone running an activity holds a broad duty to make sure its activity would not harm any third party³⁷³, in

³⁷¹ See e.g. Troyes First instance Court (TGI), June 4, 2008, **Hermes v. eBay** (aff'd by Reims Court of Appeal, July 20, 2010) (prec.) ; Paris Commercial Court June 30, 2008, **SA Louis Vuitton Malletier v. eBay Inc, eBay International AG; Parfums Christian Dior et al. v. eBay Inc, eBay International AG; Christian Dior Couture v. eBay Inc, eBay International AG (collectively: LVMH v. eBay)** (aff'd by Paris Court of Appeal, Sept. 3, 2010) (prec.) (showing that in most - if not all - decisions issued in France where a service provider was denied protection under a specific regime of liability, the service provider was found liable under a regular regime of liability).

³⁷² **Tiffany Inc. v. eBay Inc.** (S.D.N.Y, 2008) (aff'd by 2nd cir., 2010) at 470 (prec.)

³⁷³ See infra, Part 2 (civil liability). See also Recital 48 of Council Directive 2000/31 showing that this reasonable duty of care survives the exemption of liability laid down by the e-commerce Directive.

common law countries, operators of a commercial activity will not be typically held liable for causing harm to the commercial relations of another, except if this conduct is expressly prohibited by common law or statutes³⁷⁴.

These differences in the interpretation of the fundamental requirement conditioning liability within and outside the special regime of liability laid down by the DMCA and e-commerce Directive has led U.S. and EU courts to adopt different approaches towards identical or similar intermediaries.

3.2 Different approaches towards similar internet intermediaries

With the rapid development of the Internet industry, a vast range of new businesses, sometimes put under the umbrella of web 2.0 services³⁷⁵, have flourished on-line: search engine, online advertising, blogging and micro-blogging, file sharing, social network, news and other data aggregators, crowd source databases, online marketplaces, auction website, online payment, etc.

Although these services show a great variety of features, business models and functions, common to them all is that they are (i) providing “intermediary” services (such as “searching”, “aggregating”, “sharing”, “giving access”, “storing”, “displaying”, “organizing”, etc.) (ii) in relation to third party content (generated by an Internet user) (iii) to the benefit of a third party (end-user/recipient of the service).

³⁷⁴ See Restatement (Third) of Unfair Competition : Chapter One- The Freedom to Compete

³⁷⁵ The term “web 2.0” has been widely used to covers all services involving user contribution (search engine, auction website, aggregators, peer-to-peer platforms, tagging, blogging, bookmarking platforms, social networks, etc.) and came to the mainstream after Tim O’Reilly organized in 2004 the first “web 2.0 conference. See Tim O’Reilly, *What is Web 2.0? Design patterns and business models for the next generation of Software*, (COMMUNICATIONS & STRATEGIES, n°65, first Quarter 2007). This term has also been widely criticized as being unclear or already outdated and tend to be less used today (see web 2.0 entry in Wikipedia)

As such, they are all Internet intermediaries whose liability should be governed by similar regimes of liability in Europe and in the United States³⁷⁶.

Yet, different interpretations in the threshold conditions governing OSPs' liability within and outside the special regime of liability laid down by the DMCA and e-commerce Directive have led U.S. and EU courts to apply different solutions towards similar Internet intermediaries, involved in similar online activities.

Generally speaking, four broad categories of “intermediaries” have spawned the most case law in this respect: search engines and other information location tools (3.2.1), online marketplaces and auction websites (3.2.2), participative networked platforms (3.2.3) and peer-to-peer file sharing platforms (3.2.4)³⁷⁷. For each of these categories, U.S. and EU case law have adopted inconsistent solutions.

3.2.1 Search Engines and other linking intermediaries

The first category of Internet intermediaries to generate abundant case law in Europe and in the United States are ‘linking intermediaries’.

Linking intermediaries are service providers providing “hyperlinks” to third party content in order to organize or make such information more accessible to users. They notably include:

(i) search engines (such as Google, Yahoo! or Bing) and web portals³⁷⁸, (such as AOL, iGoogle, MSN or Yahoo!) - enabling anyone to “navigate” the Internet and retrieve information from the flow of content available online, via a system of “hyperlinks³⁷⁹” which refer to the most pertinent result.

³⁷⁶ I.e. either special regime of liability defined by the e-commerce Directive/DMCA if they are eligible under these regulations or regular liability for direct or indirect copyright or trademark infringement which are both similar in Europe and in the US (see supra part 2.)

³⁷⁷ This distinction is essentially made for didactic purpose since, in practice, a same service (e.g. search engine, blogging website, aggregators) will commonly fall under several categories (e.g. linking and participative networked platforms) (see Introduction, Part 1 Supra)

³⁷⁸ Portals are websites that function as a point of access to information in the World Wide Web. A part from the standard search engine feature, they offer services such as e-mail, news, information and entertainment. (see web portal

(ii) paid referencing services – offering any economic operator the opportunity to obtain, via the reservation of a keyword, the display of an advertising linking to its website, anytime an Internet user would type in this keyword in a request³⁸⁰.

(iii) image, data, news, RSS or feed aggregators - syndicating in one site, under pre-defined categories, content from multiple online sources, in the form of headings, thumbnails images, clips and/or incorporated videos, along with hyperlinks pointing to their original source³⁸¹.

Although these services are significantly different, in their features, characteristics and business models, their essential common characteristic is that they are essentially “linking” to third party content, most of the time through an automatic process and without prior monitoring³⁸².

U.S. and EU case law have however assessed their liability in different fashions, holding some of them liable for third party content, while exempting others from liability, either on the ground of a DMCA safe harbor, or on the ground of regular regimes of liability.

In line with the approach followed by the DMCA and the e-commerce Directive, the answer given by EU and U.S. courts as to whether these referencing services were liable for linking to third party content has varied according to the activity or function – surface linking/ mere linking (3.2.1.1), paid

entry in Wikipedia).

³⁷⁹ See Alain Strower and Bicky Hanley, *Secondary liability for copyright infringement with regard to hyperlink*, in PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW, Alain Strowel (2009) at 72 (defining hypertext link in a technical sense as “the html instructions that tell the browser to go to another document (external link) or another part of the document (internal link)” and in a customary sense as “the word(s) or image(s) used to inform visitors of the web page that they can follow a “link”, also called “pointer”). In this section, hyperlink is used in its customary sense.

³⁸⁰ In the most notable example of paid referencing service, Google Adwords, the advertising link appears under the heading “sponsored links” and is displayed either on the right-hand side or on the upper part of the screen.

³⁸¹ See e.g. Google images, Google news, Huffington Post, Digg, Pulse or MSN news just to name a few

³⁸² It is however important to bear in mind that these categories are not watertight and most of the time, a same service or activity (e.g. aggregators, tagging website) will fall under several categories (e.g. referencing service and UGC website)

referencing advertising (3.2.1.2) or framing, deep-linking or aggregating (3.2.1.3) - they were performing.

3.2.1.1 Search engine, surface linking and mere referencing services

The primary function of a search engine is to reference, by means of the use of “hyperlinks” - the existence and location of content. With the staggering growth of content available online, this function has early on become vital in order to navigate the Internet. After some hesitations, U.S. and EU cases now tend to shield linking intermediaries from liability when merely “referencing” third party content.

(a) U.S case law

In the United States, the essential role played by referencing services in the overall functioning of the Internet was acknowledged rather early on. Section 512(d) of the 1998 DMCA indeed provides a broad “information location tools” exemption - modeled after the hosting exemption - aimed at limiting the potential liability faced by referencing services when referring or linking users to potentially (copyright) infringing material”³⁸³.

As a result, in the United States, a referencing service will normally not face any liability for linking or referring a user to third party (infringing) content, unless it has actual knowledge or sufficient awareness of the existence and location of such infringing content and did not take any steps to disable access to it.

³⁸³ See 17 U.S.C. § 512 (c) 512(d)

(b) EU case law

By contrast, the e-commerce Directive does not mention any exemption specifically relating to the function of “linking”³⁸⁴.

As for EU case law, the only decision issued by the E.C.J. regarding search engines and/or referring services’ liability involves the specific activity of a paid referencing service³⁸⁵.

As a result, legislations and case law regarding the liability of referencing services (or location tools) are still very fragmented in Europe³⁸⁶. In particular, while some countries have adopted specific legal exemptions to the benefit of hyperlink providers, modeled after the mere conduit³⁸⁷ or hosting³⁸⁸ exemption, other countries have elected not to mention this category at all³⁸⁹, leaving national courts with the task to decide, on a case by case basis, whether to impose liability on such service providers.

In an effort to provide some degree of harmonization, the E.C.J. in *Google France and Google v. LVMH*³⁹⁰ recently ruled that referencing service providers such as Google should in principle be eligible under the hosting exemption, except if they play “an active role of such kind as to give them knowledge of, or control over the data stored”³⁹¹. As far as their activity of “web-linking” or “mere

³⁸⁴ See article 21 of Council Directive 2000/31/EC mentioning that this question will be the subject of a further report to be submitted to the European Parliament, the Council and the Economic and Social Committee.

³⁸⁵ Cf. E.C.J. Joined Cases n°C-236/08 and C-238/08 *Google France and Google v. LVMH* (prec.)

³⁸⁶ See Joris van Hoboken, *Legal Space For Innovative Ordering: On The Need To Update Selection Intermediary Liability In The E.U.*, 13 INT’L J. COMM. L. & POL’Y 49 (Winter 2008/2009); see WIPO Study, *Role and responsibility of Internet Intermediaries* (prec. supra note 19)

³⁸⁷ See e.g. Austria

³⁸⁸ See e.g. Spain

³⁸⁹ See e.g. France, Germany and the U.K.. In the U.K., specifically, the U.K. Department of Trade and Industry conducted a review on whether the existing safe harbors should be extended to providers of hyperlinks, location tools and content aggregation services and concluded that this issue should be dealt at a E.U. level (by the European Commission) rather than at a national level..

³⁹⁰ Involving Google’s paid referencing services “Adwords”,

³⁹¹ E.C.J. C-236/08 and C-238/08 *Google France and Google v. LVMH* (prec.), at 111-114

referencing”³⁹² is concerned, search engines should thus be largely exempted from liability in Europe³⁹³ to the extent they remain neutral in the referencing of third party content.

Yet, the situation is far more controversial for other activities also played by search engines and other linking services.

3.2.1.2 Paid referencing services

A significant proportion of the cases involving referencing services’ liability have arisen in Europe and in the United States, in connection with Google’s Adwords Program and more specifically in situations where an Internet user had bought as a sponsored link, a trademark owned by one of its competitor, in order to trigger an advertisement to her own benefit³⁹⁴. The question as to whether such use can constitute trademark infringement has led to different outcomes in Europe and in the United States.

(a) U.S. case law

In the United States, such sale by an advertiser of a sponsored link identical to a third party trademark has raised three essential question pertaining to whether such use was (i) a use in commerce in the sense of the Lanham Act (ii) likely to cause consumer confusion and (iii) likely to be covered by a fair use exception.

³⁹² i.e. referencing of websites by means of hyperlinks, algorithmically ranked in descending order of relevancy in response to search terms entered by Internet users

³⁹³ See Alain Strower and Bicky Hanley, *Secondary liability for copyright infringement with regard to hyperlink*, (prec. note 379), at 77

³⁹⁴ Recent case: *Trademark law, Infringement Liability: European Court of Justice holds that search engines do not infringe trademarks – joined cases C-236-08, C 237/08 & C-238/08, Google France SARL v. Louis Vuitton Malletier SA, 2010, E.C.J.*, 214 HARV. L. REV. 648

As regard the first question, after some hesitations³⁹⁵, U.S. case law now tends to consider, notably after *Rescuecom Corp v. Google*³⁹⁶, that such use is indeed “use in commerce” in the sense of the Lanham Act.

However, most U.S. courts are still reluctant to find that such use would be likely to cause consumer confusion as to the source of the product³⁹⁷, especially when the trademark is only reproduced in the sponsored link itself, rather than in the text of the advertisement³⁹⁸.

Finally, some U.S. courts have found that such use may be covered by fair use. In *Tiffany v. eBay*³⁹⁹ for instance, the Court of Appeal for the second circuit held that although eBay’s use of Tiffany’s mark in its advertising, on its homepage, and in sponsored links purchased through Yahoo! and

³⁹⁵ **1-800Contacts, Inc. v. WhenU.com**, 414 F.3d 400 at 409 (2d Cir. 2005) (holding that the use of a trademark in keywords and metatags, where the use is strictly internal and not communicated to the public, does not constitute “use” under the Lanham Act) (rev’g S.D.N.Y. 2003); **Site Pro-1 inc v. Better Metal, LLC** (holding that where there is neither a link to defendant’s website, nor do the surrounding text mention plaintiff or plaintiff’s trademark, there is no trademark infringement in purchasing a sponsored link); **Frangrancenet.com Inc v FrangranceX.cil Inc, Merck & Co** (holding that such use is not a use for trademark purpose as it does not involve placement of the trademark on any goods or containers or displays and it does not indicate source or sponsorship);

³⁹⁶ **Rescuecom Corp. v. Google Inc.**, 562 F.3d 123 (2d Cir. 2009), (rev’g S.D.N.Y. 2006) (holding that differently from WhenU’s pop-up advertising practices, Google’s recommendation and sale of Rescuecom’s mark as a keyword is not internal and can thus constitute use as a trademark and remanding the case on the determination of a possible risk of confusion).

³⁹⁷ See **GEICO v. Google**, 330 F.Supp.2d 700 (E.D. Va. 2004); **Rosetta Stone v. Google No 1:09cv736**, (E.D.Va, 2010), **JG Wentworth SSC ltd Partnership v. Settlement Funding LLC**, WL 30115 (E.D. Pa. 2007) (keywords’ purchase is a use in commerce but does not create any likelihood of confusion). But see **Rosetta Stone v. Google** (4th Cir., April 9, 2012), reversing, in significant part, the U.S. District Court for the Eastern District of Virginia for its apparently hasty summary judgment order in favor of Google and remanding the case for further analysis.

³⁹⁸ Although there are still diverging opinions on this issue: see **Playboy Enterprises, Inc v. Netscape Communications Corp**, 345 F 3d 1020 (9th Cir. 2004) (remanding the case for a determination on likelihood of consumer confusion, in light of a survey offered to show that most users believe such ad come from the company that owns the trademarked search term); **Flow Control Industries Inc. v. AMHL Inc.**, 278 F. supp. 2d 1193 (W.D. Wash. 2003) (finding metatags in a website to be infringing because they diverted traffic from the competitor’s site to that of the infringer); See generally, Andre R. Jaglom, *Internet Distribution, E-Commerce And Other Computer Related Issues: Current Developments In Liability On Line, Business Method Patents And Software Distribution, Licensing And Copyright Protection Question*, ALI-ABA COURSE OF STUDY AND MATERIALS (JUNE 2010) at 109 and Lauren E. Sims, *When Enough Control Is Not Enough, The Conflicting Standards Of Secondary Liability In Rosetta Stone*, 26:1 BERKELEY TECH. L. J., 655

³⁹⁹ See **Tiffany Inc. v. eBay Inc.** (S.D.N.Y 2008) (prec.) (holding that eBay’s use of Tiffany’s trademarks in its advertising, on its homepage, and in sponsored links purchased through Yahoo! and Google, is a protected, nominative fair use.)

Google was an actionable use under the Lanham Act, such use was covered under the fair use exception.

In the United States, providers of paid referencing services hence face a rather limited risk of liability, at least in most U.S. jurisdictions, for selling keywords identical to third party's trademarks as sponsored links⁴⁰⁰.

(b) EU case law

By contrast, this same activity has been considered as trademark infringement in various European countries⁴⁰¹, at least until recently.⁴⁰²

In Europe, the landmark decision concerning paid referencing services liability is **Google France and Google v. LVMH**⁴⁰³.

This case arose after French fashion designer Louis Vuitton discovered, back in 2004, that Google was selling its trademarks as “advertisement triggers” to third parties, including counterfeiters of its products. At trial level and on appeal, the Parisian courts found Google liable for trademark infringement, unfair competition and misleading advertising as a result of its offering to its customers the opportunity to select Louis Vuitton's trademark, both as standalone keywords and/or in combination with words such as “replica” and “copy” (such words being additionally suggested

⁴⁰⁰ However, the role possibly played by the reference services in the choice or suggestion of the keyword may have an impact on their liability. See e.g. in **Rosetta Stone v. Google** (prec.), in granting summary judgment for Google, the district Court of Virginia not only held that the sponsored link containing the plaintiff's mark were unlikely to cause consumer confusion, but it also emphasized the fact that Google had not actively attempt to influence or encourage third parties to bid on trademarked terms in keyword auctions.

⁴⁰¹ See notably French case law prior to E.C.J. case Google France and Google v. LVMH (e.g. **Société Luteciel v. Google France**, TGI Nanterre Oct. 13, 2003, **Google France v. Louis Vuitton Malletier**, Paris Court of Appeal, June 28, 2006; **GIFAM v. Google**, TGI Paris, 2006, all holding Google liable for selling trademarked sponsored links to third party, without checking whether the advertisers were authorized to use such trademarks). This case law was said to have been overruled by E.C.J. case law Google France and Google but French law has held Google liable for its practice of selling trademarked words as adWords to competitors of their legitimate owners in several decisions since then (see infra).

⁴⁰² See Google France and Google v. LVHM, E.C.J. C-236/08 and C-238/08 (prec.) and development infra.

⁴⁰³ Google France and Google v. LVHM, E.C.J. C-236/08 and C-238/08 (prec.)

in its “keyword suggestion tool”). Google was subsequently ordered to pay almost 300,000 Euros in damages and therefore appealed the decision to the French Supreme Court (Cour de Cassation), which referred the issue to the E.C.J.

In its **Google France and Google** decision of March 23, 2010, the E.C.J. analyzed Google AdWords’ services as two separate uses: (i) first, a use made by Google consisting in the sale of a sponsored link to an advertiser (including services such as the storage of the keyword and the organization of the display of the client’s ad on the basis of that keyword) and (ii) second, a use made by the advertiser, consisting in the selection, purchase and use of a sponsored link to trigger an advertisement to her own benefit⁴⁰⁴.

The court further held that while the use attributable to Google was not *use in the course of trade* (in the sense of the Trademark Directive), since Google did not use the sign in its own commercial communication⁴⁰⁵, the use of the trademark made by the advertiser fell within the concept of “use in the course of trade” since it was meant to designate similar products and services in the course of trade. The court thus concluded that the trademark owner was only entitled to bar this second use, where such use had an adverse effect on one of the functions of the trademark, in particular the “indicating origin” function. Such adverse effect, further explain the court, may specifically occur where the ad in question “does not enable an average user, or enabled that user only with difficulty, to ascertain whether the goods or services referred to therein originates from the proprietor of the trademark or an undertaking economically connected to it or, on the contrary, originated from a third party.”⁴⁰⁶,

⁴⁰⁴ Google France and Google v. LVHM, (prec.) at 46.

⁴⁰⁵ Id at 54-56. See generally, *Recent Case: Trademark Law, Infringement Liability, European Court Of Justice Holds That Search Engines Do Not Infringe Trademarks* (prec.) criticizing the condition pertaining to a use being made in the defendant’s own commercial communication as deprived of legal basis.

⁴⁰⁶ See Google France and Google v. LVHM, (prec.) at 83-84. See also E.C.J. cases C- 558/08 Portakabin (2010) (at 34) and C-323/09 Interflora (2011) (at 44)

In a second part of its decision, the court then moved on to examine whether Google could be held (contributory) liable, as a service provider, for the potentially infringing activity carried out by its customer.

The court first stressed that Google - when carrying on its paid referencing service - was essentially storing - i.e. holding in memory on its server - certain data such as the keyword selected by the advertiser, the advertising link and the accompanying commercial message⁴⁰⁷. As such, Google had to be considered a hosting provider.

In order for Google, as a hosting provider, to be eligible under the special regime of liability laid down by the e-commerce Directive, the court stressed that its role had to remain “neutral”, i.e. “of a mere technical, automatic and passive nature”, “[i]mplying that it had neither knowledge of nor control over the information which was transmitted or stored”⁴⁰⁸

To that extent, the court clarified that while circumstances such as receiving payment for its service, setting the payment terms, or providing general information, should not deprive the sponsored link provider from the hosting exemption, the role it may play (i) in the drafting of the commercial message accompanying the sponsored link or (ii) in the establishment or selection of the relevant keyword, could be relevant in order to determine whether it had played an “active role” and therefore whether it was eligible under the hosting exemption⁴⁰⁹.

In fact, even after this decision was issued, courts in Europe are still divided on the issue as to whether paid referencing services should be liable when selling third party’s trademarks as a sponsored link.

⁴⁰⁷ *Id.* at 111

⁴⁰⁸ *Id.* at 112-114

⁴⁰⁹ *Id.* at 116-118

In **Google v. Syndicat Français de la litterie**⁴¹⁰ for instance, the Paris Court of Appeal exempted Google from any liability as a “hosting provider”, on the ground that it was not established that Google had exercised control in the selection of the keyword made by the advertiser. The court thus concluded that it could not be deemed to have played an *active role* in the drafting of the commercial message or in the establishment or selection of keyword. Likewise, in **Google France v. Jean-Baptiste D.V. et al.**, the Court of Appeal of Lyon⁴¹¹ held, in line with the E.C.J. position, that Google was not making use of a trademark when merely offering trademarked keywords as sponsored links.

But In **Cobrason v. Google**⁴¹² also ruled after the E.C.J. decision, the Paris Court of Appeal upheld a judgment from the Paris commercial court holding Google contributory liable for unfair competition, misleading advertising and illegal comparative advertising, for having displayed in its Adwords programs and on its search page, the plaintiff’s trademarks and domain name. In holding against Google, the court held that it had thereby contributed to the confusion generated on the part of the public.

Issued on the ground of the general theory of tort (*responsabilité civile*), this decision did not consider Google’s liability under the e-commerce safe harbor. Yet, it shows that selling branded keyword as sponsored links is still an activity potentially giving rise to liability in some EU countries, even after the Google France decision.

Moreover, even in the light of the e-commerce Directive, the “neutral role” criteria set by the E.C.J. to determine whether a service provider may be eligible under the hosting provisions may have introduce more controversy than harmonization in member states’ case law. To that extent, some

⁴¹⁰ Paris Court of Appeal, Nov. 19, 2010, **Google at al. v. Syndicat Français de la litterie**.

⁴¹¹ C.A. Lyon (FR) March 22, 2012, **Google v. Jean-Baptiste D.V. et al**

⁴¹² C.A. Paris May 11, 2011, **Cobrason v. Google, Inc, Google France & Home Ciné Solutions**.

courts in Europe have already used this standard to deny safe harbor protection to some referencing services, because they were arguably playing an “active role”.

In **Olivier Martinez v. Google and Prisma Presse**⁴¹³ for instance, a Paris trial court (TGI), applying the principles laid down by the Court of Justice in *Google France*, denied safe harbor protection to Google with respect to its AdWords program, on the ground that it would arguably play an active role when *controlling* the choice of its sponsored links. In reaching this outcome, the Paris Court analyzed Google’s terms of use providing Google’s “power and ability to reject or withdraw any advertising message”. At the same line, a French commercial court has also held Google liable for suggesting the word “scam” next to the defendant name⁴¹⁴.

Although these cases were held to respectively involve violations of privacy under article 9 of the French Civil Code and disparagement under article 1382 of the French Civil Code (rather than copyright or trademark infringement), it shows how the “active role” criteria can give rise to different interpretations before different courts.

Diverging interpretations have also arisen as to the liability faced by service providers offering RSS, links and other data aggregators and/or deep-linking or embedding third party content

3.2.1.3 Deep-linking, Framing, Embedding and/or Aggregating third party content

With the development of new tools and technologies in the Internet industry, new services involving the framing⁴¹⁵, deep linking⁴¹⁶, embedding⁴¹⁷ and/or aggregation of user-generated content have

⁴¹³ TGI Paris Nov. 14, 2011, **Olivier Martinez v. Google and Prisma Press**, available in French at legalis.net

⁴¹⁴ Paris Commercial Court, May 7, 2009, **SA Direct Energy v. Google**.

⁴¹⁵ i.e. presenting the content of another site’s web page (linked website) inside the frame of one’s site (linking website)

progressively sprung up on the Internet. Once again, the position of U.S. and EU case law as regard the liability of these services providers for such activity has been rather inconsistent.

(a) **U.S. case law**

In line with the innovation-friendly approach expressed in the U.S. Constitution I.P. clause⁴¹⁶, U.S. courts have generally welcomed the development of such new technologies, including when they involved the reproduction or aggregation of infringing content.

In **Kelly v. Arriba Soft Corp**⁴¹⁹ for instance, the Ninth Circuit held that the (unauthorized) display by a search engine of smaller, lower resolution, thumbnails of third party's images was covered by a fair use exception. In reaching this conclusion, the court held that such use was highly transformative since it served a different function than the one of the original images, in that the thumbnail images were aimed at improving access to information, while the original images had an artistic and informative purpose. The Court also took the view that such use might in fact not cause any harm to the plaintiff since the hyperlinks procured by the search engine increased the number of visits to the original site.

Likewise, in **Perfect 10 v. Amazon**⁴²⁰ the Ninth Circuit held that Google's framing and hyper-linking practices (thumbnails), as part of its image search engine, constituted fair use of Perfect 10's images, despite the fact that such use could partially supersede Perfect 10's use of its own image (notably Perfect 10's sales of reduced-size images for use on cell phones). In reaching this

⁴¹⁶ i.e. a link connecting an Internet user directly to an interior page (i.e. other than the homepage) of another website

⁴¹⁷ i.e. inserting an element (such as an image, a graphic or logo) from another web page (linked website) directly into one's website (linking website). See generally, Alain Strower and Bicky Hanley, *Secondary liability for copyright infringement with regard to hyperlink* (prec.) at 72-73

⁴¹⁸ cf. Article I, section 8 of the U.S. Constitution, known as the "copyright clause" (empowering the Congress "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. ")

⁴¹⁹ *Kelly v. Arriba Soft Corp.*, 336F.3d 811 (9th Cir. 2003) at 818-819

⁴²⁰ *Perfect 10 v. Amazon*, 508 F 3d 1146 (9th cir., 2007)

conclusion, the court considered not only that Google's use was arguably "transformative in nature" (in that it globally served a different function than Perfect 10's use of its own images), but also stressed that Google's search engine's promoted the purposes of copyright and served the interests of the public⁴²¹.

In its recent decision **Perfect 10 v. Google**⁴²², the 9th Circuit dismissed again Perfect 10's motion for a preliminary injunction against Google for its Google image, caching and blogging services, as well as its practice to forward the plaintiff's takedown notices to the "chilling effects" website, on the ground that Perfect 10 had not shown that it was likely to suffer irreparable harm in the absence of such relief.

If U.S. courts have endeavored to shelter most of the new functions performed by linking services under one of the DMCA safe harbor or under a broad interpretation of the fair use exception, EU courts, in contrast, have in various instances held these same providers liable for copyright infringement in similar circumstances.

(b) EU domestic case law

In **Google v. Copiepresse**⁴²³ for instance, the Brussels Court of Appeal⁴²⁴, affirming a lower court decision, held Google liable as a result of its (i) copying and making available to the public in its "cache memory" copies of copyrighted articles and (ii) reproducing under its "Google News" section, headlines and relevant excerpts (snippets) from these articles. For the Brussels court, such snippets, reproducing relevant portions and/or summarizing in few sentences the content of third parties' copyrighted articles, harmed a normal exploitation of these works in that they could

⁴²¹ Perfect 10 v. Amazon (prec.) at 1166

⁴²² Perfect 10 Inc. v. Google Inc., No. 10-56316 (9th Cir. 2011)

⁴²³ Brussels Court of Appeal, May 5, 2011, Google v. Copiepresse. See TTLF newsletter n°3/2011 p.9 for further details on this case (Béatrice Martinet, *Belgian court upholds Google News copyright infringement*)

⁴²⁴ See generally Joseph M. Beck, and Allison M. Scott, *Digital-age claims for old-world* (prec.).

arguably “substitute”- or at least exempt the reader from reading – such original works. The court further held that Google could not rely on the hosting exemption of the e-commerce Directive since (i) its liability resulted from its own practice of selecting and copying excerpts of copyrighted article (and not from third party’s content) and (ii) Article 21 of the e-commerce Directive would in any case exclude search engines from these safe harbor provisions.

Likewise, in **Danish Newspaper Publishers Association v. Newsbooster**⁴²⁵, involving a similar news aggregator service, the Bailiff’s court of Copenhagen held service provider Newsbooster liable for copyright infringement. However, in landmark case **Home A/S v. Ofir A-S**⁴²⁶ issued two years later, the Danish Maritime and Commercial Court ruled that deep linking, systematic crawling and indexing by the portal site Ofir, of the real estate agent’s database did not constitute copyright infringement. In reaching this conclusion, the Danish Court notably stressed the importance of search engine in the access to information and in the global functioning of the Internet.

A similar solution was issued in the German landmark case **Paperboy**⁴²⁷, involving a similar news aggregator service, where the German Federal Supreme Court held that the activities of a search engine consisting of linking, hyper-linking and deep-linking to works already made available by their author, in order to facilitate access to such work, did not infringe the right of the copyright owner. Differently from the Belgium court in *Copiepresse*, the German court hence held that neither the hyperlink, nor the reproduction of short fragments of the copyrighted articles could amount to copyright infringement since the link merely consisted of an (unprotected) Internet address indicating the location of such articles and in some instances, fragments of articles, too insubstantial to benefit from the protection of literary works.

⁴²⁵ **Danish Newspaper Publishers Association v. Newsbooster**, Bailiff’s Court of Copenhagen, July 5, 2002, (partial) translation in English available here

⁴²⁶ **Home A/S v. Ofir A-S**, Danish Maritime and Commercial Court, February 24, 2006

⁴²⁷ BGH July 17, 2003, case IZR 259/00, **Paperboy**, decision available in German on BGH's website

Likewise, in **Vorschaubilder I**⁴²⁸, involving Google’s image search services, the German Federal Court shielded Google from liability for copyright infringement on the ground that right owner would have “implicitly consented” to have their photos indexed by Google since they had not used the option to “de-index” their picture from Google search. This decision was recently affirmed in **Vorschaubilder II**⁴²⁹ even though the original photos in this case had been downloaded by third parties, rather than the right holder himself.

In the U.K., referencing services have also been largely shielded from liability for merely referring to illicit material⁴³⁰

By contrast, in Italy, the mere referencing by Google on its *Google video* service, of a video featuring three boys bullying one of their classmates with Down syndrome (and arguably, the lack of a sufficient response from Google after learning of the existence of the video) led to the criminal conviction of three Google’s senior executives⁴³¹. Although this case - based on data protection violation rather than copyright or trademark infringement – did not raise the question of Google’s eligibility under the e-commerce safe harbor, it highlights a very different approach from Italian courts (compared to U.S. courts for instance) towards new technologies.

French courts were also traditionally more suspicious than their U.S. counterparts of new technologies involving the (unauthorized) reproduction, aggregation and/or deep-linking to third party content. However, after some hesitations⁴³², French courts now tend to consider that reference

⁴²⁸ BGH Apr. 29, 2010, case I ZR 69/08, **Vorschaubilder I**, at 11-12, decision available in German at <http://www.bundesgerichtshof.de>. See generally, Martin Senftleben, *Bridging the differences between copyright’s legal traditions* (prec.) at 537-538

⁴²⁹ BGH Oct. 19, 2011, case I ZR 140/10 **Vorshaubilder II** (for a comment in English on this decision see TTLF newsletter 6/2011 Nov. 4, 2011)

⁴³⁰ See e.g. EWHC 2009, **Metropolitan International School v. Design Technica**, at 97 et seq. (involving a defamation claim brought against Google and Design Technica Corporation for allegedly defamatory remarks made about the Metropolitan International School. The Court held that Google, as the operator of a search engine, was not a publisher and could therefore not be held liable for content that may have been defamatory.

⁴³¹ Milan, Feb. 24, 2010, **Pubblico Ministero v. Drumond et al.**

⁴³² See TGI Paris, March 2008 **O. Martinez v. Bloobox.net** (fuzz.fr) (qualifying Bloobox.net as a publisher and holding it liable for copyright infringement) (rev’d by C.A. Paris Nov. 21, 2008); TGI Paris, 2009, **Eva Herzigova v. Société de**

services engaging in deep-linking, framing or aggregation of third party content are generally eligible under the hosting exemption⁴³³. Yet, French courts still consider that they should nonetheless be subject to specific monitoring obligation, notably to prevent the recurrence of (already “flagged”) infringing content.

In **André Rau v. Google & Aufeminin.com**⁴³⁴ for instance, involving Google image services, the Paris Court of Appeal ordered Google to take all necessary means to prevent further dissemination of infringing content that has already been the subject of a prior notification. The Court clarified that the fact that such content had been posted by a different user was irrelevant to the extent that the content was the same.

Likewise, in **Google Inc. v. Bac films, the Factory et al**⁴³⁵, involving Google video services, the Paris Court of Appeal held that if Google was eligible under the hosting exemption when merely linking to third party’s videos, it was in fact liable under a regular regime of liability when embedding in its own website an infringing video. The court further clarified that even as a hosting provider, Google was subject to an obligation to implement all possible means to avoid further dissemination of infringing material.

conception de presse et d’édition (holding a news aggregator liable for copyright infringement); TGI Nanterre, Feb. 2008, **Dahan v. Eric Duperrin (les pipoles.com)** (qualifying a news aggregator as a publisher on the ground that it was allegedly carrying out editorial choices and reaping (advertisement) benefit from the reproduction of these articles;) O Dahan v. Aadsoft Com (Dicodunet) qualifying data aggregator Dicodunet as a publisher of an online communication service, liable for violation of privacy

⁴³³ Cour de Cassation Feb 2017, **O. Martinez v. Bloobox.net**, (aff’g C.A. Paris Nov. 21, 2008); TGI Paris, 2009, O **Dahan v. Wikio** (RSS feed aggregator) not liable; **LVMH - SAIF v. Google France** (Google image) (Jan 2011) (service providers eligible under safe harbor limited liability).

⁴³⁴ **André Rau v. Google & Au féminin.com**, Paris, Court of Appeal, Feb. 5, 2011 (aff’g TGI Paris 3e ch. 2nd section, Oct. 9, 2009, **H&K SARL and M.A. v. Google France and Google, Au féminin.com**)

⁴³⁵ Paris Court of Appeal Jan. 14, 2011. **Google Inc. v. Bac Films, The Factory et al.** (prec.)

This solution was also adopted by the Paris Commercial Court in **Flach Film & Les Editions Montparnasse v. Google France**,⁴³⁶ involving the new posting of an unauthorized copy of the documentary “*Le monde selon Bush*” (*The world According to Bush*) on Google’s video services. Similar divergences in opinion have arisen in Europe and in the United States as regard the status and liability of online marketplace and auction website.

3.2.2 Online marketplace and auction website

The divergence in approaches and outcomes to the question of the status and liability of online marketplace and auction websites are a good illustration of the lack of consistency of U.S. and EU case law in this regard⁴³⁷.

3.2.2.1 U.S. case law

In the United States, the question of the eligibility of auction websites under the DMCA safe harbor provisions arose shortly after the enactment of the DMCA. In **Hendrickson v. eBay**⁴³⁸, involving the sale by a third party of an unauthorized copy of Hendrickson’s documentary movie, the court

⁴³⁶ TC Paris Feb. 20, 2008, **Flach Film & Les Editions Montparnasse v. Google France, Google Inc.**

⁴³⁷ Philip A. Rosenberg, *Note And Comment: A Legislative Response To Tiffany V. Ebay In Search Of An Online Commerce Certification Act (OCCA)*, RUTGERS COMPUTER AND TECHNOLOGY LAW JOURNAL (2009); Olivia M. Fleming, *Oh La La!, How Will The Polarized Decisions Of The U.S. And France Regarding The Responsibility For Policing Trademarks On Online Auction Sites Be Synthesized?*, INDIANA INTERNATIONAL & COMPARATIVE LAW REVIEW; Shanna Bailey, *Fighting An Anonymous Enemy: The Uncertainty Of Auction Sites In The Face Of Tiffany V. Ebay And LVMH V. Ebay*, 40 CAL. W. INT’L L.J. 129; Ellie Mercado, *Note And Recent Development, As Long As “It” Is Not Counterfeit: Holding Ebay Liable For Secondary Trademark Infringement In The Wake Of LVMH And Tiffany, Inc.*, 28 CARDOZO ARTS & NET LJ 115; Todd Evan Lerner, *Playing The Blame Game Online: Who Is Liable When Counterfeit Goods Are Sold Through Online Auction Houses*, 22 PACE INT’L L.REV. 241; Philip A. Rosenberg, *A Legislative Response To Tiffany V. Ebay: In Search Of An Online Commerce Certification Act (OCCA)* 36 RUTGERS COMPUTER & TECH L.J.99; Brandon Peene, *Lux For Less: Ebay’s Liability To Luxury Brands For The Sale Of Counterfeit Goods*, 40 SETON HALL L. REV. 1077; Matthew C. Berntsen, *Knowledge And Misfeasance: Tiffany V. Ebay And The Knowledge Requirement Of Contributory Trademark Infringement*, 16 B.U. J. SCI & TECH. L. 102; Kate Goldwasser, *Knock It Off: An Analysis Of Trademark Counterfeit Goods Regulation In The United States, France And Belgium*, 18 CARDOZO J. INT’L & COMP. L. 207

⁴³⁸ **Hendrikson v. eBay** (CD Cal, 2001) (prec.)

was asked to determine, notably, whether eBay should be held secondary liable for copyright infringement for the sale of infringing goods performed by third parties (sellers) on its website and/or whether it was covered by one of the DMCA safe harbor when acting in its capacity as an auction website. The Central District of California first held that there was “no dispute” that eBay qualified as an “internet service provider” within the meaning of section 512 of the DMCA. The Court then clarified that because eBay did not have the right and ability to control the infringing activity performed by its users, eBay could not be held liable for such infringement, regardless of whether it could have received a “direct financial benefit” as a result of such infringement (through the percentage fee earned on each infringing good sold on its website for instance).

The same question was raised again in the United States in 2004, in the context of a trademark infringement (and therefore outside the scope of the DMCA).

In **Tiffany v. eBay**⁴³⁹, Tiffany brought an action against eBay after noticing that hundreds of thousands of counterfeit pieces of silver “Tiffany” jewelry had been sold on eBay⁴⁴⁰. Despite its efforts to curtail counterfeit operations⁴⁴¹ and despite eBay’s cooperation in removing each infringing listing upon reception of a notice of claimed infringement (NOCI)⁴⁴², the infringing activity did not decrease⁴⁴³. Tiffany therefore asked eBay to take further steps⁴⁴⁴- including

⁴³⁹ **Tiffany Inc. v. eBay Inc.** (S.D.N.Y., 2008), 576 F Supp 2d 463, 506 at 470 (aff’d by 2nd cir., Apr. 1, 2010, No. 08-3497 cv. 2010 ML 1236315 (prec.))

⁴⁴⁰ *Id.* (mentioning that, according to samples purchases realized by Tiffany in 2005, 73% of silver pieces of jewelry sold on eBay were arguably counterfeits).

⁴⁴¹ *Id.* (stressing that between 172-240 man hours (1,6 full time) per month were devoted to monitoring and reporting infringement on eBay only.)

⁴⁴² *Id.* (clarifying that eBay also took additional steps to stop the sale of counterfeit goods such as sending warning messages, manually reviewing some listings, implementing some Tiffany specific filters, delaying offers including Tiffany brands in order to manually review them, implementing quantity filters that flagged listing offering multiple items for manual review, interdiction of 1 day and 3 days auction for certain items, restriction of cross-border sales, etc.)

⁴⁴³ Ellie Mercado, *Note And Recent Development; As Long As “It” Is Not Counterfeit: Holding EBay Liable For Secondary Trademark Infringement In The Wake Of LVMH And Tiffany Inc.*, 28 CARDOZO ARTS & ENT L.J. 115

⁴⁴⁴ Tiffany issued several cease and desist letters to eBay in which it asked eBay, notably, to ban sellers from listing more than five Tiffany items at the same time, ban the sale of silver Tiffany jewelry because they mainly involved

preventive filtering measures and prohibition of multiple sales⁴⁴⁵, that eBay partially declined to take. In June 2004, Tiffany therefore brought action against eBay for direct and contributory trademark infringement, trademark dilution, unfair competition and false advertising, on the ground that eBay would have knowingly facilitated the sale of counterfeit items on its website, while exercising control over, and deriving profit from, these sales.

On July 14, 2008, the Southern District of New York, affirmed by the Second Circuit on April 1, 2010⁴⁴⁶, dismissed all of Tiffany's claims and held that eBay was neither directly, nor indirectly liable for third parties' sales on its website.

As for the claim of *direct liability* raised by Tiffany as a result of eBay's use of Tiffany's trademark in its advertising, on its homepage and in the sponsored links purchased through Yahoo! or Google, the court indeed held that this use was a *protected, nominative fair use* of Tiffany's trademark, in that it was necessary to describe Tiffany's pieces of jewelry actually offered on its website.

As for the claim of *contributory liability* further raised by Tiffany, the court then determined that the relevant standard in order to assess eBay's liability was not whether eBay could have reasonably *anticipated* or *prevented* a possible infringement but rather, under the Inwood test, whether it *continued to supply its services to sellers when it knew or had reason to know* they were engaging in trademark infringement. Yet, the court found that as Tiffany failed to show that eBay had *specific knowledge* (rather than general knowledge) of specific items infringing its rights, eBay did not have any affirmative duty to remedy the situation. In this regard, the court stressed that the fact that eBay

counterfeit goods, not advertise the sale of any Tiffany items and remove sponsored links to Tiffany from the search engines.

⁴⁴⁵ One of the main issue Tiffany had with eBay was that eBay would not prospectively ban sellers of multiple (5 or more) Tiffany items. In its decision, the New-York Court found however that, as a factual matter, there was little support for Tiffany's allegation that a seller listing five or more pieces of Tiffany jewelry was presumptively trafficking in counterfeit goods.

⁴⁴⁶ **Tiffany Inc. v. eBay**, No. 08-3497 co 2010 ML 1236315 (2d Cir. Apr. 1, 2010) (prec.). This decision became final after the Supreme Court recently refused to examine Tiffany's appeal.

may be more efficient than Tiffany to monitor its own website for trademark infringement was *irrelevant*.

This decision stands in sharp contrast with the position adopted by some domestic Courts in Europe in similar circumstances, notably in the decisions issued by French courts in **LVMH v. eBay**, **Hermes v. eBay**, **eBay v. Burberry et al.**⁴⁴⁷, and by German courts in **Ricardo v. Rolex**, **Rolex v. eBay**⁴⁴⁸ and **Stoke v. eBay**⁴⁴⁹.

3.2.2.2 EU case law

In **LVMH v. eBay**⁴⁵⁰, Louis Vuitton, Christian Dior Couture and a number of luxury perfumes companies decided to take action against eBay after noticing that thousands of goods infringing on their rights and/or sold in violation of their selective distribution networks were sold every day on eBay's website. In a decision of June 30, 2008, affirmed by the court of Appeal, the Paris Commercial Court held eBay liable for abstention and negligence resulting in the violation of the plaintiff's exclusive rights⁴⁵¹ as a result of eBay's failure to set up effective and appropriate means to curtail infringement⁴⁵².

⁴⁴⁷ **eBay International v. Burberry et al.**, C.A. Paris, Jan. 23, 2012

⁴⁴⁸ BGH Apr. 30, 2008, I ZR 73/05, **Ricardo v. Rolex, SA**, BGH Apr. 19, 2007, I ZR 35/04 **Rolex, S.A. v. eBay GmbH**, and BGH March 11, 2004 IZR 304/01 **Rolex v. Ricardo** (prec.)

⁴⁴⁹ See Hanseatisches Oberlandesgericht (Hanseatic Provincial High Court and Court of Appeal), July 24, 2008, Case No. 3U 216 06, **Stokke A/S v. eBay Int'l AG**,

⁴⁵⁰ Commercial Court of Paris, June 30, 2008, **SA Louis Vuitton Malletier v. eBay Inc, eBay International AG; Parfums Christian Dior et al. v. eBay Inc, eBay International AG; Christian Dior Couture v. eBay Inc, eBay International AG** (aff'd by Court of Appeal of Paris, Pole 5, ch. 2 Sept. 3, 2010).

⁴⁵¹ *Id.* The Court held eBay had committed a fault by failing to ensure that its business did not generate any illegal transaction. Notably, the court held that by allowing auctions with captions that describe items as "fine imitations", auctions priced suspiciously low and auctions by sellers with suspiciously large quantities of items, eBay did not satisfy its duty of care.

⁴⁵² *Id.* For the Commercial Court, such means could have included measures such as (i) requiring the sellers to supply, upon request, the purchase invoice or a certificate of authenticity of the products offered for sale, (ii) sanctioning any guilty vendor by finally terminating his account as soon as the breach is ascertained, or (iii) immediately withdrawing any illicit advertisement notified by the right holder.

In reaching this conclusion, the Paris Commercial Court held that eBay was not a mere “passive host” but rather an “active broker”, playing an essential role in the commercialization of counterfeit products and profiting from these sales⁴⁵³. As a broker— rather than a technical intermediary - eBay was held ineligible under the hosting exemption and deemed liable for failing to control its own activity. The Court further clarified that as a broker, eBay could not claim lack of knowledge as to what information was transmitted on its site⁴⁵⁴, especially since the infringing nature of some of the goods sold on eBay’s website was apparent, either because of the use of words such as “imitation” or “fake” in connection with the defendant’s trademarks, or because of other circumstances such as the low prices and/or the high number of identical goods offered at the same time by the same user (unlikely to be indicative of second-hand market).

As a result, the Paris Court held eBay liable for abstention and negligence resulting in the infringement of Louis Vuitton trademark rights and ordered it to pay almost 61 million Dollars in damages (Reduced to about 5.7 million on appeal) along with an injunction under penalty to block any sales infringing the defendants’ trademark rights and/or selective distribution networks.

A similar outcome was reached in **Hermes v. eBay**⁴⁵⁵, where the Court of appeal of Reims, affirming a judgment from the trial court of Troyes, held eBay liable for the sale by some of its users of counterfeit Hermes products. In holding against eBay, the court considered, notably, that in addition to hosting an online marketplace, eBay provided the tools for these goods to be sold, organized their display and created the functioning rule and the architecture of this service. The Court therefore concluded that eBay was to be considered as the publisher of on-line communication

⁴⁵³ *Id.* (“eBay acts as a major actor in the sales on its sites and plays a very active role, in particular in commercial campaigns meant to increase the number of transactions”).

⁴⁵⁴ *Id.* (“eBay acts mainly as a broker and offers a service which, by its very nature, does not imply lack of knowledge and control of the information transmitted on its sites. eBay is thus subject, jut like any other commercial player, to general rule of liability”).

⁴⁵⁵ TGI Troyes, June 4, 2008, **Hermes v. eBay** (aff’d by Reims Court of Appeal July 20, 2010)

services for intermediation (brokerage) purposes and should accordingly bear the responsibility to police its own site for illegal activity⁴⁵⁶.

Recently, the court of Appeal of Paris held again against eBay in **eBay v. Burberry et al.**⁴⁵⁷, finding eBay liable for “handling of counterfeit goods”. In reaching this decision, the court held that by failing to take reasonable steps to prevent the sale of counterfeit goods by repeated infringers, and by knowingly continuing to reap benefit from the sale of such infringing goods, eBay was thus liable as “receiver/possessor of illicit profits”.

This case law is however far from being uniform, even in France. In **eBay v. DWC**⁴⁵⁸ for instance eBay was held a hosting provider, but deemed liable to make sure its platform was not used for unlawful purpose. Likewise, in **Kenzo v. DMIS**⁴⁵⁹, the operator of a similar online marketplace named *Vivastreet* was ordered to take preventive measure and implement specific filters to prevent future infringement. But in **eBay v. Maceo**⁴⁶⁰, the Paris TGI recently held eBay a hosting provider, not liable for trademark infringement carried out by its users. **Sedo**⁴⁶¹, a domain name’s auction website, was by contrast held contributory liable by the French Supreme Court, for the third parties’ sale on its website of a domain name infringing “hotel meridien” trademarks. In reaching this decision, the court stressed that Sedo’s activity, consisting of selling domain names and delivering advice in order to assess their value for a fee, was not limited to the mere hosting of third party’s domain name and was therefore liable for its fault and negligence under the general rule of “civil liability” (article 1382 of the French Civil Code).

⁴⁵⁶ *Id.* (holding that eBay should have asked, notably the sellers to specify in their ads the elements of identification and authentication of the good they were selling (product reference, serial number, type number, certificate of authenticity, etc.)

⁴⁵⁷ C.A. Paris, Jan. 23, 2012, **eBay International v. Burberry et al.**,

⁴⁵⁸ Paris Court of Appeal, Nov. 9, 2007, **eBay v. DWC**,

⁴⁵⁹ Commercial Court of Paris (sum. J.) Oct. 31, 2007 and July 26, 2007, **Kenzo v. DMIS** (*Vivastreet*),

⁴⁶⁰ TGI Paris, 3rd ch, 3rd Section, March 13, 2012, **eBay v. Maceo**,

⁴⁶¹ Cour de Cassation, Oct. 21 2008, **Sedo GmbH v. Hotel Meridien, Stephane H** (aff’g **Hôtels Meridien v. Sedo, Stephane H**. Paris Court of Appeal March 7, 2007).

In **L’Oreal v. eBay**⁴⁶², the Paris TGI undertook yet another approach. In this case, L’Oreal, the famous French cosmetic and perfumes company, decided to bring four simultaneous lawsuits against eBay for trademark infringement, negligence and violation of its selective distribution networks⁴⁶³, in France, Belgium, England and Spain. Among other arguments, L’Oreal claimed that eBay, by failing to set up efficient measures and/or technological tools (filtering, etc.) to prevent the sale of counterfeit perfumes on its websites and by profiting from these sales, was directly and indirectly liable for trademark infringement, unfair competition and negligence under a general theory of tort (*“responsabilité civile”*.)

In its decision of May 2009, the Paris trial court first analyzed eBay’s activity and concluded it played two different roles or functions : (i) a “neutral” function, when merely acting as a broker and hosting third parties’ offers, for which it was eligible under the hosting exemption⁴⁶⁴ and (ii) an active role, when promoting its own activities (sending promotion emails, etc.) for which it was liable under a regular regime of liability⁴⁶⁵. The court held that in both cases, eBay had a best-efforts obligation to ensure that its activity was not damaging third parties, but clarified that in this specific case, eBay had fulfilled this obligation by setting up filters and systems like VERO to take down counterfeit listings upon reception of an infringement notice. Interestingly, the court also held that eBay had a duty to cooperate with the right holder to curtail infringement⁴⁶⁶. The Court finally encouraged the parties to find a settlement agreement through a mediation process and put the

⁴⁶² TGI Paris May 13, 2009, **L’Oreal et al. v. eBay et al.** (pending on the issue of damages).

⁴⁶³ The claim of violation of selective distribution networks was only raised in France

⁴⁶⁴ Interestingly, the court considered that providing assistance to the sale by optimizing the presentation of the offers was not a sign that eBay was playing an active role, a conclusion that might change after the E.C.J. case **L’Oreal v. eBay** (E.C.J. case C-324/09 reported below)

⁴⁶⁵ For a similar “distribution” of an auction website’s activities, see **Yahoo! v. Association Amicale des déportés d’Auschwitz et des camps de haute Silesie, le MRAP (prec.)** distinguishing Yahoo!’s role as a (i) publisher of a website (outlines the frames and architecture of the website) and a (ii) hosting provider for third party’s offers.

⁴⁶⁶ The Court specifically held that “The prevention of infringement will only be effective in this area by a close cooperation between copyright holders and eBay. To achieve the common goal of reducing counterfeiting, the parties shall accept the implementation of measures to be defined between them and the cost of which should be divided between them, being pointed out that no kind of measure should be discarded a priori ”

proceeding on hold pending the outcome of a parallel proceeding referred by the English Court to the E.C.J.⁴⁶⁷

The Commercial Court of Brussels, by contrast, adopted an approach decidedly more favorable to eBay in the parallel proceeding **Lancôme**⁴⁶⁸ v. **eBay**⁴⁶⁹ - by holding that eBay had acted as a mere hosting provider with regard to third parties offers and was therefore exempted from liability under Belgian and EU law. The court further clarified that eBay had no monitoring obligations as regards the offers hosted on its website.

In the parallel proceeding brought by **L’Oreal v. eBay** in the U.K., the England and Wales High Court of Justice - after analyzing in a preliminary decision the damages suffered by L’Oreal as a result of the massive sales of infringing perfumes on eBay’s website and the various means carried out by eBay to curtail infringement⁴⁷⁰ - decided to refer the case to the High Court of Justice⁴⁷¹.

On July 12, 2011, the E.C.J. handed down its landmark decision in **L’Oreal v. eBay**⁴⁷² clarifying several key aspects of the potential liability faced by online marketplaces for infringement committed by their users, including (i) whether eBay would have engaged in direct infringement when buying as sponsored links L’Oreal’s trademark, (ii) whether it was eligible under the hosting exemption, (iii) whether it was liable for third parties’ infringing sales and (iv) whether, as a hosting provider, it could still be subject to injunctive orders under the Copyright or Enforcement Directive.

⁴⁶⁷ See E.C.J. case C-324/09, July 12, 2011 L’Oréal v. eBay (infra)

⁴⁶⁸ French perfume company, subsidiary of L’Oreal.

⁴⁶⁹ Brussels Commercial Court, July 31, 2008, **Lancôme v. eBay**.

⁴⁷⁰ Among others, the Court stressed that although eBay has implemented filters, developed a notice and take down system (VeRo) and implemented sanctions such as temporary or even permanent suspensions against repeated infringers, it could however take additional steps in order to curtail infringement on its website (e.g. additional filters, prohibition of parallel import, restrictions on volume on specific products, implementing sanctions more rigorously, etc.). The Court however clarified that the fact that such measures are available does not necessarily means that eBay is under a duty to prevent infringement on its website.

⁴⁷¹ England and Wales High Court of Justice (EWHC), May 22, 2009, **L’Oreal v. eBay** (decision pending after referral to the E.C.J.)

⁴⁷² E.C.J. case C-324/09, July 12, 2011 L’Oréal v. eBay. See also for further details on this case, TTLF newsletter 4/5 2011, Sept. 2011

As to the first question (i.e. *does eBay's keyword advertising practices constitute direct infringement?*) the court upheld its finding in *Google France and Portakabin*⁴⁷³, that the selection and use of a third party's trademark as a keyword trigger is only actionable when it can affect one of the essential function (including the indicating origin function) of the defendant's trademark and specifically where such use "does not enable reasonably well informed users, or enabled them only with difficulty, to ascertain whether the goods or services referred to by the advertisement originated from the proprietor of the trademark or from an undertaking economically linked to it or from a third party".

As to the second question (i.e. is eBay eligible under the hosting safe harbor when acting as an auction website), the court held that service providers, such as online marketplace, are normally entitled to the hosting provider exemption, on condition that they confine themselves to "providing an intermediary service, neutrally, by a merely technical and automatic processing of [third party] data." In contrast, the court held that if such operators "played an active role of such a kind as to give them knowledge of, or control over, those data," they were not entitled to such exemption. The court further clarified that an operator could be deemed to have played an active role where, for instance, it has provided assistance to its customers, which entails, in particular, optimizing the presentation of the offers for sale in question or promoting those offers⁴⁷⁴.

After clarifying the condition of eligibility of eBay under the hosting exemption (or limitation of liability), the court further detailed the conditions to apply such an exemption. The court first clarified that the standard of "awareness" triggering the service provider's liability under the hosting exemption could arise both as a result of an investigation undertaken at its own initiative or as a result of a notification from the right holder. The court then stressed that, even as a hosting safe

⁴⁷³ See E.C.J. Cases *Google France and Google v. LVHM*, (prec.) at 83-84 and *C- 558/08 Portakabin* (2010) at 34

⁴⁷⁴ E.C.J. case *C-324/09 L'Oréal v. eBay* at 111-117

harbor, eBay had abided by a duty of care as a “diligent operator” to make sure its platform was not used for unlawful purposes and could still be the subject of injunctive procedures available under the Copyright and Enforcement Directive, notably aimed at having eBay take any effective, proportionate and dissuasive measures to prevent and/or put an end to an existing infringement.

By taking such approach, introducing new subjective standards of “neutrality” and “duty of care”, the E.C.J. may have introduced more questions than certainty. Yet, it remains to be seen how courts in Europe will interpret this new standard.

Diverging opinions and outcomes have also emerged as regard the status and liability of the so-called participative-networked platforms⁴⁷⁵.

3.2.3 Participative networked platforms and other UGC websites

Participative networked platforms, sometimes referred to as “web 2.0 services”⁴⁷⁶ or User Generated Content (UGC) websites, is a generic term covering all Internet services that are mainly based upon User Generated Content, including, but not limited to, blogging services, wikis and other crowd-sourced database, instant messaging services, tagging websites, social network sites, file-sharing platforms (photo, music, video), online gaming websites and virtual worlds.

Although file-sharing platforms operating peer-to-peer networks may naturally fall under this category, they will be addressed separately in the following section since U.S. and EU courts have generally dealt with them in a different manner. Here again, the positions of U.S. and EU courts with regard to the liability of these intermediaries have differed in many instances.

⁴⁷⁵ OECD Report (prec. note 17) defining Participative networked platforms as “*services based on new technologies such as the web, instant messaging, or mobile technologies that enable users to contribute to developing, rating, collaborating and distributing Internet content and developing and customizing Internet applications, or to conduct social Networking*”

⁴⁷⁶ See Tim O’Reilly, *What Is Web 2.0? Design Patterns And Business Models For The Next Generation Of Software*, COMMUNICATIONS & STRATEGIES, n°65, first Quarter 2007

3.2.3.1 U.S. case law

In the United States, the first cases concerning the liability of Online Service Providers for User Generated Content arose at the beginning of the nineties in relation to Bulletin Board Services (BBS), a computer system that allowed users to connect and log in to a system, and, from there, upload and download software and data (music, text, video), read news and bulletins and exchange messages with other users either through email or in public message boards⁴⁷⁷. As such BBS were one of the forerunners of today's social networks. The diverging outcomes reached by U.S. courts as regard the liability of BBS as a result of content posted by their users was one of the reasons underpinning the adoption of the DMCA⁴⁷⁸.

After the adoption of the DMCA, the issue of the liability of participative-networked platforms for User Generated Content arose again in a few cases in the United States, most notably in the two landmark cases **UMG Recordings v. Veoh**⁴⁷⁹ and **Viacom International v. YouTube**⁴⁸⁰.

In **UMG Recordings Inc. et al v. Veoh Networks Inc et al**⁴⁸¹, Universal Music Group (UMG), brought an action against Veoh and its investors for direct, vicarious and contributory copyright infringement, claiming that Veoh's efforts to combat infringement of their catalogue on their

⁴⁷⁷ See Bulletin Board System (BBS) entry on Wikipedia

⁴⁷⁸ Compare *Playboy Enterprises, Inc v. Frena* (M.D. Florida, 1993) (holding BBS operator Frena liable for third party content) and *Sega Enterprises Ltd v. Maphia* (holding BBS operator Maphia liable for contributory infringement as a result of third party infringing activity) with *Religious Technology Center v. Netcom On-line Communication Services*, (N.D. California, 1995) (holding a BBS operator not liable for third party content absent some elements of *volition* or *causation* (see note 43, 132 and 137 supra).

⁴⁷⁹ **UMG Recordings, Inc. v. Shelter Capital Partners LLC**, 667 F.3d 1022 (9th Cir. 2011), *aff'g* **UMG Recordings v. Veoh Networks Inc**, 665 F. Supp. 2d 1099, 1108 (C.D. Cal, 2009).

⁴⁸⁰ **Viacom International Inc et. Seq. vs. Youtube**, 718 F. Supp. 2d 514 (S.D.N.Y. 2010) vacated and remanded by *Viacom Int'l, Inc., Football Ass'n Premier League Ltd. v. YouTube, Inc.* (2nd Cir. 2012), Docket 10-3270-cv (Apr. 5, 2012)

⁴⁸¹ A Youtube-like video-sharing platform allowing its users to upload and share videos, including music videos.

website were “too little, too late.” On November 3, 2009, the District Court of California⁴⁸² granted summary judgment to Veoh, after determining that it was protected under the DMCA hosting safe harbor. On appeal, UMG claimed that Veoh was not entitled to safe harbor protection since (i) it had knowledge (or at least sufficient awareness) of infringing activity and failed to take appropriate steps to stop or curtail infringement, and (ii) it financially benefitted from and exercise control over such infringing activity, within the meaning of section 512(c)(1)(B) of the DMCA. UMG also claimed that Veoh was not eligible under the hosting safe harbor since its activity, especially when facilitating user access to third party infringing videos, would go beyond mere storage.

Neither the Central District of California, nor the 9th Circuit on appeal, were convinced by these arguments. In a decision affirmed by the 9th Circuit, the Californian court held that Veoh was not only eligible under the hosting safe harbor but also shielded from any liability since it had neither knowledge nor control over the infringing activity.

As regards Veoh’s eligibility under the hosting safe harbor, the 9th Circuit held that the language and structure of the statute, as well as the legislative intent behind the law, clearly shows that section 512(c) of the DMCA was meant to cover more than mere electronic storage lockers, and specifically encompassed the access-facilitating processes that automatically occur when a user uploaded a video to Veoh.

On the question of the knowledge standard triggering liability under the hosting safe harbor, the 9th Circuit further clarified that merely hosting a category of copyrightable content - such as music or videos - with the general knowledge that one’s services could be used to share infringing material, was insufficient to impute knowledge, or even a sufficient level of awareness, on a service provider. Interestingly, however, the court suggested that the “red flag” test could be met if a service provider

⁴⁸² **UMG Recordings, Inc. v. Shelter Capital Partners LLC**, 667 F.3d 1022 (9th Cir. 2011), aff’g **UMG Recordings v. Veoh Networks Inc.**, 665 F. Supp. 2d 1099, 1108 (C.D. Cal, 2009).

received e-mails from users about infringing materials on its website and failed to expeditiously remove them. In this case however, because it found that Veoh had promptly taken down all infringing content upon reception of appropriate notice, the 9th circuit held it was covered by the DMCA safe harbor and dismissed UMG's appeal.

The *Viacom* case involves similar circumstances. In **Viacom International v. YouTube**, media conglomerate Viacom - including BET Networks Comedy Partners, and Paramount Pictures - brought an action against YouTube alleging that tens of thousands of unauthorized Viacom videos, resulting in hundreds of million views⁴⁸³, were made available on YouTube, without adequate response from YouTube.

Plaintiffs specifically contented that YouTube was liable for direct, vicarious and contributory infringement (including claims for inducement contributory liability) as a result of (i) their lack of adequate response to stop infringement despite having *knowledge* - or at least *sufficient awareness* - of infringing activity and (ii) the right and ability to control such infringing activity from which they get a financial benefit.

As for the “knowledge requirement”, plaintiffs contented that not only were the defendants generally aware of, but they also *welcomed* copyright infringing material since such videos were attractive to users and therefore enhanced YouTube's advertisement income. Plaintiffs finally alleged that YouTube was not eligible under the hosting safe harbor since their activity – a media and entertainment business no different from a TV station⁴⁸⁴ – went far beyond “mere storage” or any other activities specified in 512 of the DMCA.

For their part, defendant contended they were entitled to and shielded by the hosting safe harbor since they had expeditiously removed all infringing material upon receipt of adequate notice of

⁴⁸³ See Plaintiff's brief, DKT n°186 at 1

⁴⁸⁴ *Id.* at 62

infringement from the claimants.

In an order issued on June 23, 2010, the Southern District of New-York denied the plaintiffs' motion and granted summary judgment to the defendants, finding that they qualified for DMCA safe harbor protection under the DMCA with respect to all claims of direct and secondary copyright infringement⁴⁸⁵.

In reaching this decision, the court first established that the standard of *knowledge* or *awareness* triggering a service provider's liability under the DMCA, required knowledge of a *specific* and *identifiable* infringement of particular individual items⁴⁸⁶. Just like in the **Veoh**⁴⁸⁷ and **Tiffany**⁴⁸⁸ decisions, the court thus ruled that mere general knowledge of infringing activity was not sufficient to impose a duty on the service provider to monitor or search its service for infringements. The court further stressed that differently from **Grokster**, it was "not remotely the case that YouTube existed solely to provide the site and facilities for copyright infringement".

As regards the *control* requirement, the court then held that the right and ability to control infringing activity should refer to specific notified infringement⁴⁸⁹.

As regards, finally, the condition for eligibility under the hosting safe harbor, the court finally ruled, in line with **Io Group** and **Tiffany**, that YouTube, as a provider of online services offering access to third party material, was - as shown by the wording and history of the DMCA⁴⁹⁰ - a service provider for purposes of section 512 (c) and eligible under the hosting safe harbor.

On appeal, the Second Circuit⁴⁹¹ found that although the District Court had interpreted correctly the

⁴⁸⁵ **Viacom International Inc et. Seq. vs. Youtube (S.D.N.Y. 2010)** (prec.) vacated and remanded by Viacom Int'l, Inc., Football Ass'n Premier League Ltd. v. YouTube, Inc. (2nd Cir. 2012), Docket 10-3270-cv (Apr. 5, 2012) (cf. *infra*)

⁴⁸⁶ *Id.* at 523

⁴⁸⁷ UMG Recordings, Inc v. Veoh Networks, Inc (CD Cal, 2009)

⁴⁸⁸ **Tiffany Inc. v. eBay, Inc** (S.D.N.Y. 2008) (prec.) at 527

⁴⁸⁹ *Id.* at 505

⁴⁹⁰ See S. REP. 105-190 at 2-8

⁴⁹¹ Viacom Int'l, Inc., Football Ass'n Premier League Ltd. v. YouTube, Inc. (2nd Cir. 2012), Docket 10-3270-cv (Apr. 5, 2012)

knowledge standard (as requiring knowledge or awareness of specific infringing activity), the court had erred in several instances. The court first held that from the circumstances of the fact, a reasonable jury could find that YouTube had actual knowledge or awareness of specific infringing activity on its website. The court further held that the District Court had erred in interpreting the “control” standard as requiring “specific knowledge” and thus reversed the order on this point. Finally, the 9th Circuit clarified that while three of the functions for which YouTube’s liability was founded (namely replication, playback and trans-coding) unquestionably fell under the “hosting” safe harbor (since they indeed occurred “by reason of storage”), YouTube may not be covered by this safe harbor when selecting and licensing specific copyrighted material from third parties (“third party syndication” function). The court thus remanded the case to the District Court for further consideration of these key aspects of the case.

3.2.3.2 EU case law

European case law has been far more divided on the question of the liability of UGC websites. In this regard, the example of French or Italian case law gives a good illustration of the diversity of approaches and outcomes that arose from the question of the liability of these intermediaries.

(a) The example of French case law

Initially, French courts tended to consider hosting providers of blogs or discussions forums as “publishers” or co-publishers of online services⁴⁹² on the ground that they had the ability to control and reap benefit from infringing activity. This position was recently upheld in **Tiscali v.**

⁴⁹² See C.A. Paris (14eme ch.) Feb. 10, 1999, **Estelle Halliday v. Valentin Lacambre**; Versailles June 8, 2000, **Lacoste/multimania, Eterel and Cybermedia**; TGI Lyon, May 28, 2000 and TGI Toulouse June 5, 2002. (all prec., see supra note 28).

Dargaud⁴⁹³, where the French Supreme Court held ISP Tiscali liable for hosting a blog featuring an unauthorized copy of Dargaud's comics, although this decision was issued in light of the law existing at the time of the initial claim, prior to the law implementing the e-commerce Directive in France⁴⁹⁴.

More recently, French case law has tended to consider UGC websites - or Internet services mainly based upon User Generated Content - as hosting providers, but with specific monitoring obligations.

In **André Rau v. Google and Aufeminin.com**⁴⁹⁵, **Google Inc. v. BAC Films et al.**⁴⁹⁶, **Zadig Productions v. Google Video**⁴⁹⁷ and **Flach film v. Google France**⁴⁹⁸, four different cases involving the video-sharing platform "Google video", French courts held for instance that although Google was eligible under the hosting exemption when giving access to third party videos, it was nonetheless subject to the obligation - as a hosting service provider - to prevent the recurrence of infringing content, regardless of the fact that such content could be re-posted by the same or a different user⁴⁹⁹. Google was thus held liable for failing to implement efficient tools to prevent such new postings of already "flagged" infringing content. Similar obligations were imposed upon YouTube in **Roland Magdane v. YouTube**⁵⁰⁰ and in **Lafesse v. YouTube**⁵⁰¹, where the Paris Court merely acknowledged YouTube's commitment to filter out the recurrence of infringing content.

⁴⁹³ Cour de Cassation (1^{ère} civ.), Jan. 14, 2010, **Telecom Italia (formerly Tiscali Media) v. Companies Dargaud Lombard and Lucky Comics**

⁴⁹⁴ This position was also upheld in a case subsequent to the e-commerce Directive in **Jean-Yves Lafesse v. Myspace** but the judgment was ultimately vacated for procedural reasons: see TGI Paris, June 22 2007, **Jean-Yves Lafesse v. Myspace** (holding Myspace liable as a publisher because it enabled its users to upload their videos through a specific frame structure and reaped benefit from advertisement placed next to these videos) and C.A. Paris, Oct. 29, 2008 (vacating the ruling because the defendant had not been properly serviced in the U.S.)

⁴⁹⁵ C.A. Paris, Feb. 4, 2011, **André Rau v. Google and Aufeminin.com** (prec.)

⁴⁹⁶ C.A. Paris, Jan. 14, 2011, **Google Inc. v. Bac Films, The Factory et al** (prec.)

⁴⁹⁷ TGI Paris 19 October 2007, **Zadig Production v. Google Inc, Afa** (prec.) (see supra note 297).

⁴⁹⁸ *Accord*, Commercial Court of Paris February, 20 2008, **Flach Film v. Google France, Google Inc.**

⁴⁹⁹ Cf. also TGI Paris October 9, 2009 **H & K SALR and M/A v. Google France** (prec.)

⁵⁰⁰ TGI Paris March 5, 2009 (sum. judgment) **Roland Magdane et al. v. Youtube**

This position was recently confirmed in **YouTube v. SPPF**⁵⁰² where YouTube was cleared from all liability, mainly as a result of the plaintiff's refusal to use the filtering technology (here "Content ID" technology) offered by YouTube in order to avoid the recurrence of infringing content. A similar outcome was also reached in **SARL Temps noir et al v. YouTube et al**⁵⁰³, **J.Y Lafesse v. Google et al**⁵⁰⁴ and **Omar & Fred v. YouTube, Adam et al**⁵⁰⁵.

In contrast however, in **Christian C., Nord Ouest Production v. Dailymotion**, the French Supreme Court found that Dailymotion, as a hosting provider, was only subject to a notice and take down obligation (i.e. to take down infringing content upon reception of a qualifying infringement notice). Although French courts are still divided on the question of whether UGC websites should be subject to (targeted) monitoring obligations to avoid the recurrence of infringing content, there seems to be a dominant trend of decisions in this sense.

(b) The example of Italian case law

Other jurisdictions in Europe, notably in Italy, have in turn held that video-sharing platforms were not eligible at all under the hosting e-commerce exemption.

In **Reti Televisive Italiane SpA v. Italia On-Line (RTI v. IOL)**⁵⁰⁶ for instance, the court of Milan held IOL ineligible under the hosting exemption for its video sharing service - and consequently contributory liable for copyright infringement of RTI's shows uploaded by its users – on the ground that it was found to have played an "*active role*" in "*organizing the service*" and "*selecting the*

⁵⁰¹ TGI Paris (3rd ch. 2nd section), Nov. 14, 2008, **Monsieur Jean Yves Lambert dot Lafesse et al. v. Youtube et al.**

⁵⁰² TGI Paris, Apr. 28, 2011, **Youtube v. SPPF** (dismissing plaintiffs' claims on ground that by refraining from following up on YouTube's proposal to use its filtering technology, the plaintiff had deprived Youtube from the opportunity to prevent the recurrence of infringing content.)

⁵⁰³ TGI Paris (3rd ch. 3rd section) May 13, 2009, **SARL Temps noir et al. v. Youtube, Dailymotion, Google Inc.**

⁵⁰⁴ TGI Paris (3rd ch. 3rd section) June 24, 2006, **J. Y. Lafesse v. Google et al.**

⁵⁰⁵ TGI Paris (3rd ch., 1st section) Sept. 22, 2009, **Omar et Fred et al. v. Youtube et al.**

⁵⁰⁶ Court of Milan, Jan. 20, 2011, **Reti Televisive Italiane SpA v. Italia On-Line (IOL).**

videos” uploaded on its website. IOL was specifically denied the status of hosting provider on the ground that it had provided its customers with additional services beyond mere storage, such as the opportunity for advertisers to show advertisements in relation with the content of the video (behavioral and targeted advertising). Likewise, in **Reti Televisive Italiane SpA v. Yahoo! (RTI v. Yahoo!)**⁵⁰⁷, the court of Milan held Yahoo! an “active host”, similarly liable for the infringing videos uploaded on its video sharing platform, on ground that (i) it included advertisements in the videos, (ii) suggested related videos and (iii) provided a functionality that allows users to report violations of copyright⁵⁰⁸. Based on these two decisions, most UGC websites relying on an advertisement business models should be denied hosting protection.

By contrast however, the court of Rome in **Reti Televisive Italiane SpA v. Google et al**, ruled a couple of months later that Google, although being an “active host” when hosting a blog offering similar services of video streaming (including non-authorized RTI shows), was eligible under the hosting exemption and not liable provided it had regularly complied with its obligations as a hosting provider⁵⁰⁹.

It remains to be seen how this active/passive standard - apparently drawn from the *Google France v. LVMH* and *L’Oreal v. eBay* E.C.J. decisions - will be interpreted by Italian Supreme Court and other courts in Europe, but the contrasting decisions mentioned above⁵¹⁰ already give an insight into the divergence of views existing in Europe on this question.

⁵⁰⁷ Court of Milan, Sept. 9, 2011, **Reti Televisive Italiane SpA v. Yahoo !**

⁵⁰⁸ *Id.* See generally, Enrick Bonadio & Enrico and Mauro, *Court Of Milan Holds Video Sharing Platforms Liable For Copyright Infringement*, JOURNAL OF INTELLECTUAL PROPERTY LAW & PRACTICE, VOL. 7, NO. 1, 2012 (also available at SSRN: <http://ssrn.com/abstract=1977431>)

⁵⁰⁹ See also **Yahoo! Italia v. PFA films, Court of Rome, July 11, 2011 (accord.)** (regarding Yahoo’s search engine and linking activities) (prec.)

⁵¹⁰ For reasons of space, we have only mentioned in this section a selective sample of the large number of decisions handed down on this topic in Europe.

U.S. and EU courts have also issued contrasting decisions with regards to the liability of file-sharing platforms for the unauthorized content shared by their users.

3.2.4 Peer-to-peer networks, bitTorrent, cyber-lockers and other file sharing companies

3.2.4.1 Extent of the problem

Peer-to-peer (P2P) file sharing platforms, enabling anybody using a P2P software to share directly with another user (provided it also has a connected computer and a P2P software) any content, without the need for central storage, were brought to the mainstream by Napster in 1999.

This service became incredibly popular and many other companies, using similar or related technologies – bitTorrent⁵¹¹, cyberlockers⁵¹² and the like – enabling users to consume and share content without charge, have flourished everywhere.

Unquestionably, the dawn of P2P networks and the subsequent rise of file sharing over the Internet - allowing untrammelled access to all kind of copyrighted content - have created a dramatic increase in copyright infringement.

To the content industry, P2P file sharing and other related technologies were primarily responsible for the important losses suffered by the entertainment industry and for the insufficient development of legal digital marketplaces⁵¹³.

⁵¹¹ BitTorrent technology is a peer-to-peer file sharing protocol enabling users to download large files (e.g. movies) in small pieces over the internet by obtaining the pieces from multiple source.

⁵¹² Cyberlockers are Online file storage companies enabling their users to store their content online and to share it with others (usually by providing them with a password protecting the information). Unlike bitTorrent, they are very hard to monitor as they employ one to one connectivity. See generally definition on *about.com*, *Internet for beginners*, *Cyberlocker*

⁵¹³ See classical statement of the content industry that “*it is impossible to compete with free*” (see e.g. statement of Bob Pisano, President of the MPAA (Motion Picture Association of America), Feb. 23, 2011 (re. online piracy) (available at <http://mpaa.org/resources/b14b3a65-ece2-45fb-869f-529b953a286e.pdf>)).

According to the RIAA⁵¹⁴, in the decade since peer-to-peer file-sharing website Napster emerged in 1999, music sales in the United States have dropped 53 percent (from 14,6 billion to 6,9 billion dollars) and approximately 30 billion songs have been illegally downloaded on file-sharing networks⁵¹⁵.

Unquestionably, peer-to-peer has also become a widespread phenomenon in Europe, causing a fundamental shift in the public's perception of information and content⁵¹⁶ and more generally towards the protection of I.P. rights⁵¹⁷.

According to a recent Envisional study⁵¹⁸, about 25% of the global traffic on the Internet was devoted to illegal peer-to-peer, while a Nielsen study⁵¹⁹ recently concluded that about one out of four Internet active users in Europe visited unauthorized music websites monthly. A British study has even recently assessed that about 96% of 18 to 24 years olds copy music illegally⁵²⁰!

⁵¹⁴ Recording Industry Association of America (RIAA) is the trade organization representing the recording industry distributors in the United States

⁵¹⁵ See RIAA's website under "piracy online/ scope of the problem"

⁵¹⁶ See notably, on the shift from a "content economy" to an "attention economy": Herbert Simon, "Designing Organizations for an Information-Rich World." In MARTIN GREENBERGER (Ed.), *COMPUTERS, COMMUNICATION, AND THE PUBLIC INTEREST* (Baltimore, Md.: The Johns Hopkins Press, 1971) at 40-41 ("In an information-rich world, the wealth of information means a dearth of something else: a scarcity of whatever it is that information consumes. What information consumes is rather obvious: it consumes the attention of its recipients. Hence a wealth of information creates a poverty of attention and a need to allocate that attention efficiently among the overabundance of information sources that might consume it");. See also RICHARD A. LANHAM, *THE ECONOMICS OF ATTENTION: STYLE AND SUBSTANCE IN THE AGE OF INFORMATION* (University of Chicago Press, 2006); Kevin Kelly, *Better Than Free* (The Technium archives, 2008) and John Patton, *Digital First* (wordpress.com, 2011)

⁵¹⁷ See Andrew W. Eichner, *File Sharing, A Tool For Innovation Or A Criminal Instrument?* BOSTON COLLEGE INTELLECTUAL PROPERTY & TECHNOLOGY FORUM (Sept. 2011) (stressing the increasingly normalized perception of file sharing as an acceptable means of acquiring music over the Internet); David W. Opderbeck, *Peer-To-Peer Networks, Technological Evolution And Intellectual Property Reverse Private Attorney General Litigation*, 20 BERKELEY TECH. L.J. 1685 at 1701 (stressing that users have now "internalized sharing norms that transcended any particular application or network"). See also Copyright Review Committee for the (Irish) Department of Jobs, Enterprise and Innovation, *Copyright and Innovation, A Consultation Paper* (Dublin, 2012) (by Dr. Eoin O'Dell (Trinity College Dublin), Patricia McGovern (DFMG Solicitors, Dublin), and Prof. Steve Hedley (University College Cork)) (raising the question as to whether copyright law is still the right framework to further innovation without denying protection to authors in the digital age)

⁵¹⁸ ENVISIONAL Technical Report: *An Estimate of Infringing Use of the Internet* (Jan. 2011), available at http://documents.envisional.com/docs/Envisional-Internet_Usage_Report-Summary.pdf

⁵¹⁹ IFPI (International Federation of Phonographic Industry) *Digital Music Report* (2011) at 14

⁵²⁰ Ken Nicholds: *The Free Jammie Movement: Is Making A File Available To Other Users Over A Peer-To-Peer Computer Network Sufficient To Infringe The Copyright Owner's 17 U.S.C. § 512 (C) And §106 (3) Distribution Right*,

Regardless of the accuracy of these figures⁵²¹, the causes of this phenomenon, and the arguably positive effect of file sharing on innovation⁵²², file-sharing has been regarded as a real threat for the record industry, which consequently engaged into a multifaceted war against file-sharing networks and their users in Europe, just like in the United States.

3.2.4.2 U.S. case law on the liability of peer-to-peer and other file-sharing platforms for third party content

The first peer-to-peer service that prompted copyright litigation in the United States was the famous file-sharing platform Napster.

As a peer-to-peer service, Napster did not store or host any users' files on its server - so that it could not be said to directly "copy" any copyrighted content - but it nonetheless kept a centralized index of all files being made available by its users of its network. The service, offering a very wide selection of (mainly copyrighted) content, was a huge success. The response from the record industry was not long in coming. In December 1999, major record companies decided to bring a suit against Napster

78 FORDHAM L. REV. at 983 (quoting Dan Sabbagh, *Average Teenager's Ipod Has 800 Illegal Music Tracks*, Time, June 16, 2008 at 13)

⁵²¹ For a critical approach to these figures, see e.g. Hargreaves's Digital Opportunity Report (infra) at 70-72 § 8.11 (citing several inconsistent reports) Ben Goldacre, *Illegal Downloads And Dodgy Figures*, GUARDIAN, JUNE 5, 2009 (questioning these figures and their impact on U.K. economy). See also, Robert C. Piasentin "Unlawful? Innovative? Unstoppable? A comparative analysis of the potential liability facing P2P end-users in the U.S., U.K. and Canada", 14 INT. J. LAW INFO. TECH, 195-241; MARIA STYVEN, EXPLORING THE ONLINE MUSIC MARKET, CONSUMER CHARACTERISTICS AND VALUE PERCEPTIONS, Luleå University of Technology (2007)

⁵²² Charles R. Mcmanis, *Essay: The Proposed Anti-Counterfeiting Trade Agreement (ACTA) : Two Tales Of A Treaty*, 46 HOUS. L. REV. 1235; see also Annelies Huygen et al., "Ups and Downs: Economic and Cultural effects of file sharing on Music, Film and Games", Report commissioned by the Ministries of Education, Culture and Science, Economic Affairs and Justice of The Netherlands (Feb. 2009), concluding that "the economic implications of file sharing for welfare in the Netherlands are strongly positive in the short and long terms (...) file sharing provides consumers with access to a broad range of cultural products, which typically raises welfare (...) even though this practice is believed to result in a decline in sales of CDs DVDs and games, determining the impact of unlicensed downloading on the purchase of paid content is a tricky exercises as one track of music downloaded does not imply one less track sold"(...) to the extent that file sharing results in a decline in sales (substitution) it entails a *transfer of welfare from operators/ producers to consumers who otherwise lack purchasing power* (because the music industry is currently organized as a functional oligopoly". (emphasis added)

for vicarious and contributory infringement, claiming that Napster had knowingly provided the means for massive infringing activity, while exercising control over and reaping benefit from this activity.

In response, Napster first argued, relying on the Supreme Court decision in *Sony*⁵²³, that its software was exempted from liability because it was capable of *substantial non-infringing use*. Napster also contended that it was covered by a DMCA exemption, that its users were engaging in fair use of copyrighted content and that monitoring its user's practices would contravene the First Amendment. These arguments were dismissed by the Northern District of California⁵²⁴ in a decision later affirmed by the Court of Appeal for the 9th Circuit.

In its landmark decision **A&M Records, Inc. v. Napster, Inc.**⁵²⁵, the 9th Circuit thus confirmed that Napster was contributory liable for copyright infringement on the ground that, by providing a software enabling the transmission of copyrighted music between its users free of charge, Napster had materially contributed to the infringement carried on by its users, with actual knowledge that its services will be used for infringing activity.

The Court further held Napster liable for vicarious liability on the ground that, while it had the right and ability to control the infringing conduct of its users by blocking their access to its service, it declined to do so and instead elected to reap commercial benefit from such infringing activity⁵²⁶.

This position was affirmed with respect to the next generation of peer-to-peer file sharing services in *Re Aimster*⁵²⁷.

Differently from Napster, Aimster had set up a system operating in conjunction with an instant-messaging service within which users could exchange encrypted files. Arguably, Aimster could thus

⁵²³ **Sony Corp of America v. Universal City Studios**, 464 U.S. 417 (1984) (prec.)

⁵²⁴ **A&M Records, Inc. v. Napster, Inc.**, 114 F.Supp.2d 896 (N.D. Cal. 2000) (prec.)

⁵²⁵ **A&M Records, Inc v. Napster, Inc.**, 239 F3d 1004 (9th Cir. 2001) (prec.)

⁵²⁶ *Id.* at 1027

⁵²⁷ *In re. Aimster*, 334 F. 3d 643 (7th Cir. 2003)

allege it did not know the content of the files that were transmitted. Yet, the seventh circuit held that willful blindness to avoid learning of infringement amounted to knowledge of infringement and thus affirmed the District Court's decision that Aimster was contributory liable for the infringement committed by its users⁵²⁸. Here again, the Sony defense was dismissed on the ground that in addition to showing that the product was capable of non infringing use, the defendant had to also show that it would have been *disproportionately costly* for him to eliminate or at least reduce substantially the infringing use.

The District Court of California and 9th Circuit had first adopted a different approach in **MGM v. Grokster**⁵²⁹. Affirming a decision from the Central District of California, the 9th Circuit first exonerated Grokster from liability, notably on the ground of the **Sony** defense⁵³⁰, holding that Grokster - which, differently from Napster and the like, had no centralized index – had not materially contributed to infringement beyond selling a device capable of substantial non-infringing use⁵³¹. Moreover, Grokster was exonerated from vicarious liability on the ground it was deemed to have no control over its users.

A unanimous U.S. Supreme Court⁵³² however reversed this decision and held Grokster liable for “actively inducing” copyright infringement.⁵³³ The Supreme Court held, specifically, that “one who distributes a device with the aim 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

⁵²⁸ *Id.* at 649 (evidence were notably based on the software's tutorial that mainly included copyrighted music files)

⁵²⁹ **MGM Studios, Inc. v. Grokster Ltd**, 380 F 3d 1154 at 1165-1166 (9th cir. 2004) aff'g **MGM v. Grokster** 259 F Supp. 2d 1029 (C.D. Cal. 2003) but rev'd by **MGM v. Grokster**, 545 U.S. 913 (2005) (prec.)

⁵³⁰ i.e. “*substantial non infringing use* standard” carved out in **Sony Corp. of America v. Universal City Studios, Inc.**, 464 U.S. 417 (prec.)

⁵³¹ Because users themselves searched for, retrieved, and stored the infringing files, with no involvement from respondents beyond providing the software in the first place.

⁵³² **MGM v. Grokster**, 545 U.S. 913 (2005) (prec.)

⁵³³ “Inducement” is generally considered as a specific category of contributory liability, although some academics have classified inducement as a new type of secondary liability. See e.g. Pamela Samuelson, Three Reactions To MGM V. Grokster, 13 MICH. TELECOMM. TECH. L. REV. (2006).

infringement by third parties”. In this case, the court found that there was sufficient evidence of *inducement* based on Grokster’s (i) promotion of the infringing uses offered by its device, (ii) failure to filter out infringing uses despite its general knowledge of such infringement and (iii) decision to build an audience and a business model on infringement.

Further progenies of Grokster were the target of other legal battles and experienced a similar fate. In **Arista Records LLC v. Lime group LLC**⁵³⁴ and in **Arista Records LLC v. Usenet.com, Inc.**⁵³⁵, the Southern District of New-York held two similar peer-to-peer networks, Limewire and Usenet, liable for copyright inducement, contributory and vicarious infringement on similar grounds.

Recently, other file sharing companies using new technologies (notably bitTorrent and cyberlockers) - enabling their users to consume and share content for free - have been brought before U.S. courts.

In **Columbia Pictures Industries, Inc. v. Fung**⁵³⁶ for instance, the District Court of California found a BitTorrent tracking site liable for copyright inducement and expressly dismissed a defense based on the DMCA safe harbor, clarifying that inducement liability and the DMCA would be “inherently contradictory”. It held that inducement liability would be based on “*active bad faith conduct, aimed at promoting infringement,*” while the statutory safe harbors would be based on “*passive good faith conduct, aimed at operating a legitimate Internet business*”⁵³⁷.

Similarly, in **Perfect 10 v. Megaupload**⁵³⁸, Online file storage company Megaupload was held contributory liable for copyright infringement of Perfect 10’s photos on the ground that Megaupload was plausibly aware of (or, if they did not, willfully blind to) the rampant online infringement taking place on its website and did not take any steps to prevent or stop infringement. To reach this conclusion, the court stressed that Megaupload had (i) created different websites in an effort to

⁵³⁴ **Arista Records LLC v. Lime group**, 715 F. Supp. 2d 481 (S.D.N.Y. 2010).

⁵³⁵ **Arista Records LLC v. Usenet.com, Inc.**, 633 F. Supp. 2d 124 (S.D.N.Y. 2009)

⁵³⁶ **Columbia Pictures Industries, Inc. v. Fung**, No. 06 Civ. 5578, 2009 U.S. Dist. LEXIS 122661 (C.D. Cal. Dec. 21, 2009)

⁵³⁷ *Id.* at 43

⁵³⁸ **Perfect 10 v. Megaupload**, case No11cv0191 - IEG (BLM) (SD Cal., July 26, 2011)

streamline users' access to different types of media, (ii) offered Rewards Programs to users who accepted it to upload vast amount of popular media, (iii) disseminated URLs for various files throughout the Internet and (iv) provided payouts to affiliate websites who maintained a catalogue of all available files.

Since then, Megaupload has been seized and shut down by the U.S. Department of Justice after seven people associated with the site, including its founder, were charged with conspiracies to commit racketeering, copyright infringement and money laundering⁵³⁹.

MP3tunes, running a similar online storage service (MP3tunes.com) and a related search engine service (sideload.com) allowing its users to retrieve songs stored on third party's lockers, had more success before the Southern District of New-York. In **Capitol Records v. MP3tunes**⁵⁴⁰, the court of New-York ruled that, since it had set up a procedure for responding to DMCA takedown notices and a policy for dealing with repeat infringers, MP3tunes was eligible under the hosting safe harbor for the content hosted on its website. The court further held that - to the extent it had deleted from its website any reference to infringing content upon receipt of EMI's notifications - MP3tunes was shielded from any liability under the hosting safe harbor. However, the court held that MP3tunes should also have deleted, upon reception of EMI's takedown notice, the songs that were stored on its users' account (lockers or "personal files"). The court consequently granted in part EMI's motion for summary judgment that MP3tunes.com was contributory liable for copyright infringement as a result of this content.

In addition to the actions launched against peer-to-peer and other file-sharing networks, the RIAA, on behalf of some major U.S. recording companies, has also launched from 2004 to 2008 an

⁵³⁹ See BBC report, *Megaupload File-Sharing Site Shut Down*, Jan. 19, 2012. See also Indictment claim issued by the Eastern District of Virginia on Jan. 5, 2012 against executives of Megaupload. See also for an article questioning the legal ground of this claim, Jennifer Granick, *Megaupload A Lot Less Guilty Than You Think*, available on Stanford's Center for Internet and Society's website).

⁵⁴⁰ *Capitol Records Inc et al. v. MP3tunes LLC et al.*, 07-cv-9931 (S.D.N.Y. Aug. 22, 2011 and Oct. 25, 2011)

estimated of 30,000 cases against individuals allegedly engaging in unauthorized file sharing⁵⁴¹. The results of this aggressive campaign were rather counterproductive: it did not curtail or even reduce non authorized file-sharing nor did it reverse the decline in music sale. Instead it made the entertainment industry extremely unpopular⁵⁴². As a result, the RIAA released a statement in 2008 that it was suspending its litigation campaign against users to focus on ISP action, either by asking for ISP's cooperation in the sanctioning of infringing users (graduated response) or by taking action against unauthorized file sharing networks⁵⁴³.

In broad erms, U.S. case law has therefore been rather reluctant to grant any safe-harbor or legal excuse to file-sharing companies using peer-to-peer, bitTorrent or online storage technologies to bypass copyright law, mostly holding them liable for direct, contributory or vicarious infringement. By contrast, EU case law has been more divided on this question.

3.2.4.3 EU case law on the liability of peer-to-peer and other file-sharing platforms for third party content

While U.S. courts have mostly held peer-to-peer file-sharing platforms liable for copyright infringement, some courts in Europe have held similar platforms legal, as long as their users were not engaging in commercial use of copyrighted content.

In **Sociedad General de Autores y Editores v. D.J.G.C** for instance, a Spanish Court has exempted from all liability a torrent website (named elrincondejesus) - enabling its users to consume and share copyrighted content without the authorization of the right holder - on the ground that it

⁵⁴¹ See EFF *RIAA V. The People, Five Years Later*, available on Eff's website.

⁵⁴² cf. Ken Nicholds (prec.) at 983 – see below part 4.1.3.2 (b) (iii)

⁵⁴³ However, other right holders have since then launched “grouped” John Dose’s law suits against BitTorrent users. See e.g. **Liberty Media Holdings LLC v. 38 John Does**, Boston federal Court, 2011

would be eligible under the *routing* safe harbor, in its operation as a mere conduit for the transmission of third party data between Internet users⁵⁴⁴.

Similarly, in **Atari Europe S.A.S.U. v. Rapidshare AG**⁵⁴⁵, the Dusseldorf (Germany) higher regional Court exempted the famous peer-to-peer file sharing network Rapidshare from all liability, finding that the site removed copyrighted material when it was asked to do so and did not provide search facilities for illegal material. The court further considered that most people utilized RapidShare for legal use. Interestingly, the same website was held liable for copyright infringement by a Canadian court and held by the U.S. Congressional International Anti-Piracy Caucus as “notoriously illegal”, “overwhelmingly used for the global exchange of illegal movies, music and other copyrighted works” and “operating with the clear purpose of encouraging and inducing music theft”⁵⁴⁶.

In **the Netherlands**, the appellate court of Amsterdam held in its landmark decision **Kazaa v Buma/Stemra**⁵⁴⁷, that peer-to-peer file sharing service KaZaa was not liable for direct or indirect copyright infringement on the ground that (i) Kazaa could not exercise control over infringing uses made by its users and (ii) its software had also legitimate uses.

By contrast, in **U.K.**⁵⁴⁸, **Sweden**⁵⁴⁹ and in another forum in **the Netherlands**⁵⁵⁰, courts have respectively held (contributory) liable “The Pirate Bay” (TPB) (first two decisions) and “Mininova”

⁵⁴⁴ See Barcelona Commercial Court (Juzgado Mercantil), July 2, 2009, **Sociedad General de Autores y Editores v. D.J.G.C (elrincondejesus.com)**

⁵⁴⁵ OLG (Higher Regional Court) Dusseldorf, March 22, 2010, **Atari Europe v. Rapidshare**

⁵⁴⁶ RIAA’s press release, *RIAA Joins Congressional Caucus In Unveiling First –Ever List Of Notorious Illegal Sites*, available on RIAA’s website

⁵⁴⁷ *Netherlands S. Ct. Dec. 19, 2003, No. C02/186HR, Buma/Stemra v. Kazaa*, (aff’g Amsterdam Ct. of Appeal, March 28, 2002, No. 1370/01, rev’g Amsterdam Court of Justice, Nov. 29 2001, No. KG 01/2264). See generally, Allen N. Dixon, *Liability Of Users And Third Parties For Copyright Infringements On The Internet: Overview Of International Developments*, in *PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW*, Alain Strowel (2009) at 24 and Brian Grow, *Netherlands Court Ruling Offers Haven To File-Sharing Services*, WALL ST. J. (Dec. 18, 2002).

⁵⁴⁸ EWHC, Feb. 20, 2012, *Dramatico Entertainment Ltd & others v British Sky Broadcasting Ltd & others*

⁵⁴⁹ See Stockholm District Court (Div. 5, Unit 52) April 17, 2009 (Verdict B 13301-06) **Sony and Ors v. Neij**, sentencing the operators of the Pirate Bay to a one year imprisonment and a 30 millions Swedish kronor (about 3,5

(third decision), two file-sharing websites using a bitTorrent protocol, for “authorizing”⁵⁵¹, aiding and abetting and/or inducing copyright infringement. Actions against OSPs therefore had uneven success before EU courts.

Like in the United States, some actions were also brought against Internet users (direct infringers) in Europe, but with uneven success⁵⁵².

As a consequence, right holders in Europe have recently tended to focus their action against ISP⁵⁵³, seeking either their voluntary collaboration through bilateral agreements or their forcing their assistance through judicial injunctions.

In the Belgium case **Scarlet v. Sabam**⁵⁵⁴ for instance, the collective society representing composers and music publishers in Belgium, SABAM, filed a lawsuit in early 2007 against ISP Scarlet (formerly TISCALI) in order to force Scarlet to adopt technological measures to prevent its subscribers from downloading illegal music from its catalogue.

At trial, the President of the Brussels Court of First Instance ordered Scarlet in its capacity as an ISP to make it impossible for its customers to send or receive files containing a music work in

millions dollars) fine. After the decision was upheld on appeal in November 2010 and the Supreme Court refused to hear the case in February 1, 2012, the operator of the website have decided to shut it down. See unofficial translation in English of the first instance decision available here. See generally Michael A. Carrier, *The Pirate Bay, Grokster and Google*, JOURNAL OF INTELLECTUAL PROPERTY RIGHT (Vol. 15, Jan. 2010) at 7-18.

⁵⁵⁰ Utrecht District Court, August 26, 2009, **Stichting Brein v. Mininova**, ordering Mininova to filter all bitTorrent files infringing plaintiff's rights. Unable to comply with this order, Mininova subsequently closed down. Unofficial copy of the decision (in Dutch) available here

⁵⁵¹ See EWHC, Feb. 20, 2012, *Dramatico Entertainment Ltd & others v British Sky Broadcasting Ltd & others* (prec.) at 73-81 defining “authorization” as the fact of “granting or purporting to grant to a third person the rights to do the act complained of.”

⁵⁵² cf. e.g. Situations *in Spain* (where file sharing for private use is considered as legal), in *Italy* (where criminally liability does not extent to file sharing for non commercial purpose) and *France* (where after a long period of distinction between downloading for non commercial purposes – exempted under the private copy exception -and downloading/uploading for commercial purpose - which was held copyright infringement – case law finally abandoned that distinction after the Supreme Court held in *Mulholland Drive* that private copy was an exception and not a right and had to be subject to the Berne three steps tests, notably the normal exploitation rule that has to be assessed in light with all the circumstances and new risks raised by the digital environment. See *Mulholland Drive*, French Supreme Court, February 28, 2006, (2006) 37 I.I.C. 760, rev'g Paris Court of Appeal, April 22, 2005, (2006) 37 I.I.C. 112.)

⁵⁵³ See e.g. the Belgium case **Scarlet v. Sabam** (prec.) and the U.K. case **TCF v. BT** (see supra note 319)

⁵⁵⁴ Tribunal de Premiere Instance (T.P.I.) (Court of First Instance) Brussels, June 29, 2007, **Scarlet v. Sabam** available at <http://www.juriscom.net/jpt/visu.php?ID=939>

SABAM's repertoire by means of peer-to-peer software, on pain of a periodic penalty. The court further ordered Scarlet to use one of 11 methods suggest in an expert report to either block or filter P2P infringement on its network.

Claiming that such an injunction was both impractical and contrary to article 15 of the e-commerce Directive and the EU provision on protection of personal data and secrecy of communication, Scarlet appealed against this decision to the Court of Appeal of Brussels, which referred the case to the E.C.J.

On November 24, 2011, the E.C.J. held in **Scarlet v. Sabam**⁵⁵⁵ that such a broad injunction, requiring an ISP to install at its own expense a filtering system for all electronic communications passing via its services for an unlimited period of time, in order to prevent any future infringement of the rights held by any members of SABAM would indeed be at odds with article 15 of the e-commerce Directive, in that it would impose on an intermediary a general monitoring obligation. However, the court did not exclude the possibility for domestic courts in Europe to impose specific injunction on ISPs aimed at stopping or preventing specific types of infringement.

Likewise, in the U.K. case **Twentieth Century Fox et al. v. British Telecommunications (BT) PLC**⁵⁵⁶, the U.K. High Court ordered for the first time an ISP to block some of its customers' access to newzbin.com, a foreign website enabling its users to share, without prior authorization, movies, music and TV shows. In reaching this decision, the court held that the fact that BT was eligible under the caching safe harbor did not prevent a court from ordering it to take all reasonable measure to stop infringement. The court further held that for such injunction to be made, it was enough that BT knew in general terms the scale of copyright infringement occurring on its site; actual

⁵⁵⁵ Scarlet v. Sabam, E.C.J. case C-70/10, Nov. 24, 2011. See e.g. TTLF newsletter n°1/2012 at 6 for further details on this case.

⁵⁵⁶ EWHC, July 28, 2011 **Twentieth Century Fox, Universal, Warner Bros., Paramount, Disney, Columbia v. British Telecommunications (prec.)**

knowledge of a particular transaction infringing copyright was thus not required. Finally, the court clarified that because the injunction was both targeted, technically feasible and financially affordable, it was not at odds with article 15 (1) of the e-commerce Directive (banning the imposition of any general monitoring obligation on service providers).

In parallel to legal actions, right holders have also tried to obtain the ISPs' voluntary cooperation in policing their users. In some EU countries, notably France⁵⁵⁷ and the U.K.⁵⁵⁸, this "cooperation" has even been made compulsory, ISPs being legally required to help in the identification and implementation of graduated sanctions - including suspension of Internet access after a certain number of "strikes" - against users identified by the right holders as engaging in copyright infringement.

If the regulations governing Internet intermediaries' liability in Europe and in the United States are consistent, the interpretations of this similar legal framework by U.S. and EU courts have been substantially inconsistent, resulting in a different approach towards similar intermediaries.

Such divergences of interpretation have resulted in a great deal of legal uncertainty for both the content and technology industries, to the detriment of all stakeholders⁵⁵⁹.

For the technology industry, the increased risks and liability resulting from this legal uncertainty have hampered the emergence of new innovative businesses and technologies, while inadequate and inconsistent solution to the problem of online piracy has deterred right holders from disseminating their copyrighted content and/or distributing their branded products online, to the detriment of all Internet users.

⁵⁵⁷ See e.g. French HADOPI law including three strikes response, forcing ISPs to implement graduated sanctions against their users engaging in copyright infringement upon receiving repeated notification of infringement from right holders. (See infra Part 4.1.2 for further details on this law.)

⁵⁵⁸ See the U.K. Digital Economy Act, adopted on April 8, 2010, obliging ISP to assist in identifying infringers and to take similar measures (warning letters, slowing down traffic, etc.) to police their users (see infra Part 4.1.2 for further details on this law)

⁵⁵⁹ See supra (part 1.5)

Different draft reforms of copyright, trademark or Internet law - involving further liability for OSPs, users or ISPs – have been recently discussed and/or adopted in order to address this problem.

However, most of these projects have caused huge public outcry and may threaten fundamental rights and liberties, without effectively tackling the problem of online infringement.

Rather than trying to implement an umpteenth and imperfect reform of the legal framework governing OSPs' liability, a good way to address this issue could be to further harmonize the interpretation of the legal framework that already addresses this issue and to foster the implementation of a larger range of business-driven solutions (4).

4. IN SEARCH FOR A RECONCILIATION OF THE U.S. AND EU APPROACHES

Given the borderless nature of the Internet, the issue of online infringement has to be tackled globally, through an integrated and coordinated approach⁵⁶⁰.

In the last ten years, lawmakers in Europe and in the United States have thus endeavored to adopt consistent regulations to foster the development of digital economy, while trying to protect the interest of right holders.

However, a changing technical and economic landscape, different policies as well as asymmetries in the balance of powers existing between the main stakeholders (right holders, OSP and users)⁵⁶¹ from

⁵⁶⁰ See Graeme W. Austin, *Global Networks And Domestic Laws: Some Private International Law Issues Arising From Australian And U.S. Liability Theories* in PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW (prec.) (See comments on the international character of IP offense and the necessity to adopt consistent rules to tackle these problems.)

⁵⁶¹ In particular, while the U.S. government undoubtedly plays an active role in promoting the technical industry (sometimes to the detriment of the content industry) since Internet has become an increasingly important player in the growth of U.S. economy, some governments in Europe (notably in France, Italy, Belgium and to some extent the U.K.) have a more conflicted approach in the tension between the content and the technology industries, since their economy still rely heavily on traditional industry sectors (e.g. luxury, cultural and/or creative industries) that can be undermined

both part of the Atlantic have led some U.S. and EU courts to issue contrasting decisions towards identical or similar intermediaries, involved in identical or similar activities.

Lawmakers in Europe and in the United States have thus sought to address the problem of online piracy by introducing new legislative reforms, which - in addition to threatening the global consistency of our legal frameworks - have failed to address the issue of online counterfeiting effectively (4.1). In fact, rather than through new legal reforms, it seems that a better way to address the fundamental tension existing between the interests at stake and the growth of online piracy is through further harmonization of our legal framework (and above all, its interpretations) (4.2) and the implementation of a larger range of business-driven solutions (4.3).

4.1 Reforms recently introduced and/or implemented in Europe and in the United States to address the issue of online infringement

Beyond some apparent and/or short-term divergences in their policies and economic interests, both Europe and the United State have expressed in their recent reforms to copyright law a common goal to foster the digital economy and users' access to goods and content online, whilst protecting I.P. rights (4.1.1). The reforms adopted and/or currently discussed in Europe and in the United States to address the problem of online piracy however creates more problems than they solve (4.1.2). In addition to threatening the global consistency of the U.S. and EU legal frameworks, these new reforms and/or blueprints potentially undermine the delicate balance between the different interests at stake, without effectively addressing the problem of online piracy (4.2.3)

by an uncontrolled growth of the Internet. See generally, Shanna Bailey, *Fighting An Anonymous Enemy: The Uncertainty Of Auction Sites In The Face Of Tiffany v. Ebay and LVMH v. Ebay*, 40 CAL. W. INT'L E.G. 152

4.1.1 Fostering digital economy while protecting users' and I.P. rights: a common goal to U.S. and EU lawmakers

In seeking a common solution to combat online counterfeiting, U.S. and EU lawmakers have generally relied on three threshold premises:

- (i) The primary goal of any regulation governing online activities is to foster the robust development of electronic commerce and information society services, seen as a key driver to U.S. and EU economies;
- (ii) Online infringement should be combated vigorously and globally, as it undermines U.S. and EU fundamental assets;
- (iii) All the stakeholders have an interest in curtailing infringement.

The first point remains quite uncontested. In enacting new provisions aimed at regulating online activities, U.S. and EU lawmakers regularly reaffirm the primary scope pursued by the DMCA and e-commerce Directive⁵⁶², i.e. to foster the development of a robust digital economy, seen as a key driver in affording employment opportunities, providing economic growth and promoting investment in both Europe and in the United States.

Likewise, with the staggering growth of online piracy, U.S. and EU countries are continuing to condemn strongly online piracy, responsible in both territories for major losses in terms of decreasing tax revenues, lost jobs and lost profits⁵⁶³, among other problems⁵⁶⁴.

⁵⁶² See Council Directive 2000/31/EC, Recitals n°1-10 and S. REP. 105-190 on the DMCA at 2-8

⁵⁶² See 17 U.S.C. § 512 (c) (1)-(3)

⁵⁶³ In particular in the field of luxury, entertainment and other creative industries. See e.g. OECD study, *The Economic Impact Of Counterfeiting And Piracy* (considering that international trade in counterfeit and pirated products, outside digital piracy, would accounted for up to U.S.D. 200 to 250 billion) (figure updated in 2009) and IAC Report, *The Truth About Counterfeiting* (considering that counterfeiting would be responsible for the loss of more than 750.000 U.S. jobs and would cost U.S.D 9 billion in trade losses due to international piracy) (both prec. note 14), BASCAP Report, (showing that the economic value of Online piracy would account for USD 30 to 75 billions and could account for up to 240 billions in 2015) and IPI (Institute for Policy Innovation) Report (considering that global music piracy alone would cause U.S.D 12.5 billion of economic losses every year, 71,060 U.S. jobs lost, a loss of \$2.7 billion in workers' earnings, and a loss of \$422 million in tax revenues).

Yet, the third assumption, i.e. the fact that counterfeiting is a common problem involving all the stakeholders⁵⁶⁵ has become more and more controversial in recent years, making any reforms aimed at obtaining further involvement of either the users, the ISPs or the OSPs in the global fight against online piracy, extremely controversial⁵⁶⁶.

As a result, lawmakers in Europe and in the United States have recently introduced a series of uncoordinated, largely unpopular and partially flawed legislative reforms that are likely to be largely ineffective in tackling the issue of online piracy.

4.1.2 Overview of some of the proposal currently under review

In an attempt to catch up with the evolution of new technologies and the staggering growth of online piracy, lawmakers, in Europe just like in the United States, have recently brought in an increasing number of hastily written, sometimes technologically flawed and mostly uncoordinated bills, often abandoned even before being discussed in parliament.⁵⁶⁷

⁵⁶⁴ cf. ROBERTO SAVIANO, GOMORRA (Mondadori, 2006) (showing that online infringement has become one of the first source of revenue for criminal and terrorists organizations, notably in southern Italy); Roslyn A. Mazer, *From T-Shirts to Terrorism: that Fake Nike Swoosh May Be Helping to Fund Bin Laden's Network*, Wash. Post, Sept. 30, 2001. See also Interpol report available at <http://www.interpol.int/Public/speeches/SG20030716.asp>; Matthew Benjamin, *A World of Fakes: Counterfeit Goods Threaten Firms, Consumers and National Security*, U.S. NEWS & WORLD REP. (July 6, 2003) available at <http://www.usnews.com/usnews/culture/articles/030714/14counterfeit.htm>

⁵⁶⁵ See e.g. Recital of the European Protocol (Memorandum of Understanding (MoU)) between major right-holders and platforms to establish a Code of Practice aimed at fighting online infringement (May 2011) ("The sale of counterfeit goods over the internet presents a threat to all stakeholders, including consumers, rights owners, Internet platforms and society in general as: i) consumers are at growing risk of buying inferior and possibly dangerous products, ii) the brand values, reputation and economic interests of rights owners are jeopardized through the sale of counterfeit versions of their branded products, iii) the efforts of internet platforms to be widely regarded as safe places to buy and sell legitimate products are undermined.)

⁵⁶⁶ See e.g. Marco Schiaffino, *Continua La Protesta Contro La Chiusura di Megaupload, Anonymous Abbatte i Siti U.S.A.*, Il fatto quotidiano, Jan. 24, 2012.

⁵⁶⁷ The e-Fencing Enforcement act of 2008, the Organized Retail Crime Act of 2008, COICA, SOPA and PIPA are just a few examples of the laws that have been introduced to combat online piracy and dropped at an early stage in the last four years in the United States. See E-Fencing Enforcement Act, H.R. Resolution 6713, 110th Cong. (2008) (placing additional burden and duty on online auction houses notably (i) to retain information of high volume sellers for three years, (ii) provide those information to any inquirer with standing and a (iii) to take down any infringing information and preclude access to high volume seller of counterfeit to the online marketplace), Combating Organized Retail Crime Act, 111th Cong. (2009) (seeking to place a greater burden on the online auction site to patrol the content of its site) and the Combating Online Infringement and Counterfeits Act (COICA)

The primary aim of this section is therefore merely to give an outline (rather than an exhaustive review) of the most relevant draft reforms and/or new regulations currently under the spotlights, in the United States (4.1.2.1), at an international level (4.1.2.2), at a (EU) Community level (4.1.2.3) in some EU member states (4.1.2.4) and in some academics/ group of interest or circles (4.1.2.4).

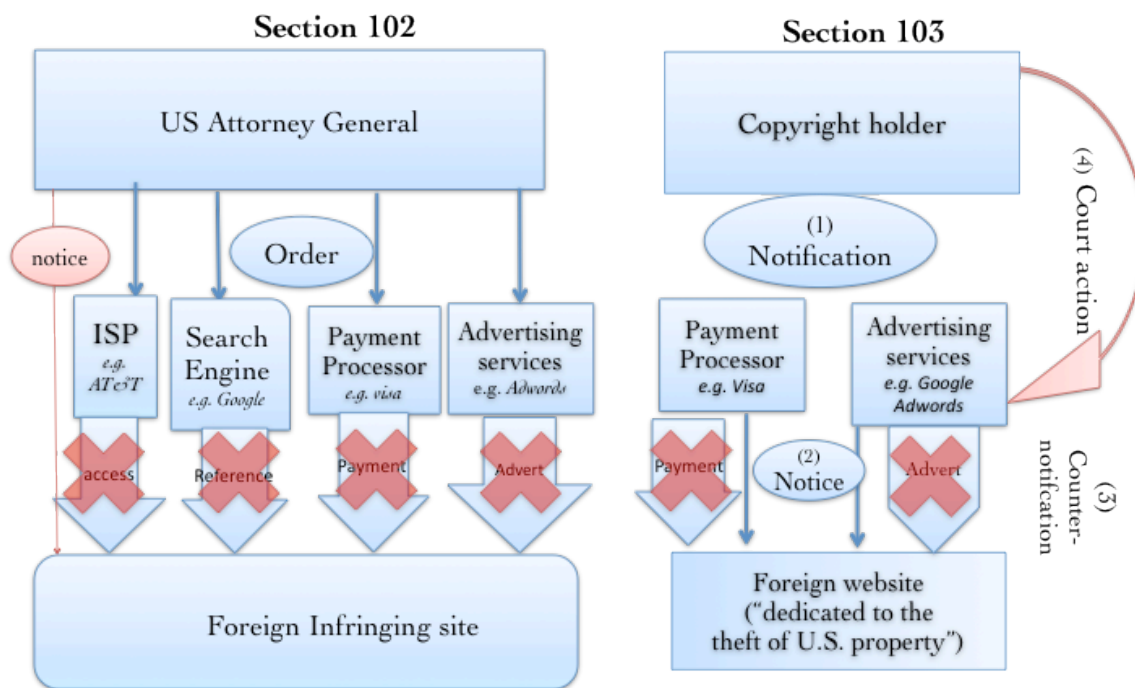
4.1.2.1 Draft reforms of copyright law in the US

(a) SOPA and PIPA

“SOPA” (Stop Online Piracy Act)⁵⁶⁸ or its equivalent in the Senate “PIPA” (Protect Intellectual Property Act) is a U.S. bill giving the U.S Attorney General and copyright owners additional means to combat online infringements committed by foreign websites.

To that end, the bill offers the right holders a public and a private remedy aimed at undercutting the business model of such websites that can be schematically represented as follow:

⁵⁶⁸ See H.R. 3261 112th Congress, 1st session



Firstly, section 102 of the bill allows the Attorney General to request (i) an internet service provider, (ii) a search engine, (iii) a payment processor or (iv) an advertising network, to stop providing their services (i.e. to block access, stop referencing or stop providing payment or advertising facilities) to foreign websites dedicated to online infringement⁵⁶⁹.

Secondly, section 103 of the bill grants similar powers to right holders, although the right holder's request can only target payment processors and advertising networks (and not search engines or ISPs).

Moreover, the private remedy provided by section 103 is subject to a two-step process:

(i) First, the copyright owner has to request the payment processor or advertising network, to stop providing their services to a website "dedicated to theft of U.S. property", by mean of a written notification including, among other requirements, the legal ground for such request.

⁵⁶⁹ *Id.*, section 102

(ii) Then, where the payment or advertising network fails to comply with such notification and/or in case a counter-notification is filed by the owner or registrant of the website challenging the validity of such assertion, the right holder can commence a court action for injunctive relief against the owner, operator or domain name registrant of the targeted website⁵⁷⁰.

However, the bill creates a strong incentive for service providers to comply with public or private orders by providing an exemption from liability in case of compliance with such orders, while reserving the possibility of litigation against these parties in case of non-compliance.⁵⁷¹

The bill also increases penalties for certain piracy-related offences, including streaming of copyrighted works⁵⁷².

SOPA and PIPA bills have been the subjects of an unprecedented public outcry and widespread criticisms, relating to - amongst others:

- (i) their legislative process (lack of transparency, of public participation/implication, etc.),
- (ii) their negative impact on internet security (provisions relating to DNS blocking/redirection),
- (iii) their potential stifling effect on innovation and investments in the Internet industry (by increasing litigation risks and functioning costs for intermediaries), as well as
- (iv) their potential chilling effect on the providers and users' free speech (over-reaching character of the bill e.g. when blocking entire website due to the presence of some infringing content) and breach of fundamental rights (lack of due process, disproportionate criminal sanctions, etc)⁵⁷³.

⁵⁷⁰ *Id.*, section 103.

⁵⁷¹ *Id.*, section 102 (c)(5)(A), 102(c)(4)(A) (i) and section 103 (c)(1)

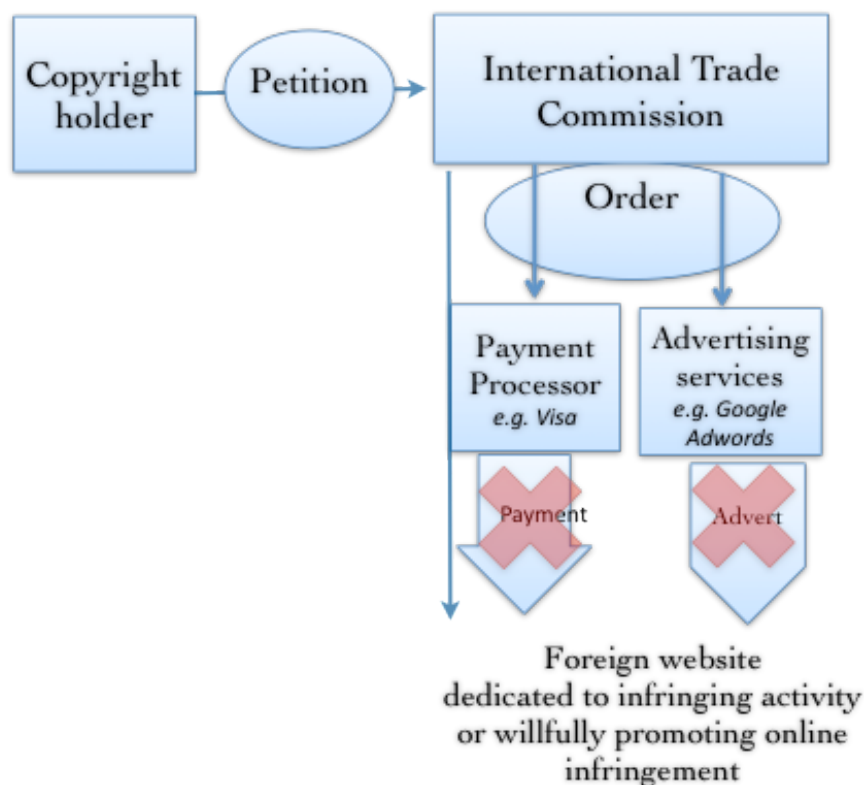
⁵⁷² *Id.*, section 201

⁵⁷³ See Center for Democracy and Technology (CDT) Paper, *The Stop Online Piracy Act, Summary, Problems and Implications* (2011); see generally CDT website, for a representative sample of some reactions to SOPA and PIPA. from cyber-security specialists, engineers, major Internet companies, entrepreneurs and business people, professors, nonprofit organization, human-rights groups, publishers, consumer-rights groups, journalists, and artists organizations. See also Jonathan Zittrain, Kendra Albert and Alicia Solow-Niederman, *A Close Look at SOPA* (Future of the Internet blog, Dec. 2011). Contra, see Daniel Castro, *PIPA/SOPA: Responding To Critics And Finding A Path Forward*, ITIF, Dec. 2011.

After widespread online protests⁵⁷⁴, SOPA and PIPA were both put on the shelf “until a compromise on the legislation will be reached⁵⁷⁵”.

(b) **OPEN**

In the wake of the strong opposition expressed against PIPA and SOPA, another online piracy legislation named Online Protection and Enforcement of Digital Trade (OPEN) was introduced before the House of Representative on January 18, 2012. A schematical representation of this law can be represented as follows:



⁵⁷⁴ See e.g. Letter from AOL, Google, Facebook, Twitter, eBay, LinkedIn, Mozilla and Zing to Senator Leahy, Lamar Smith et al. expressing concerns about SOPA. See also “americancensorship” website (reporting, as examples of some of the reactions to SOPA, the Internet blackout of the English version of Wikipedia, Reddits and many other websites and more 400,000 telephone calls from ordinary citizens to Congress).

⁵⁷⁵ Cf. Senator Harry Reid’s statement and Lamar Smith’s declaration of Jan. 20, 2012 to postpone future action on the legislation

Differently from SOPA/PIPA, OPEN would give the International Trade Commission (ITC) – rather than the Justice department- the power to require a payment processor or an advertising network to sever their relationship with websites “dedicated to infringing activity” and willfully promoting online infringement.

Interestingly, the proponents of the bills have set up a website in which anybody can read the bill and make comments and/or suggestions to improve the language of the bill, probably as a reaction to the wide protests criticizing the lack of transparency in the legislative process of SOPA/PIPA⁵⁷⁶.

While the law would have received supports from technology giants such as Google, Facebook, LinkedIn, Twitter and others, the entertainment industry is globally unsatisfied with the bill, considered as largely ineffective against online infringement. Moreover, it remains to be seen how this bill - if it is ever adopted - will effectively tackle the problem of online piracy and protect the interest of the other stakeholders⁵⁷⁷.

4.1.2.2 Draft reforms at an international level: the multinational ACTA treaty

The Anti-Counterfeiting Trade Agreement (ACTA) is a multinational agreement aiming at establishing international standards for the enforcement of IP rights⁵⁷⁸. The agreement was signed on October 1st by Australia, Canada, Japan, Morocco, New Zealand, Singapore, South Korea and the United State, while the EU Council and 22 of its member states signed it in January 2012. In theory, the Agreement should come into force after ratification by 6 states.

⁵⁷⁶ See e.g. keepthewebopen.com

⁵⁷⁷ See Christina Desmarais, *SOPA, PIPA Stalled, Meet The OPEN Act*, PC WORLD BLOG (Jan. 2012).

⁵⁷⁸ Cf. Anti-Counterfeiting Trade Agreement (ACTA) between the European Union and its member states, Australia, Canada, Japan, The republic of Korea, The United Mexican States, The Kingdom of Morocco, New-Zealand, The Republic of Singapore, the Swiss Confederation and the United States of America.

The issue of the enforcement of IP right in a digital environment is more specifically addressed in Chapter II, section 5 of the Agreement.

Broadly speaking, the Agreement provides that member states shall provide in their legislations:

- (i) effective remedies (including prohibitory and preventive injunctions) against the widespread unauthorized distribution of copyrighted work⁵⁷⁹,
- (ii) remedies against the circumvention of effective technological measures aimed at protecting copyright, and
- (iii) specific procedures aimed at obtaining the identification of direct infringers (notably through their ISPs)⁵⁸⁰.

The Agreement also provide that signatories shall endeavor to promote cooperative efforts within the business community to effectively address the issue of online infringement, while preserving legitimate competition between businesses and the user's fundamental rights (freedom of expression, fair process and privacy)⁵⁸¹.

Although the agreement is essentially limited to the statement of broad principles, essentially already existing in U.S. and EU legislations⁵⁸², the agreement was widely criticized for its:

- (i) negotiation's process (lack of transparency, exclusion of civil society groups, etc.),
- (ii) "vagueness",
- (iii) alleged chilling effect on innovation and fundamental rights and
- (iv) overbroad protection of Technological Protection Measures (TPM) (extension of the provisions existing in this regard in the U.S. DMCA to all the other signatories of ACTA)⁵⁸³.

⁵⁷⁹ *Id* at Section 5, art. 27 § 1-2 (notably referring to Section 2, art. 8 and 12)

⁵⁸⁰ *Id.* at Section 5, art. 27 § 4-5

⁵⁸¹ *Id.* at Section 5, art. 27 § 3

⁵⁸² See Cécile Despringre, SACD, *ACTA, Beaucoup De Bruit Pour Rien*, SACD, vu(es) d'Europe (Apr. 2010).

⁵⁸³ See Gwen Hinze, *Preliminary Analysis Of The Officially Released ACTA Text*, available at <https://www.eff.org/deeplinks/2010/04/eff-analysis-officially-released-acta-text>, See also, stopacta.info (la quadrature du net); Charles R. McManis, *The Proposed Anti-Counterfeiting Trade Agreement, Two Tales Of A Treaty*, 46 HOUS. L.

However, the most controversial provisions - ISP filtering and graduate response - that were apparently included in former (non-official) version of ACTA - were abandoned in the official version of the agreement, largely watering down the criticisms raised against it⁵⁸⁴.

Deferring to strong public outcry and heavy criticisms from ISPs, Internet activists, free-speech and consumer-rights associations, the European Commission has decided to refer the ACTA Agreement to the E.C.J. for review in order to assess its compatibility with EU fundamental rights (notably freedom of expression, information, data protection and right of property).⁵⁸⁵

4.1.2.3 Draft reforms at a (EU) Community level: a future revision of the e-commerce Directive?

Concerned by the divergence of interpretations raised by the e-commerce Directive in Europe⁵⁸⁶, the European Commission commissioned two studies in 2007⁵⁸⁷ and launched a public consultation from August to November 2010⁵⁸⁸ on the implementation of the e-commerce directive, in order to assess whether a reform of the e-commerce directive was desirable and if so, how it should be reformed.

REV. 1235. Ralph Beste, Are Protesters' ACTA Concerns Justified? De Spiegel (Online version, Feb. 20, 2012); Contra, see Brandon Peene, *Lux for Less: eBay's liability to luxury brands for the sale of counterfeit goods*, SETON HALL LAW REVIEW, 2010

⁵⁸⁴ Cf. Rashmi Raghunat, What We Won In ACTA, PUBLIC KNOWLEDGE Nov. 3, 2011; Erik Kain, *Final Draft Of ACTA Watered Down, TPP Still Dangerous On IP Rules*, FORBES websites, Jan, 28, 2012.

⁵⁸⁵ See Statement of Karel De Gucht, E.U. Commissioner on ACTA's referral to the E.C.J. (see E.U. press release)

⁵⁸⁶ See E.U. Commission Communication to the European Parliament, the Council, the Economic and social committee and the committee of the regions, *A Coherent Framework For Building Trust In The Digital Single Market For E-Commerce And Online Services* (January 11, 2012) at 1, mentioning that the retail electronic commerce accounted for less than 4% of European total retail services in 2010. (available at http://ec.europa.eu/internal_market/e-commerce/docs/communication2012/COM2011_942_en.pdf)

⁵⁸⁷ Copenhagen Economics *Study On The Economic Impact Of The Electronic Commerce Directive* (Sept. 2007), (study commissioned by the European Commission DG Internal Market available at http://ec.europa.eu/internal_market/e-commerce/docs/study/ecd/final_report_070907.pdf) and ULYS Consortium *Study on the liability of intermediaries liability* (Nov. 2007) (prec.).

⁵⁸⁸ See Public consultation on the future of electronic commerce in the internal market and the implementation of the Directive on electronic commerce (2000/31/EC) and summary report (available at http://ec.europa.eu/internal_market/consultations/docs/2010/e-commerce/summary_report_en.pdf)

After receiving about 420 answers from stakeholders - right holders, ISPs, OSPs, entrepreneurs, consumers and a great variety of representative bodies - the Commission concluded that a revision of the e-commerce Directive on the question of the status and liability of internet intermediaries was *unnecessary*⁵⁸⁹, despite obvious discrepancies in the interpretation of the threshold condition triggering liability under the e-commerce Directive (e.g. conditions of eligibility under the hosting status, knowledge standard, conditions of availability and scope of injunctive reliefs, extent of a possible duty of care, monitoring obligations, filtering, etc)⁵⁹⁰.

Apparently, the Commission was unable to find any compromise between the contrasting positions expressed by the different stakeholders and was therefore unable to provide any guidelines for a possible reform of the e-commerce Directive.

Rather, the Commission announced a reform of the enforcement Directive⁵⁹¹ and the launch of a horizontal initiative to develop harmonized EU “notice-and-action” procedures⁵⁹², while merely calling for a mere “clarification” of the e-commerce Directive and further cooperation between the different stakeholders.

In parallel to these reflections carried out at an EU level, several European member states have also discussed and/or introduced various (mainly inconsistent) domestic law or draft reforms in order to address the issue of online infringement. The following section only addresses some of the most prominent legislative reforms/proposals in this sense.

⁵⁸⁹ See E.U. Commission Communication “*A Coherent Framework For Building Trust In The Digital Single Market (...)*”, (Jan. 2012) (*prec.*)

⁵⁹⁰ *Id.* at 5-1 to 5-11

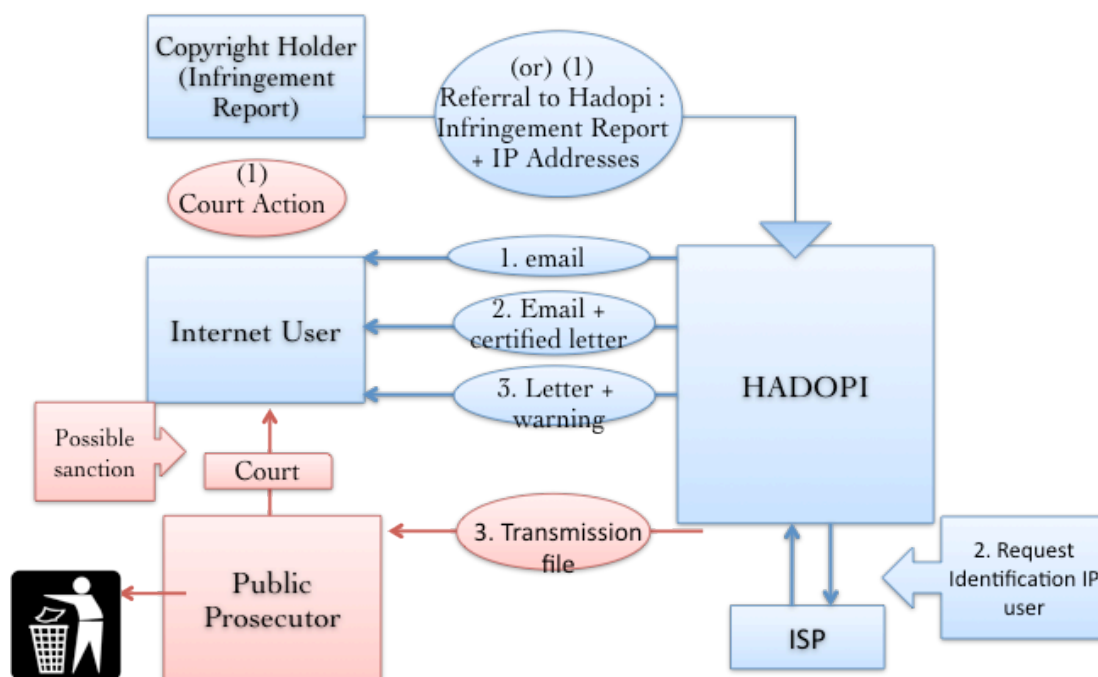
⁵⁹¹ See E.U. Commission *Synthesis Of The Comments On The Commission Report On The Application Of Directive 2004/48/EC Of The European Parliament And The Council Of 29 April 2004 On The Enforcement Of Intellectual Property Rights* (Com/2010/779), July 2011

⁵⁹² See *Id.* at note 49 – defined as the “procedure followed by the intermediary internet providers for the purpose of combating illegal content upon receipt of notification” (e.g. notice and take down, notice and stay down or notice and notice procedures).

4.1.2.4 New regulations and draft reforms at a national level in Europe

(a) The French HADOPI and the draft bill for a “service publisher status”

The French *HADOPI* or *Creation and Internet* law⁵⁹³ introduced in France a new government agency called *Haute Autorité pour la Diffusion des œuvres et la Protection des droits sur Internet* (H.A.D.O.P.I.) in charge of the protection of creative work on the Internet, and vested with the power to police Internet users through the implementation of a system of graduated sanction in case of copyright infringement. It creates a new graduated sanction procedure, which can be schematically represented as follows:



⁵⁹³ Law n°2009-669 of 12 June 2009 promoting the distribution and protection of creative Works on the Internet also called HADOPI or Creation and Internet Law. The French HADOPI law, including the famous three strikes system obliging ISPs to implement graduated sanctions against their users engaging in copyright infringement (warning letters and, after the third strike, suspension of access). This first version of the law was adopted on May 2009 but declared invalid by the Constitution Council on June 2009. The Constitutional Counsel finally approved on October 22, 2009 a new version of the law (HADOPI II) requiring judicial review before revoking a person’s Internet access.

According to this law, the HADOPI agency, on receipt of a complaint from a copyright holder or her representative, may initiate a “three strikes” procedure (or graduated response) against an offending user (identified through her IP address).

This graduated response includes:

- (i) the sending of a first warning email (merely indicating the time of the offense),
- (ii) upon the commitment of a second offense within six months, the sending of a an email *and* a certified letter with the same content, and
- (iii) in case of a third offense within one year from the second warning, the transmission of the file to a judicial court for possible sanctions, which include the suspension of the user’s Internet access for a maximal duration of a year (together with the prohibition to subscribe another contract for a service of the same nature with any other operator during the same period)⁵⁹⁴.

While a first version of the bill had been censored by the Constitutional Counsel as being at odds with principles of free speech and due process (on the ground of the 1789 French Declaration of the Man and the Citizen), the second version of the bill - requiring any suspension or revocation of a person’s Internet access to be ordered by a judicial court - was validated by the Constitutional Counsel on October 22, 2009.

According to the French government, the implementation of this law would have had a great impact on unauthorized peer-to-peer practices: in July 2011, HADOPI reported that after a year of implementation of the law, only 60 peoples out of the 470,000 recipients of a first or second warning

⁵⁹⁴ See art. L.331-25 and L.335-7 of the French Intellectual property code

letter have engaged in a third act of infringement requiring a possible transmission of the file to a court⁵⁹⁵.

ISPs, consumer⁵⁹⁶ and free speech⁵⁹⁷ associations have however expressed strong reservations about this law, alleging, among others, that:

(i) the law will be technologically flawed (risk of errors in the collection and identification of IP addresses, easy way to bypass the law, etc.⁵⁹⁸),

(ii) that the general monitoring of users' Internet activity would seriously threaten users' fundamental right of free speech and privacy⁵⁹⁹ and

(iii) that the suspension of user's internet access would be at odds with the principle of proportionality and users' fundamental rights (due process, free speech, access to information, freedom of expression, social inclusion in an increasingly digital world, etc.)⁶⁰⁰.

For some of these reasons, the European parliament has in various occasions expressed strong reservation against such system (particularly as regards the sanction consisting in the suspension of users' Internet access) and took the position that criminalizing consumers who were not seeking to make commercial profit was not the right solution to combat digital piracy⁶⁰¹.

⁵⁹⁵ Cf. HADOPI Report (Sept. 2011) and CEDU Report (Report of the Commission of Education and Cultural Affairs of the French Parliament) (Oct. 2011) at 18. By contrast, see Torrentfreak, *France Track Down 18 Million File-Sharers, And BBC News French Downloaders Face Government Grilling* (July 14, 2011).

⁵⁹⁶ See UFC *Que choisir* Report: *La Loi Création Et Internet, Une Mauvaise Solution À Un Faux Problème* (Creation and Internet Law: a bad solution to a false problem) (2009).

⁵⁹⁷ See EFF, *RIAA V. The People: Turns From Lawsuits To 3 Strikes*; La Quadrature du Net, *Will France Introduce The Digital Guillotine In Europe* (2008), RSF Report, *Amid Growing Criticism, HADOPI Reports On Measures To Combat Digital Piracy* (2011).

⁵⁹⁸ See TorrentFreak, *Six Way File-Sharers Will Neutralize 3-Strikes* (2010). By contrast, see David Znaty, *Rapport d'Expertise* (independent report commissioned by HADOPI showing that the process of collecting and identifying IP addresses used by HADOPI would be "consistent and reliable")

⁵⁹⁹ See EFF *Letter To MEPs Regarding Bono Fjellner/Rocard Amendment*, April 8, 2008.

⁶⁰⁰ See e.g. Steven Seidenberg, *The Record Business Blues*, ABA JOURNAL, Jun. 1, 2000.

⁶⁰¹ E.U. Parliament Resolution of April 10, 2008 of the Cultural Industries in Europe (2007/2153) (INI) at 17 (voted overwhelmingly at 586/36) and vote of the Telecom package by the E.U. Parliament on September 24, 2008 adopting amendment 166 and 138 (providing that users' access may not be restricted in any way that infringes their fundamental rights, and that any sanction should be proportionate and require a Court order.)

In parallel to this law, other proposals have been discussed before the French Senate and/or French Parliament with the aim of increasing the liability and obligations bearing on some intermediaries, involved at different levels in the production, management and/or financial exploitation of content. The French Parliament in 2008⁶⁰² and the French Senate in 2011⁶⁰³ have for instance suggested the creation of a new status of “service publishers” for those service providers deriving a direct financial benefit from the “publishing” of content they are hosting. In these projects, service publishers would be required, in their capacity as hosting providers, to identify their users, while they should also, in their capacity as “service publishers”, dedicate effective tools to combat online infringement, including flagging systems (alert systems allowing Internet users to notify illegal content) and state-of-the-art surveillance tools (filtering) aimed at preventing illegal activities.

In view of the discrepancy existing between such proposals and the current interpretation of the e-commerce Directive by the E.C.J. and EU case law, such proposals are however rather unlikely to be passed in their current version.

(b) The Digital Economy Act (DEA)

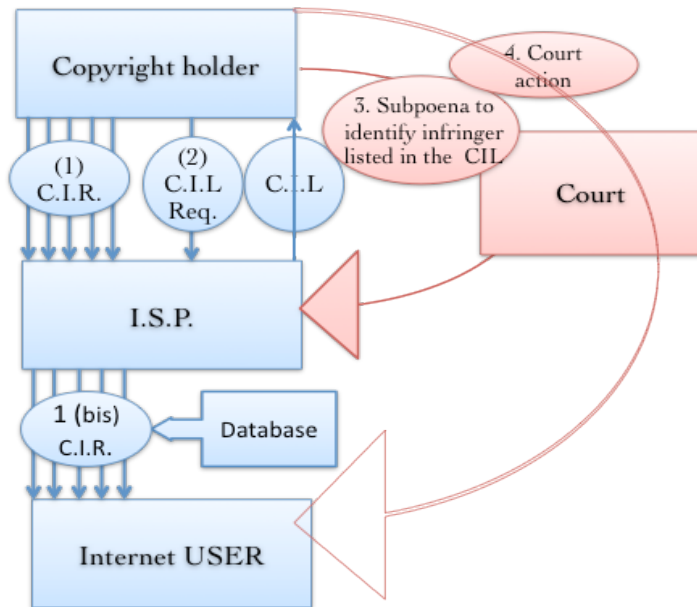
Just like the French HADOPI, the U.K. Digital Economy Act⁶⁰⁴, adopted on April 8, 2010, aims at combating online infringement by requiring the assistance of ISPs in the identification, monitoring and implementation of a system of graduated sanctions against users engaging in copyright

⁶⁰² See e.g. French House Information Report by M.P. Jean DIONIS du SÉJOUR and Corinne ERHEL, Jan. 23, 2008

⁶⁰³ French House Information Report (*On The Assessment Of The Law Of October 29, 2007 To Combat Infringement*) by M.P. Laurent Bêteille and Richard Yung, n°296, Feb. 9, 2011 (recommending, amongst others, to create new obligations for UGC websites, notably to implement and disclose the means and tools used to combat infringement and appoint a new administrative authority in charge of verifying the compliance with these obligations).

⁶⁰⁴ Digital Economy Act introducing section 124A to 124N to the Communications Act of 2003

infringement. Unlike its French counterpart, the provisions relating to a possible suspension of Internet access are however not yet applicable. A schematical representation of the main mechanism provided by the law is represented below.



In general terms, the Act provides that upon receipt from the right holder of a “Copyright Infringement Report” (C.I.R.), describing a suspected copyright infringing activity along with the IP address associated with this activity, an ISP, after determining whether the Report meets the requirement set by the law, is required to send a notification to the subscriber identified in the C.I.R.⁶⁰⁵. The ISP is also required to maintain a database of individual subscribers who have been the subject of a C.I.R.

Upon request from a copyright holder, the ISP is then required to provide a Copyright Infringement List (C.I.L.) of all the IP addresses that have received a certain number of C.I.R. from this right

⁶⁰⁵ Section 124 A Communications Act

holder⁶⁰⁶. On the basis of this information, a copyright owner can then require the ISP, by mean of a court order, to identify the subscriber listed in the C.I.L. and launch copyright infringement proceedings against them.

Most of the operational details (number of C.I.R. justifying a report on a C.I.L., costs, etc.) are to be set in a code to be drafted and implemented by OFCOM⁶⁰⁷. After the code of practice has been implemented for at least 12 months⁶⁰⁸, the Secretary of State would then have the possibility to order an ISP to take “technical measures” against those subscribers including the limitation of their Internet connection speed or the suspension of their Internet access⁶⁰⁹.

This bill, rushed through parliament at the end of the Labor administration, was subject to widespread criticism from ISPs, privacy and consumer-rights associations and to judicial, parliamentary and regulatory reviews⁶¹⁰.

Following these widespread criticisms, the law was partially amended to subject the power of the Secretary of State (notably to order suspension of Internet access) to a so-called “super-affirmative procedure,” and to introduce an appeal procedure before an independent body to the benefit of the subscriber targeted by such measures. Sections 17 and 18 of the Act relating to website blocking were also seriously watered-down after a technical review by Occam concluded that such measures were not practically enforceable⁶¹¹.

⁶⁰⁶ Section 124 B Communications Act (the threshold of CIR qualifying for a CIL is to be set in the Ofcom Code).

⁶⁰⁷ Independent regulator and competition authority for the U.K. communication industries (see ofcom.com)

⁶⁰⁸ Most operational details of this procedure are left to a series of regulatory codes to be drafted by Ofcom (See <http://www.ofcom.org.uk/consumer/2010/05/draft-code-of-practice-to-reduce-online-copyright-infringement>)

⁶⁰⁹ See Section 124 H of the Communications Act

⁶¹⁰ Open Rights Group called the bill “an utter disgrace (...), an attach on everyone’s right to communication, work and gain an education”

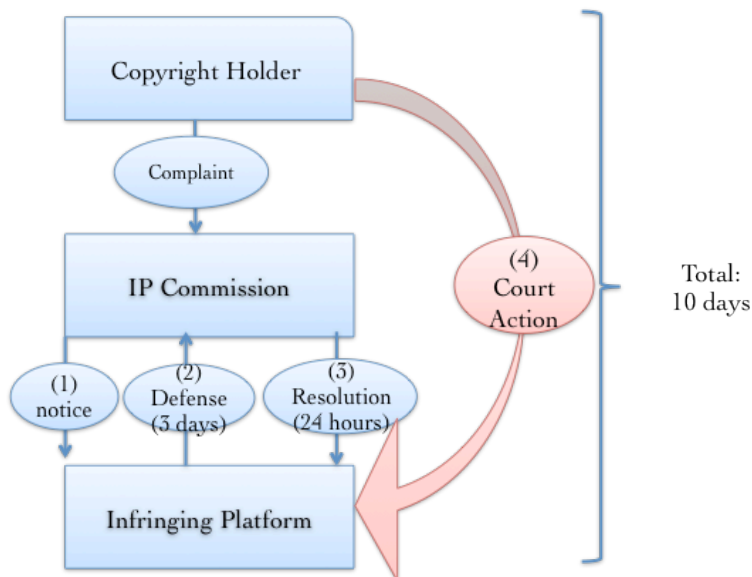
⁶¹¹ Ofcom Study, “*Site Blocking*” To Reduce Online Copyright Infringement (May 27, 2011). However, the U.K. Government stressed in response that the Copyright, Designs and Patents Act already included blocking website provisions in case copyright infringement. See e.g. **Twentieth Century Fox v. BT** (prec.). See , generally, Matheson, Ormsby, Prentice, *Film Studios Win Battle In Online Infringement*, Technology and Commercial Contracts Newsletter, Nov. 2011.

A judicial review sought by Talk Talk and BT, two major U.K. ISPs - arguing the whole bill would be disproportionate and at odds, amongst other, with the Technical Standard, e-commerce, Privacy and electronic communication Directives, was however widely dismissed by the U.K. High Court of Justice, in a very well argued decision, recently affirmed on appeal⁶¹².

Nonetheless, the law remains widely unpopular and the implementation of the OFCOM code of practice has already been postponed several times.

(c) The Spanish “Ley Sinde”

The Spanish “Ley Sinde” (Sinde Law) - adopted on December 30, 2011 but currently under constitutional review⁶¹³ provide a mechanism that can be schematically represented as follows:



⁶¹² EWHC 1021 (Admin) Decision April 20, 2011, Digital Economy Act Judicial Review, Case No CO/7354/2010, (aff'd by EWCA (civil division) March 6, 2012).

⁶¹³ The law was challenged before the Spanish Supreme Court by an Internet users association, notably with regard to its provision relating to the non-judicial shutting down of a website, contrary to users' fundamental rights and Spanish law. See generally, The CMU website, *Spanish Supreme Court To Consider Sinde Law*, Feb. 13, 2012; Andres Cala (prec. supra)

The new reform would create a new governmental commission (Intellectual Property Commission) in charge of reviewing complaints from copyright holder against websites that would infringe their rights.

The new Intellectual Property Commission would be vested with the power to (i) assess the validity of the right holder's complaints (notably whether they meet the requirements set by the law), (ii) hear the defense of the targeted website within a three-day time limit and (iii) take a resolution which could include the removal of a disputed content or the blocking of an infringing website. After such resolution is taken by the Commission, the ISP would have 24 hours to block or remove the infringing website or content.

In case the ISP would fail to block or remove such website or content within such deadline, a court would have to order the ISP to do so in the framework of an expeditious procedure. According to the law, the whole procedure should be completed within 10 days.

The law, immediately dubbed as "SPANISH SOPA" (in the wake of the unprecedented public outcry against the U.S. SOPA) has given rise to multiple criticisms from citizens, free speech and consumer associations⁶¹⁴ and is currently under constitutional review.

(d) **The Italian AGCOM draft Regulation**

In response to the dramatic growth of online piracy in Italy, AGCOM⁶¹⁵, the Italian Administrative Authority in charge of the regulation of Communications, has also published in December 2010 its

⁶¹⁴ Morgen Peck, *Spain's SOPA law: how it works and why it won't*, IEEE SPECTRUM (2012), Mike Masnick, *Spanish Government adopts its own version of Sopa: Sine Law Approved*, TECHDIRT (2012); Andres Cala, *New Spanish Gov't Enacts Sine Anti-Piracy Laws, Opponents Promise A Fight*, BILLBOARD.BIZ, Jan. 2012.

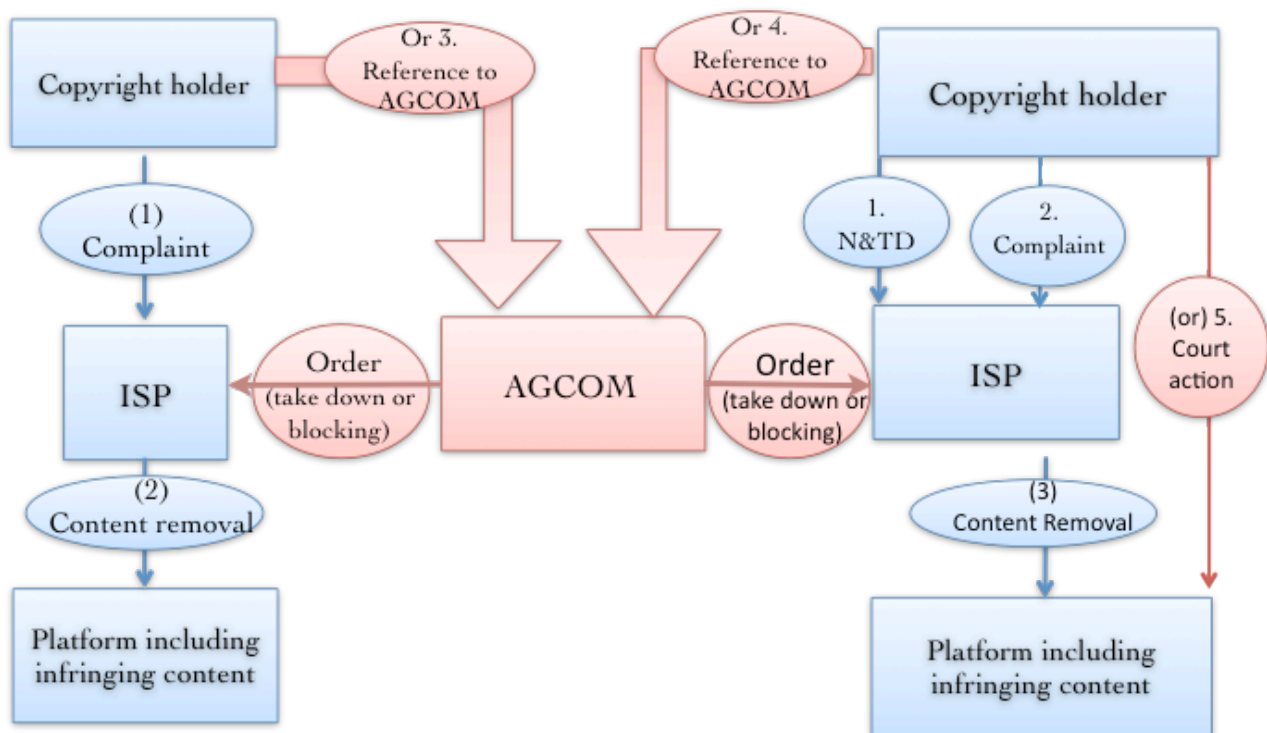
⁶¹⁵ Autorità per le Garanzie nelle Comunicazioni

own draft regulation to tackle online piracy⁶¹⁶, inviting concerned parties to make their comments on this proposal.

There are two proposals in this regards that can be schematically represented as follows:

AGCOM 1 (first draft, December, 2010)

AGCOM 2 (Amendment July 2011)



The original proposal provided a procedure by which right holders, victims of copyright infringement, could send a complaint to the ISPs hosting the infringing content or activity, identifying such content or information and requesting their removal. If the service provider did not comply with such complaint within 48 hours, AGCOM was then supposed to be granted the power to order, after assessing the validity of the right holder's request, the withdrawal of such content or information. After this first proposal was heavily criticized, notably for its lack of judicial review

⁶¹⁶ AGCOM draft regulation for the protection of copyright online, Dec. 17, 2011 (*Lineamenti Di Provvedimento Concernente l'Esercizio Delle Competenze Dell'autorità' Nell'attività' Di Tutela Del Diritto D'autore Sulle Reti Di Comunicazione Elettronica*) (available at <http://www.agcom.it/Default.aspx?DocID=5415>)

and due process guarantees, the draft regulation was amended in July 2011⁶¹⁷, to subject this administrative procedure to the prior implementation of a classical notice and take down process. Moreover, this administrative procedure was provided as an option to court proceedings.

Both proposals have however been the subject of very strong criticisms pertaining to its possible chilling effects on Internet user's fundamental rights and ISPs' freedom to conduct their businesses. Even more concerning, it turned out that AGCOM had probably no legal competence to legislate in the area of copyright!

After two years of intensive debate, hearings and draft regulations, the project was thus abandoned in March 2012, with the AGCOM president finally taking the view that the best venue for a copyright reform would probably be the European Union or even the United Nation (sic!)⁶¹⁸

(e) **The Reform of Irish copyright law**

The recent reform of Irish copyright law⁶¹⁹ providing copyright holder with the explicit right to seek an injunction against intermediaries whose services are used by a third party to infringe copyright or related rights, has also recently led to public and media outcry.

⁶¹⁷ Amendment to AGCOM draft regulation of July 6, 2011 (Allegato A alla delibera 398.11/CONS del 6 Luglio 2011) (available at <http://www.agcom.it/Default.aspx?DocID=6694>)

⁶¹⁸ See Declaration of AGCOM President, Corrado Calabro to the Italian Senate of March 22, 2012 at 16 (available at <http://www.agcom.it/default.aspx?DocID=8334>). On the twist and turns of this saga, see generally, Eleonora Rosati, *No online copyright regulation to be adopted in Italy (for now)*, The 1709 Blog.

⁶¹⁹ The proposed amendment was adopted into law in Feb. 29, 2012 to add the following subsection (5) to section 40 of the Irish Copyright and Related Right Act (2000) " (5A)(a) the owner of the copyright in a work may, in respect of that work, apply to the High Court for an injunction against an intermediary (in the sense of the Copyright Directive). In considering an application for an injunction under this subsection, the court shall have due regard to the rights of any person likely to be affected by virtue of the grant of any such injunction and the court shall give such directions (including, where appropriate, a direction requiring a person be notified of the application) as the court considers appropriate in all of the circumstances." The law also adds a parallel subsection 9 to Section 205 concerning related rights.

The law, improperly dubbed “Irish SOPA”, was strongly opposed by digital activists⁶²⁰ and the Irish association of service providers⁶²¹ for its process of adoption⁶²², potential over breadth and alleged lack of sufficient guarantees (due process, etc.) for the targeted ISP.

Beyond some legitimate concerns⁶²³, the amendment had however very little resemblance with the U.S. SOPA and was mainly taken to comply with article 8 (3) of the Copyright Directive, providing that member states shall ensure that right holders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe copyright. In **EMI et al. v. UPC Communications**⁶²⁴, the Irish Court was indeed apparently not able to grant such an injunction to the claimants because, according to the Judge, Irish law did not provide for such possibility, contrary to EU regulation. Despite public outcry, the proposed amendment was adopted into law in February 29, 2012 and Irish law now includes injunctive proceedings against intermediaries whose services are used to infringe, as do most EU countries.

4.1.2.5 Restricting IP rights: Proposals from Anti-copyright, IP-skeptical or other IP-reformist circles

In parallel to legislative reforms and/or draft reforms aimed at cracking down on online piracy, a strong popular and academic movement is rising from both part of the Atlantic advocating for either

⁶²⁰ See Stop Sopa Ireland website

⁶²¹ ISPAI press release, *The Simple Reasons Why ISPAI Members Are Against The Copyright SI*, Feb. 3, 2012; TJ McIntyre, *Copyright Proposals Block Innovation And Free Expression*, IRISH TIME Feb. 1, 2012

⁶²² Introduced by ministerial order (statutory instrument), rather than being fully debated and amended by parliament and senate

⁶²³ See generally David Trophy, *When Irish ISP Aren't Smiling*, IP kat (Feb. 2012) (on the background and concerns raised by this law.)

⁶²⁴ EMI Records et al. v. UPC Communications, High Court of Ireland (IEHC) (2010). By contrast, see EMI Records et al. v. Eircom, High Court of Ireland (IEHC) (2010) where the judge granted EMI an undisputed injunction to block users' access to website the Pirate Bay (accepted by EIRCOM as part as their settlement with EMI)

a substantial restriction⁶²⁵ or even for a complete abandonment⁶²⁶ of copyright and IP law in the digital environment. These proposals have taken the form of either (a) limited restriction of copyright for online non-commercial use or (b) a more radical restriction of copyright and IP law in the digital environment.

**(a) Restricting copyright for online non commercial use:
collective licensing scheme**

In light of the dramatic increase of unauthorized file-sharing practices and the failure of both the courts and the Market⁶²⁷ to thwart this phenomenon, many academics and institutions have recently called for the introduction in copyright law of a new exception authorizing non-commercial file-sharing, along with a mechanism of compensation allowing right holder to get a fair compensation for their work through collective licensing scheme, a tax or a levy⁶²⁸.

⁶²⁵ See e.g. LAWRENCE LESSIG, REMIX (The Penguin Press, 2008), FREE CULTURE (The Penguin Press 2004), THE FUTURE OF IDEAS (Random House, 2001); DIGITAL COPYRIGHT (Prometheus Books, 2001), SIVA VAIDHYANATHAN, COPYRIGHTS AND COPYWRONGS: THE RISE OF INTELLECTUAL PROPERTY AND HOW IT THREATENS CREATIVITY (Random House, 2001), SHULMAN, OWNING THE FUTURE (Houghton Mifflin, 1999), MICHAEL PERELMAN, STEAL THIS IDEA: INTELLECTUAL PROPERTY RIGHTS AND THE CORPORATE CONFISCATION OF CREATIVITY (Palgrave, 2002) FLORENT LATRIVE, DU BON USAGE DE LA PIRATERIE (Editions Paris la Découverte, 2007), SUSAN SCAFIDI, WHO OWNS CULTURE? (Rutgers University Press, 2005), NEIL WEINSTOCK NETANEL, COPYRIGHT PARADOX (Oxford University Press, 2008); KEITH E. MASKUS, INTELLECTUAL PROPERTY RIGHTS IN THE GLOBAL ECONOMY (Institute For International Economics, 2000).

⁶²⁶ See e.g. Questioncopyright.org, *The Surprising History of Copyright and The Promise of a Post-Copyright World* ("Abandoning copyright is now not only possible, but desirable").

⁶²⁷ Neither the multiple litigations against file sharers and platforms, nor the legal alternative launched by the Music industry to thwart the unauthorized use of their content have apparently substantially thwart unauthorized file-sharing

⁶²⁸ See e.g. Neil W. Netanel, "Impose A Noncommercial Use Levy To Allow Free Peer-To-Peer File Sharing", 17 HARV. J.L. & TECH 1 at 35-59; LAWRENCE LESSIG, THE FUTURE OF IDEAS, THE FATE OF THE COMMONS IN A CONNECTED WORLD (2001), WILLIAM W. FISHER III, PROMISES TO KEEP: TECHNOLOGY, LAW AND THE FUTURE OF ENTERTAINMENT (Stanford University Press, 2004) at 199-251 (see esp. chapter 6: *an alternative compensation system*), CHRISTOPHE GEIGER, DROIT D'AUTEUR ET DROIT DU PUBLIC À L'INFORMATION, APPROCHE DE DROIT COMPARÉ, RDTI at 370-380; Christophe Geiger, *Right To Copy V. Three Steps Test*, COMPUTER L. REV. INT'L (CRI) at 7-10; Jessica D. Litman, *Sharing And Stealing* (prec.) at 39 et seq. and Electronic Frontier Foundation, *A Better Way Forward, Voluntary Collective Licensing Of Music File Sharing* (2008)

Proposals in this regard vary. In the “non-commercial use levy” proposal of Neil Netanel⁶²⁹, the levy should be collected on the sale of products and services whose value is enhanced by peer-to-peer file sharing (e.g. Internet access services, P2P software and services, computer hardware, MP3, digital recording and storage devices, etc.). The proceeds, collected by organizations representing copyright owners, would then be reallocated to copyright owners in accordance with the actual use of their content, as measured by sampling and digital tracking technologies.

William Fisher in turns proposes an alternative compensation system⁶³⁰, where copyright owners would register their works with the Copyright Office and receive, in return, a unique file name used to track its distribution. The government would then raise a tax on these same services and devices used to gain access to digital entertainment and redistribute these proceeds to copyright owners based on actual use. In this system, adhesion to the “alternative compensation system” would be optional, as the copyright owner is free to opt out from this system by not registering his work with the Copyright Office.

Building on this proposal, Jessica Litman⁶³¹ proposes that right holders may be offered the choice to share their works on P2P networks in exchange for a blanket fee or levy/tax disbursed primarily to the authors (*sharing*), or exploit their work on an exclusive basis, using DRM protection (*hoarding*). For Lawrence Lessig⁶³², this system - which offers a good alternative to exclusive right since it compensates copyright owners without impairing innovation and without criminalizing users – may be useful as an interim solution, but could quickly become obsolete as licensed streaming services tend to replace peer-to-peer file sharing.

⁶²⁹ Neil W. Netanel, “*Impose A Noncommercial Use Levy To Allow Free Peer-To-Peer File Sharing*”, 17 HARV. J.L. & TECH 1 at 35-59

⁶³⁰ WILLIAM W. FISHER III, PROMISES TO KEEP: TECHNOLOGY, LAW AND THE FUTURE OF ENTERTAINMENT (Stanford University Press, 2004) at 199-251 (see esp. chapter 6: *an alternative compensation system*, available here)

⁶³¹ Jessica D. Litman, *Sharing and Stealing*, 27 HASTINGS COMM. & ENT. LJ 1, at 39-50

⁶³² See LAWRENCE LESSIG, THE FUTURE OF IDEAS THE FATE OF THE COMMONS IN A CONNECTED WORLD (2001) at 254-55; LAWRENCE LESSIG, FREE CULTURE (2004) AT 298-301

The Electronic Frontier Foundation⁶³³ has suggested the introduction of a voluntary collecting licensing scheme in which the music industry would form a collecting society and offer users the opportunity to download whatever they want and “get legit” by paying a small monthly fee (e.g. 5 dollars per month).

If these proposals have the virtue of offering a (quite radical) solution to unauthorized file sharing (by mainly “authorizing it”), they however raise several major problems, notably as regards their (i) compatibility with international copyright law⁶³⁴, (ii) fairness (legal uses taxed as much as illegal uses) and efficiency⁶³⁵ and even (iii) possible deterrent effect on innovative technologies⁶³⁶.

Right holders have additionally strongly opposed to any kind of collective licensing scheme, invoking, among other, (iv) their limited prospect of market return, (v) their loss of control over the distribution of their work, (vi) their concerns about the methods used for setting the price of their works and (vii) based on their prior experience with collective licensing, their concerns as to the efficiency and costs of the methods used for the reallocation of the proceeds.⁶³⁷

⁶³³ **Electronic Frontier Foundation**, *A Better Way Forward, Voluntary Collective Licensing Of Music File Sharing* (2008)

⁶³⁴ Alexander Peukert, *A Bipolar Copyright System For The Digital Network Environment* at 154 et seq. (in *PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW*, Alain Strowel (2009) 148,195) (pointing out that any solution involving a compulsory license, or even a voluntary license subject to an “opt-out” option, would be at odds with International treaties, notably the Bern Convention, as it would subject the exercise of their rights by copyright holders to the completion of a formality (registration) and would restrict both their reproduction and public communication rights, guaranteed as mandatory minimum rights by these treaties).

⁶³⁵ Alexander Peukert, *A Bipolar Copyright System For The Digital Network Environment* (prec.) at 191 (stressing that absent a massive adhesion of the right holders to the system, consumers will have no incentive to pay a subscription fee where they can find a wider variety of content online for free, while absent a massive adhesion of users, right holders will have no incentive to abandon their exclusive rights for a limited prospect of gain.)

⁶³⁶ Mark A. Lemley & Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation* (prec.) at 1410 et seq. (stressing that a solution that would impose a tax or levy on the products or services used for file-sharing would target exclusively intermediaries, creating a de facto “tax on innovation”, deterring innovative technologies).

⁶³⁷ Salil K. Mehra, *The Ipod Tax: Why The Digital Copyright System Of American Law Professors’ Dreams Failed In Japan?* TEMPLE UNIVERSITY LEGAL STUDY RESEARCH, Paper No 2007-27

Most importantly, these projects raise a major issue as to whether there can be any public justification of a restriction of copyright rights (i.e. a fundamental property right recognized by the U.S. constitution and major international treaties) to justify (free) access to music and/or other kind of copyrighted content. As we will develop further below⁶³⁸, this might simply not be the case.

Beyond these proposal of reforms limited to targeted restriction of copyright (i.e. online non-commercial use), more and more voices are being raised advocating for either a substantial restriction or even for a complete abandonment of copyright and IP law in the digital environment.

(b) A substantial restriction of IP law in the digital environment

Recent years have seen the emergence of more and more anti-copyright, IP-skeptics or more simply IP-reformists.

For the tenants of these movements, current copyright and trademark regulations would be over-restrictive and could not serve their core function (i.e. fostering creativity for copyright/ indicating origin for trademarks)⁶³⁹ anymore.

For some academics, the “over-tightening grip” of IP law today would even undermine science, innovation and fundamental rights, including personal liberty, privacy and free speech, by denying public access to information to the benefit of a few⁶⁴⁰. For a growing number of people, IP law

⁶³⁸ See part 4.1.3.2 b (iii) below

⁶³⁹ See e.g. Mark Lemley & Mark Mc Kenna, *Owning Mark(et)s* +, 109 MICH. L. REV. 137 at 145-154 (2010), Mark Lemley & Mark Mc Kenna, *Irrelevant Confusion*, 62 Stan. L. Rev. 413 (2010) (criticizing the current trend towards overbroad protection of trademarks, notably beyond confusion and/or consumer harm, to the detriment of free competition). See also Stacey L. Dogan, *Trademark Remedies And Online Intermediaries*, 14 LEWIS & CLARK L. REV. 467 (2010) showing that an overbroad protection of trademark on the Internet could undermine competition, free speech, consumer rights and the interest of our society at large (inflated price, allocation inefficiencies, etc.)

⁶⁴⁰ MICHAEL PERELMAN, *STEAL THIS IDEA: INTELLECTUAL PROPERTY RIGHTS AND THE CORPORATE CONFISCATION OF CREATIVITY* (prec.) at 1-45 (criticizing perverse effect of IP law), SIVA VAIDHYANATHAN, *COPYRIGHTS AND COPYWRONGS: THE RISE OF INTELLECTUA PROPERTY AND HOW IT THREATENS CREATIVITY* (prec.), SHULMAN, *OWNING*

should thus be interpreted restrictively and/or modified substantially, in order to guarantee the public's fundamental rights and freedom to access to knowledge and information and to foster free competition, innovation and creativity⁶⁴¹.

The pro-piracy movement⁶⁴², free culture movement⁶⁴³, digital-rights associations⁶⁴⁴, political parties⁶⁴⁵ and even a church⁶⁴⁶ (!) have grown up around the idea that copyright and other IP rights should be drastically reformed, notably to take into account the social welfare created by a general and free access to information and education.

Where some of these critics certainly find some justifications in some instances⁶⁴⁷, they largely ignore the consolidated benefits of I.P. law in Europe and in the United States and fail to offer right holders a sustainable alternative model to get a fair return on their work, risks and investments.

More generally, these proposals do not respect the balance afforded at by international copyright and trademark laws which offer right holders sufficient protection of their work while fostering digital economy and access to information.

THE FUTURE (prec.), NEIL WEINSTOCK NETANEL, COPYRIGHT'S PARADOX (prec.) specially at 109 et seq. (on the tension between copyright law and free speech)

⁶⁴¹ Stacey L. Dogan, *Trademark remedies and online intermediaries*, LEWIS & CLARK LAW REVIEW (2010) ("the ratio of benefit to harm from trademark injunction has no doubt changed over time as courts have expanded the scope of trademark holder tights. Many scholars have challenged various aspects of this expansion on the ground that they limit competition and speech, and encourage socially wasteful expenditures on advertising and brand identity. The risk of anticompetitive effect becomes especially great when trademark law protects the product itself, rather than names or labels affixed to products. In such circumstances, trademark protection can inhibit competition in product markets, leading to allocative inefficiencies and inflated prices.")

⁶⁴² See e.g. Pirate Cinema, Electronic Civil Disobedience (ECD), Anonymous, The Pirate Bay, etc.

⁶⁴³ See e.g. Free culture movement entry in Wikipedia.

⁶⁴⁴ EFF, Questioncopyright.org

⁶⁴⁵ See e.g. Pirate party in Sweden, Austria, Germany, and before the European Parliament

⁶⁴⁶ See e.g. Missionary Church of Optimism

⁶⁴⁷ See e.g. Lemley and Mc Kenna (prec.) or Perelman (prec.) (denouncing the over-reaching scope of patent and trademark protection in recent years).

4.1.3 Critical approach to these new reforms and proposals

As we saw above, many reforms and/or draft reforms have been introduced at a national or international level to address the problem of online piracy. Yet, these legislative reforms raise both (a) methodological and (b) substantive issues.

4.1.3.1 Methodological issues

Regulating rapidly evolving technologies with legislations or international treaties first raises a problem of methodology⁶⁴⁸.

Drawing up a new bill, finding a compromise in a context of heavy lobbying, and having the bill voted and ratified by the relevant authority can already take months at a national level. In the case of an EU Directive or an international treaty, requiring the involvement and ratification of a plethora of stakeholders from different countries with different cultural, sociological and legal backgrounds can take years⁶⁴⁹.

By contrast, online technologies evolve every day, modifying the general landscape to be regulated at any given moment. By the time the law is enacted, technology may thus have changed drastically, making the law totally ineffective or out of date even before it is adopted and/or implemented.⁶⁵⁰

⁶⁴⁸ Statement from Steven Soderbergh, National vice president, directors Guild of America at the Hearing before the House Committee on Foreign Affairs, 111th Congress (2009) (See: *Sinking The Copyright Pirates: Global Protection Of Intellectual Property*, at 28: “Litigation is slow and the Internet is fast. This may not be the best time to speak about self-regulation, but I don’t think it makes much sense for us to ask the Government to be the police in this issue. What we would like is to be deputized to solve our own problems.”)

⁶⁴⁹ See e.g. Council Directive 2000/31/EC (at least two years of negotiations) and ACTA (not yet enforceable, after more than two years of discussions, negotiations, international summits, etc.).

⁶⁵⁰ See e.g. Michael Kirby, Hon. J., *The Fundamental Problem Of Regulating Technology*, THE INDIAN JOURNAL OF LAW AND TECHNOLOGY (at 22-23) ; Peter Linzer, *From The Gutenberg Bible To The Net Neutrality – How Technology Makes Law And Why English Majors Need To Understand It*, 39 MC GEORGE L. REV. I, 24 (2008)

New technologies are thus often better regulated through a set of general principles (general theory of tort, direct, contributory or vicarious liability for instance), that courts can adapt to the evolution of technologies, than through specific laws aimed at matching the state of technology at a certain given time.

Beyond this general concern, most of the reforms recently implemented and/or currently under discussions in Europe and in the US have raised a substantive problem: by introducing uncoordinated reforms aimed at shifting the cost of enforcement either on the service providers, users, or right holders, they threaten the delicate consensus reached between the different stakeholders in Europe and in the United States more than ten years ago as well as the global consistency of the two systems.

4.1.3.2 Substantial problems.

Regulating OSPs' liability for third parties' copyright and/or trademark infringement raises a major dilemma of public policy as to how to strike a fair balance between equally important fundamental rights and social values.

Indeed, the right holders' intellectual property rights (protected by article 17 §2 of the Charter of Fundamental Rights⁶⁵¹), must be balanced against the Internet intermediaries' freedom to conduct their business (article 16 of the Charter) and the Internet users' free speech and privacy rights (articles 11 and 8 of the Charter respectively)⁶⁵².

⁶⁵¹ See article 17 §2 of the Charter of Fundamental Rights; see also article 1 Protocol 1 of the European Convention on Human Right (ECHR).;

⁶⁵² See e.g. article 10§2 of the ECHR listing, amongst the possible limits to freedom of expression, the respect of the rights of the others.

In enacting regulations to combat online infringement, lawmakers have thus endeavored to ensure that (i) right holders were given effective relief against widespread infringement of their right on the Internet, (ii) ISPs/OSPs were offered sufficient incentives and guarantees in terms of costs and limitation of liability to continue to carry on their business activities and (iii) users were guaranteed sufficient rights to personal data and freedom to receive and impart information.

Uncoordinated, hastily written and/or lobby-driven legislations and draft reforms are however threatening the consensus reached more than 10 years ago between the different stakeholders in this regard, by shifting the cost of enforcement on one or another of these stakeholders (b), ignoring the fundamental tension existing between the interests of the main stakeholders (a).

(a) A fundamental tension between right holders and internet intermediaries

(i) Position of the right holders

In the last ten years, in Europe just like in the United States, right holders, concerned by the rapid growth of online piracy and rebutted by the inherent difficulty to go after direct infringers⁶⁵³, have turned to their lawmakers to obtain further remedies against Internet intermediaries.

In their claim that intermediaries should bear additional responsibilities, right holders notably argue that the DMCA and/or e-commerce Directive safe harbors were laid down for specific, *technical*, service providers, whose activities (routing, caching, hosting, and, where applicable, linking) were *neutral* with respect to third party content. They thus conclude that a different kind of liability

⁶⁵³ See *supra* Part 4.1

should apply to intermediaries more involved in the production, “financial exploitation” or management of content (i.e. playing an *active role*)⁶⁵⁴.

Right holders also contend that internet intermediaries should incur further liability for third parties’ infringement because they are *providing the means* (venue and/or structure) for this infringing activity to occur, while *deriving profit* from this infringing activity, notably through increased advertising revenue or fees⁶⁵⁵.

They also allege that some platforms would build their whole activity or business model on copyright or trademark infringement, thereby free riding on their creativity and investments and inducing, or at least turning a blind eye, to their users’ infringing activity⁶⁵⁶.

Moreover, they add that by the rules they adopt, these platforms would make it impossible or extremely difficult for the right holders to take action against the direct infringer (anonymity, etc.).

Finally, right holders stress that with advancements in technology, platforms would have the power and ability to implement relatively cheap and efficient tools to monitor their network in order to put an end and even *prevent* some infringement to occur⁶⁵⁷. A mere economic approach based on the least cost avoider would therefore call for the imposition of monitoring obligations upon

⁶⁵⁴ See e.g. Appellant brief in **UMG Recordings Inc et al. v. Shelter Partners et al**, case number 09-55902, 09-56777 and 10-55732 (9th cir., 2011) D.C. No. 2:07-cv-05744- AHM-AJW. See also L’Oréal’s brief in E.C.J. case C-324/09 L’Oréal v. eBay (prec.)

⁶⁵⁵ Since copyrighted content or branded product usually get more traffic (and therefore advertising revenue) and/or act as a draw for customers - see e.g. Plaintiff’s position in **Viacom International Inc et. Seq. vs. Youtube (SDNY, 2010)**, **UMG Recordings Inc et al. v. Shelter Partners et al** or **L’Oréal v. eBay** (prec.)

⁶⁵⁶ See e.g. Appellant Viacom’s brief in **Viacom v. Youtube**, DKT n°59 (at 8 (B) (“Youtube builds a business based on infringement”) or Tiffany’s Post-Trial Memo. at 35 (in which Tiffany contends that eBay could have taken further steps to investigate and understand the counterfeiting on its website, and arguing that eBay’s failure to do so constitutes willful blindness.)

⁶⁵⁷ See e.g. Appellant Viacom’s brief in **Viacom v. Youtube**, DKT n°59 (prec.) at 13 and Plaintiff Tiffany’s argument in **Tiffany v. eBay** (claiming that because eBay was able to screen out potentially counterfeit Tiffany listings more cheaply, quickly and effectively than Tiffany, the burden to police the Tiffany TM should have shifted to eBay).

intermediaries rather than on right holders⁶⁵⁸ since they are the ones which have the technical means to detect, prevent and put an end to infringing conducts on their platform⁶⁵⁹.

(ii) Position of the Internet Intermediaries

For their part, Internet Intermediaries allege that, being mere conduits or messengers⁶⁶⁰ of third party information, they would have no means to control or assess the existence of copyright or trademark infringement⁶⁶¹.

In their view, the burden of monitoring copyright or trademark infringement should rest on right holders, who have a direct interest in protecting their rights and better expertise to assess their possible infringement⁶⁶².

⁶⁵⁸ See Ronald J. Mann & Seth R. Belzey, *The Promise Of Internet Intermediary Liability*, 47 WM AND MARY L. REV (2005) at 258 (“The better question is whether either Visa or Cybernet is the party best situated to stop the copyright violations in question. On that point, Visa probably is better situated because of the real world likelihood that none of the sites that foster the infringement could survive as a profitable commercial enterprises without accepting Visa payment. (...) Responding to Internet related misconduct with rules for intermediaries that turn so pervasively on normative and fault-related notions of responsibility and participation is inadequate. The touchstone (should be to) look for the least-cost avoider”).

⁶⁵⁹ *Id.* at 258-259 (“Because courts have interpreted those status broadly, the statutes have the potential to provide considerable protection for intermediaries, even beyond the context that motivated their enactment.. (...) The paths share not only the reflexive and unreflective fear that recognition of liability of Internet might be catastrophic to Internet commerce, but also a myopic focus on the idea that the inherent passivity of Internet intermediaries makes it normatively inappropriate to impose responsibility on them for the conduct of primary misfeasors. That idea is flawed both in its generalization about the passivity of intermediaries and in its failure to consider the possibility that the intermediaries, without regard to their blame-worthiness, might be the most effective source of regulatory enforcement”).

⁶⁶⁰ See Gavin Sutter, “*Don’t Shoot The Messenger? The U.K. And Online Intermediary Liability*”, INTERNATIONAL REVIEW OF LAW, COMPUTERS AND TECHNOLOGY, 17(1) at 73.

⁶⁶¹ See Kate Goldwasser, *Note: Knock It Off: An Analysis Of Trademark Counterfeit Goods Regulation In The United States, France And Belgium*”, 18 CARDOZO J. INT’L & COMP. L. 207 at 233 (“because eBay never has actual possession of the goods (...) and because the trademark owner has the necessary expertise to identify counterfeits of its products, the luxury brand may be in a better position to police its own mark than eBay”).

⁶⁶² See e.g. *Tiffany Inc. v. eBay Inc.* (S.D.N.Y., 2008) (prec.) at 470. See generally, J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION (West Group, 1996) §17:05 to 17:08; Nicole S. Bradley: *Pursuing Brand Infringement Online: Why Policing The Internet For Brand Abuse Is No Longer Optional*, CYBERSPACE/IP LAW SUBCOMM., AM. BAR. ASS., CHICAGO, ILL. (Mar. 2005) (also available at http://www.abanet.org/buslaw/committees/CL_32001pub/newletter/0006); Brandon Peene, *Lux For Less: EBay’s Liability To Luxury Brands For The Sale Of Counterfeit Goods*, SETON HALL LAW REVIEW, 2010

They further argue that holding them liable for third party content would place upon them the overwhelming and unrealistic burden to monitor billions of data going through their servers, potentially threatening their business model⁶⁶³. Such general monitoring obligations, they add, would be at odds with the U.S. DMCA and/or EU e-commerce Directive and would constitute a barrier for new entrants and innovators⁶⁶⁴.

They finally contend that imposing upon them further monitoring obligation would seriously undermine the user's fundamental rights including their right to protection of personal data and their freedom to receive or impart information, as well as the fundamental principle of net neutrality, without necessarily tackling effectively the issue of online piracy⁶⁶⁵.

Because all these arguments are generally valid, shifting the cost of enforcement to one or another of these stakeholders, by lowering the protection granted to one or increasing the liability imposed upon the other - as some of the reforms and proposals recently discussed or introduced in Europe or in the United States are doing - cannot be the right solution to tackle online infringement and foster digital economy in the long term.

(b) Shifting the burden on one of the stakeholder: a wrong approach to online piracy

⁶⁶³See Elizabeth K. Levin, *A Safe Harbor For Trademark: Reevaluating Secondary Trademark Liability After Tiffany V. EBay* (prec.) at 519 ("if internet intermediaries were liable every time someone posted infringing content on their site, the resulting liability would likely force all sites, including eBay to shut down"); See also, Katie Heffner, *Tiffany and eBay in Fight Over Fakes*, NY TIMES Nov, 27, 2007

⁶⁶⁴ Since no start-up or new company would be able to afford the high costs required by the implementation of systematical monitoring

⁶⁶⁵ Emily Favre, *Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting*, 15 JL & POL'Y 165 at 179.

Shifting the cost of enforcement on one of the stakeholders – (i) Internet intermediaries, (ii) right holders or (iii) users– as proposed by the above-mentioned new regulations or draft reforms, raises several adverse side effects and may not be the right approach to tackle online infringement.

(i) Shifting the burden on Internet Intermediaries or *how to deter innovation and new investment in the technology industry?*

First, there is no doubt that shifting the burden of monitoring online infringement entirely on Internet intermediaries will have a deterrent effect on innovation and new investments in the technology industry by raising the liability and costs faced by these businesses⁶⁶⁶.

Yet, as reminded above, the goal of both the DMCA and e-commerce Directive was to promote e-commerce and Internet-related technology, viewed in both systems as a key engine for growth, employment and innovation⁶⁶⁷.

Today, intermediaries play an even greater role in the digital landscape than they played 10 years ago in that they host, crawl, retrieve, organize, display and/or give access to far more data.

For the same reasons they needed to be shielded from potential endless liability for third party content at that time, they need to be shielded against an even greater potential liability today.

As a result, Internet intermediaries cannot bear alone the cost of online infringement.

On the other hand, shifting the costs of enforcement exclusively on right holder and lowering their protection against the violation of their right involve similar corrosive side effects.

⁶⁶⁶ See Center for Democracy and Technology (CDT) website (see supra note 573)

⁶⁶⁷ See Council Directive 2000/31/EC, Recitals n°1-10 and S. REP 105-190 at 2-8 (prec.)

⁶⁶⁷ See 17 U.S.C. § 512 (c) (1)-(3)

(ii) Shifting the burden on right holders, or how to deter creation and investment in the content industry?

Although there are some suggestions that some type of online infringement may serve the interest of right holders by strengthening their existing notoriety and/or building new market opportunities⁶⁶⁸, overwhelming data show that online copyright and trademark infringement have reached dramatic proportions, causing serious losses to artists, publishers and brand owners⁶⁶⁹.

Specifically, because of the unauthorized display of their work online, copyright holders are deprived of the revenue stream normally attached to the exercise of their monopoly rights⁶⁷⁰ and thus deprived of any incentive to create new works. Likewise, publishers and authorized distribution channels, unable to compete with unauthorized (but free) channels of distribution, lack the necessary incentive to invest in artists and content production⁶⁷¹.

⁶⁶⁸ See LAWRENCE LESSIG, *FREE CULTURE* (prec.) at 62 et seq. (see spec. chapter 5 Piracy distinguishing four possible uses of files sharing including (a) substitute for purchasing, (b) sampling, (c) access to copyrighted work no longer available (d) and access to non copyrighted work or work released with the permission of the author, among which only use (a) (substitute for purchasing) would be harmful to the author. By contrast, use (b) (sampling) would be beneficial for the author, use (c) would be neutral (since the work is no more available) and use (d) non actionable because authorized. Lessig thus concludes that the net benefit of file sharing for the author and the society would largely offset the possible losses. See also Robert Clark, *Sharing Out Online Liability: Sharing Files, Sharing Risks And Targeting ISP*, in PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW (prec.) at 197; Mike Masnick, *Busta Rhymes Backs Megaupload, Says Record Label Are The Real Criminals*, Tech Dirt Jan. 20, 2012 and Dan Nissanoff, *Op-Ed: Tiffany Actually Loses If It Wins eBay Lawsuit*, auctionbytes.com, May 2006).

⁶⁶⁹ See OECD study, *The economic impact of counterfeiting and piracy*, IAC Report, *the truth about counterfeiting* (prec.), BASCAP Report, IPI report (all prec. note 14), Professor Hargreaves' Digital Opportunity Report (see infra) at 70-76 (§8.12-8.23). See also Justice Kenneth Parker Decision of April 20, 2011 (prec.) at 252.

⁶⁷⁰ See Sandra Aistars, *A Change Of Tune But The Question Remains* (available on copyright alliance blog) ("Artists and creators deserve a choice in the matter of how their work is distributed. They deserve the ability to monetize traffic to their own sites, and to earn a return from legitimate distributors. They deserve a say in when, how and if they give their work away for free, and they deserve to know that if they do so, the work won't be immediately scooped up by a rogue site and monetized there instead. Bottom line, artists and creators deserve constructive solutions that will foster a safe and legal internet marketplace where creativity can flourish and consumers can continue to enjoy high quality content in ever more accessible formats. ")

⁶⁷¹ See IFPI Digital Music Report (2011) (prec.) at 14 (stressing that in Spain, where a record high rate of 45% (versus 23% in Europe) of all active internet users use illegal platform, music sales have fallen by around 55 per cent between 2005 and 2010 (versus 22% in average in Europe) and not a single new Spanish artist has featured in the country's top 50 selling albums (compared with 10 in 2003).)

As a general rule, copyright law is indeed built on the idea that copyright owners should be granted exclusive rights on their work as a reward for their work and creativity (EU conception) and/or as an incentive to create and produce new works (U.S conception)⁶⁷². To that extent, exceptions to the author's exclusive rights should be granted only where the social benefit and/or transactional costs of the exempted use are so high as to outweigh any losses to the copyright owner⁶⁷³.

In accordance with the Berne Convention, any exception or limitation to copyright must additionally be (i) limited to certain special cases, (ii) not conflict with a normal exploitation of the work and (iii) not unreasonably prejudice the legitimate interests of the author⁶⁷⁴.

Where, by contrast, a "normal" exploitation of the work by the right holder or her authorized licensee is possible, and where such exploitation is likely to provide the right holder with an actual or prospective tangible source of income, there is no reason to deprive the right holder of an actual or potential market, likely to generate a substantial source of income for her.

To that extent, proposals aimed at restricting copyright, even for non commercial (but massive) use of music, movies and/or other copyrighted works are in direct conflict with both the *normal exploitation* and *unreasonable prejudice* standard laid down by the Berne Convention. Indeed, most

⁶⁷² See U.S. Constitution art I, § 8, cl. 8. ("The Congress shall have power . . . To Promote the Progress of Science and useful Arts, by securing for limited Times to authors and inventors the exclusive Right to their respective Writings and Discoveries."); See generally Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600 at 1611 (1982) (observing that "if the creators of intellectual productions were given no rights to control the use made of their works, they might receive few revenues and thus would lack an appropriate level of incentive to create.")

⁶⁷³ Id. at 1632 ("in dealing with fair use generally, courts should take care that they do not tax copyright owners to subsidize impecunious but meritorious users under the guise of maximizing value. Only when the public interest to be served is great, and the damage to the owner small does the need for this caution diminish"). See also, Goldstein ON COPYRIGHT (prec.) §12.1.1.

⁶⁷⁴ WIPO Study on Limitations and exceptions of copyright and related rights in the digital environment, (cf. *infra*) at 80 (excluding that (unauthorized) streaming and peer-to-peer file-sharing may meet the threshold standard of the three steps tests under the Berne Convention.)

copyrighted products can normally be accessed through a regular market, where copyright fees are normally paid to their legitimate owner⁶⁷⁵.

Likewise, as regard trademark infringement, the facility offered by the Internet to buy and resell, notably on mainstream e-commerce platforms and auction websites, any counterfeit goods produced in any country of the world, for limited risks and costs, has facilitated the emergence of new categories of “ordinary people” and “professional” infringers, flooding the market with cheap copycats of any popular brands⁶⁷⁶, resulting in important losses for right holders.

Yet, trademarks are intimately associated with the growth of any businesses and therefore with the global growth of any economy⁶⁷⁷.

Depriving copyright and trademark holders of any remedy against the violation of their right online - as proposed by some anti-copyright and IP-skeptic circles – could thus have a devastating impact on the dynamism and variety of our cultural industry⁶⁷⁸ and more generally on the economic growth of our society⁶⁷⁹.

⁶⁷⁵ WIPO Study on Limitations and exceptions of copyright and related rights in the digital environment, Standing Committee on copyright and related rights, Ninth session, Geneva (23 to 27 June 2003), WIPO Document SCCR/9/7 of 5 April 2003 (by Sam Ricketson). By contrast, access to news may meet this standard: see The 1709 Blog (Monika), *New neighbouring rights to be introduced in Germany*, March 12, 2012 (mentioning that the German coalition government has decided to create a new neighbouring right for newspaper publishers for which, commercial Internet service providers, such as search engine providers and news aggregators, shall pay an equitable remuneration to publishers for the use of media products such as newspaper articles).

⁶⁷⁶ DAVID M. HOPKINS, ET AL. COUNTERFEITING EXPOSED; HOW TO PROTECT YOUR BRAND AND MARKET SHARE?26 (Wiley, 2003) at 26; Kate Goldwasser: “*note: knock it off: an analysis of trademark counterfeit goods regulation in the United States, France and Belgium*” (prec.) at 208 (“The availability of the Internet as a marketplace for selling fake merchandise means that counterfeiters now have more direct and discreet channels to reach consumers. Online auction house often enable sellers to post goods anonymously, making it quite difficult for the websites to stringently police the sale of such counterfeit goods. Within seconds, sellers have access and exposure to millions of customers interested in purchasing copies of luxuries goods at extremely low prices”)

⁶⁷⁷ See e.g. Professor Hargreaves’s Digital Opportunity Report (infra) at 8.52

⁶⁷⁸ Wendy J. Gordon, *Fair Use As Market Failure: A Structural And Economic Analysis Of The Betamax Case And Its Predecessors*, 82 COLUM L. REV. 1600 (1982) at 1632 (“in dealing with fair use generally, courts should take care that they do not tax copyright owners to subsidize impecunious but meritorious users under the guise of maximizing value. Only when the public interest to be served is great, and the damage to the owner small does the need for this caution diminishes”). See Neely Kroes, Vice-President of the European Commission responsible for the Digital Agenda, speech at Forum d’Avignon, Nov. 19, 2011, *Who feeds the Artists?*

⁶⁷⁹ See, notably, as regards copyright: 1886 Berne Convention (Art. 9, 11, 12, 8, 14), 1994 WIPO Copyright Treaty (Art. 6, 8); 2001 Copyright Directive (esp. art. 3) and U.S. Copyright Act, (not. §106) and, as regards Trademark, Trademark Directive 2008/95/EC (prec.) and Lanham Act (prec.).

By the same token however, the new regulations and draft reforms proposing to shift the cost of enforcement on Internet users, either by limiting their fundamental rights and/or by imposing on them unproportionated sanctions, could also involve devastating side effect.

(c) **Shifting the burden on users or *how to chill fundamental rights and blur essential values underpinning our legal system?***

A typical example of burden shifting to users can be found in the area of unauthorized file sharing, where several reforms (or draft reforms) have recently offered to crack down on users, by way of systematical monitoring, increased penalty or even suspension of Internet access⁶⁸⁰.

Reforms cracking down on users⁶⁸¹ were primarily taken in reaction to the unprecedented level of “online piracy” enabled by (unauthorized) file-sharing practices.

As explained above, after it was brought to the mainstream by Napster⁶⁸², peer-to-peer file sharing practices met with huge success, not only because it offered free music, but also because it responded to a need from the market to access music anytime, anywhere⁶⁸³.

Rather than offering legal alternatives, the content industry responded to this phenomenon for the first time by an overbroad⁶⁸⁴ and over-aggressive⁶⁸⁵ litigation campaign against peer-to-peer network and individual users⁶⁸⁶.

⁶⁸⁰ See esp. HADOPI law and to some extent the English DEA developed above

⁶⁸¹ See e.g. HADOPI, DEA and to some extent SOPA (with increased penalty for unauthorized streaming notably)

⁶⁸² Karl Taro Greenfeld, Chris Taylor & David E. Thipgen, *Meet the Napster*, TIME, Oct 2, 2000

⁶⁸³ *Id.* mentioning that within 6 months from its launching, Napster had amassed 10 millions users, after one year, 25 millions, and within 18 months, 80 millions users. Today, according to IFPI Digital Music Report (2011) (prec.) the rate of people consuming music on peer-to-peer network would account for up an average of 23% of all Internet users in Europe and up to 45% in Spain!

⁶⁸⁴ See e.g. LAWRENCE LESSIG, REMIX (prec.) at 1-15 (Introduction).

⁶⁸⁵ See e.g. **Capitol Records, Inc v. Thomas** 579 F. Supp. 2nd 1210 (D. Minn. 2008) in which a jury found a single mother with limited fund liable for copyright infringement and awarded a total of 222,000 in statutory damages for placing twenty four songs in a share folder in KaZaa.

Yet, targeting (essentially young⁶⁸⁷ and impecunious) users with criminal prosecutions, continuous admonitions and/or excessive fines, when unauthorized and commercial file-sharing services continued to flourish everywhere, proved to be both inefficient⁶⁸⁸ and counter-productive⁶⁸⁹.

Indeed, this campaign mainly discredited the content industry as a whole⁶⁹⁰ to such a point that some users started feeling more solidarity with infringers than with distributors and creators of content⁶⁹¹.

Arguably, cracking down on users have therefore blurred for a substantial portion of Internet users, a whole set of fundamental values underpinning our legal system⁶⁹².

In this context, draft legislations focusing on the criminalization of users are probably not the best solution to tackle online infringement. When such legislations do not include in their sanctioning process sufficient judicial guarantee for Internet users (e.g. right to a due process, fair hearing, sufficient standard of evidence, presumption of innocence, oversight, transparency, accountability and appeals), they are additionally at odds with fundamental rights defined by international treaties and general principles of law.

⁶⁸⁶ LAWRENCE LESSIG, REMIX (prec.) mentioning that as of June 2006, the RIAA had sued 17587 people including a 13-years old girl and a dead grand-mother.

⁶⁸⁷ Although file sharing is far from being limited to the youngest share of the population, it seems that it is especially popular among the younger generation. See e.g. OFCOM survey (2007) revealing that 57% of the 13-17 years old – the highest rate among all range of ages - have already downloaded illegal music from file-sharing sites (study available at <http://www.slideshare.net/comment.ofcom/ofcom-uk-cmr-2008-charts-551767/71>)

⁶⁸⁸ See e.g. Sarah McBride & Ethan Smith, *Music Industry To Abandon Mass Suits*, WALL ST. J., Dec. 19, 2008; see also Torrent Freak, *Piracy Rises In France Despite Three Strikes Law*, (by Ernesto), March 2010

⁶⁸⁹ Sarah McBride & Ethan Smith, *Music Industry To Abandon Mass Suits*, WALL ST. J., Dec. 19, 2008; see also Jon Newton, *Big Music Sues Schoolgirl, Mainstream Media Doesn't Care*, TECHNEWSWORLD, Oct. 11, 2005.

⁶⁹⁰ Genan Zilkha, *The RIAA's Troubling Solution to File Sharing*, 20 FORDHAM INTELL. PROP. MEDIA & ENT., L.J. 667 (2010) at 669

⁶⁹¹ The unprecedented public outcry in reaction to the shutting down of Megaupload, a website that overwhelmingly hosted infringing content, is telling of the public's feeling towards the content industry and piracy in general. See e.g. *Continua la protesta contro la chiusura di Megaupload, Anonymous abbatte i siti U.S.A* (prec. note 566)

⁶⁹² See e.g. LAWRENCE LESSIG, REMIX (prec.) (esp. preface (xx) and at 18) on the danger of criminalizing an entire generation of users

Shifting the costs of enforcement on users where (i) many platforms are still inducing or fostering online infringement (through their business model or other affirmative steps) and where (ii) right holders may use their monopoly right to prevent the emergence of new competitive market solutions, rather than to protect the core object of their rights⁶⁹³ may additionally prove to be counter-productive.

To that extent, the use of a copyrighted work and/or a trademark right should mainly be restricted when it conflicts with the core object of this right (e.g. “market substitute for the original work” for copyright, “indicating origin function” for trademark), rather than to limit the users’ freedom of speech (e.g. right to release critics, reviews), artistic creation (e.g. parody, remix, etc) or privacy.

The recent reforms and/or draft reforms of copyright and/or trademark law have thus failed to preserve the delicate balance that had been reached in the last decade by U.S. and EU lawmakers between the interests of the different stakeholders. In this context, rather than through inconsistent legislative reforms, a good approach to online piracy would be to achieve further harmonization in the implementation and interpretation of our current legal framework. (4.2)

4.2 An alternative to legal reforms: a step towards harmonization in the implementation and interpretation of the current legal framework

The Internet is a borderless technology. As such, it requires regulation to be as harmonized as possible.

⁶⁹³ WIPO Study, *Role and responsibility of Internet Intermediaries in the field of copyright and related rights* (prec. *supra* note 19) at 68 (quoting June 2009 speech of Viviane Reding putting equal blame on customers and record labels for the problem of unauthorized file-sharing); see also Jenna Worham and Amy Chozik, *The Piracy Problem, How Broad?*, NYT, Feb. 8, 2012

Any fragmentation of the legal framework governing online activities is thus necessarily detrimental to the functioning and growth of global e-commerce and borderless digital technologies. A first step to foster digital technology, while tackling online piracy more effectively and preserving Internet users' fundamental rights, would therefore be to make a further step towards the harmonization of our legal framework (4.2.1) and, above all, its interpretation by U.S. and EU courts (4.2.2).

4.2.1 A further step towards the harmonization of the U.S. and EU legal framework

Although our legal systems are globally consistent, there are still divergences in Europe and between Europe and the United States in the rules and procedures governing OSP liability and Internet users' rights. Some further adjustments towards further harmonization would thus be a first step to further digital technology and Internet users' rights, while tackling online infringement globally.

These adjustments (towards further harmonization) may include (i) the different notice and take-down procedures applying in each country, (ii) the range of injunctive reliefs available against service providers whose services are used to infringe, (iii) the range of exceptions available to defendants (Internet users and/or OSPs) in a copyright or trademark infringement claim and (iv) the definition of a possible duty of care bearing on service providers.

Since all these points have been extensively studied in part 2 above, the present section will only outline some of the adjustments that could be taken to reach further harmonization in this regard.

4.2.1.1 Notice and take down procedure

As further set forth under Section I above, both U.S. and EU regulations provide an obligation for service providers to remove or block access to any infringing material, upon obtaining knowledge of their infringing character.

In the United States and in most EU countries, OSPs normally acquire knowledge of infringing content or activity through a specific notice of infringement sent by the right holder. Such notification then triggers an obligation on the OSP to take down such infringing content or activity. Arguably, this provision gives the right holder a first remedy against online infringement.⁶⁹⁴

Yet, while the U.S. DMCA describes in detail the legal effect and content of such notification, the e-commerce Directive has left this task to each member state.

As a result, the situation is still considerably fragmented among member states. Indeed, while some member states require a formal procedure and an official notification by judicial authorities to assume knowledge by the service provider, others only requires a notification from the right holder⁶⁹⁵.

Likewise, while some member states apply a notice and take down system⁶⁹⁶, some countries have in practice opted for a notice and stay down system⁶⁹⁷, while others tend to apply a notice and notice system⁶⁹⁸.

⁶⁹⁴ E.U. *Study on the liability of internet intermediaries*, Markt/2006/09/E Service Contract ETD/2006/IM/E2/69 (by Thibault Verbiest, Gerald Spindler, Giovanni Maria Riccio, Aurelia Van der Perre) at 15 (on the different notice and take down systems existing in Europe.)

⁶⁹⁵ *Id.*

⁶⁹⁶ System for which the hosting provider has to take down the infringing content as soon as it is notified of its infringing character, applied in several member states.

⁶⁹⁷ System for which the service provider has the obligation to take down the content and make sure it won't reappear in the future. This is the system that is applied by many ISPs in France as a result of recent case law in this sense.

⁶⁹⁸ System in which the hosting provider is only supposed to forward the notification of infringement to the alleged direct infringer.

Obviously, such divergences cause a great deal of legal uncertainties to the detriment of the development and growth of e-commerce, international exchange and the Internet technology in general.⁶⁹⁹

In a recent communication⁷⁰⁰, the EU commission has however announced that it will address this problem in 2012, by providing a unified notice and take down procedure in Europe. Ideally, this notification procedure could be inspired from the DMCA notice and take down procedure so that the main stakeholders may be able to use a unified and simplified procedure to curtail online infringement globally.

4.2.1.2 The range of injunctions available against ISP/OSP

Another important difference between the U.S. and the European legal framework is the range of injunctive reliefs available to right holders in case of copyright infringement.

As seen above, in case of copyright infringement, section 512(j)(1) of the U.S. Copyright Act provides that a copyright owner may obtain only three kinds of injunctions against a service provider whose services are being used for purpose of infringement, including:

- (i) an order restraining the service provider from *providing access to infringing material* or activity *residing at a particular online site* on the provider's system or network,
- (ii) an order restraining the service provider *from providing access to a subscriber* or account holder of the service provider's system or network who is engaging in infringing activity and is *identified in the order*,

⁶⁹⁹ Laura Marino, *Internet, Le Fabuleux Destin De La Responsabilité Des Hébergeurs*, RESPONSABILITÉ CIVILE ET ASSURANCE, REVUE MENSUELLE LEXISNEXIS, JURISCLASSEUR (June 2011).

⁷⁰⁰ See E.U. Commission Communication “ *A Coherent Framework For Building Trust In The Digital Single Market (...)* ” (prec. note 579)

(iii) such other injunctive relief as the court may consider necessary to *prevent or restrain infringement of copyrighted material specified* in the order of the court *at a particular online location*, if such relief is the least burdensome to the service provider among the forms of relief comparably effective for that purpose.

Section 512(j)(2) further requires the judge to balance, before ordering such measure, the burden the service provider would suffer if such measures were to be implemented, with the harm the copyright owner would suffer if they were not. This section also requires the judge to assess the technical feasibility of such measures, as well as the availability of any possible “*less burdensome and comparably effective*” alternative to prevent or restrain access to infringing material.

By contrast, the e-commerce Directive does not provide any limitation to the capacity of member states to provide in their domestic legislations injunctive measures aimed at terminating or preventing infringement, beyond the prohibition of the imposition of a “general monitoring obligation” upon the service provider⁷⁰¹.

Moreover, article 8 of the Copyright Directive and Article 11 of the Enforcement Directive require Member States to provide for such injunctive procedure against both the direct infringer *and* against intermediaries whose services are used by third party to infringe⁷⁰².

Domestic courts in Europe have thus used these provisions to order ISPs and OSPs to implement specific measures – targeted filtering obligations, website blocking, etc. - in order to stop or prevent online infringement⁷⁰³.

⁷⁰¹ See Recital 45, article 12(3), 13 (3) and 14 (3) of Council Directive 2000/31/EC as well as article 15 of Council Directive 2000/31/EC.

⁷⁰² As a result, most E.U. member states have provided in their domestic legislations injunctive procedures against intermediaries whose services are used by a third party to infringe.

⁷⁰³ See, for some examples of injunctive relieves ordered by U.K., French and German Courts against ISP/OSP: **EWHC July 28, 2011, Twentieth Century Fox et al. v. British Telecommunications PLC**, (prec.); EWHC, Feb. 20, 2012, **Dramatico Entertainment Ltd & others v British Sky Broadcasting Ltd & others** (prec.); TC Paris, June 30, 2008, **LVMH v. eBay** (aff’d by C.A. Paris Sept. 3, 2010) (prec.), Commercial Court of Paris (sum judgment) Jul. 26 and Oct. 31, 2007, **Kenzo et al. v. Dims**, (prec.); German Federal Court of Justice (BGH), Apr. 30, 2008 IZR 73/05 **Ricardo v.**

Arguably, these provisions have given right holders one of the most efficient remedies they can rely on against online infringement, without substantially impairing the business model or innovation capacity of the service providers targeted by such provisions.

In each of these cases, the required injunction is indeed ordered by a judicial authority, in charge of assessing whether it is justified in view of the different interests at stake and the specific circumstances of the case (including the question of the damage suffered by the right holder, the technical feasibility of the measure required, the allocation of the costs of such injunction and the possible limitation on the users' fundamental rights and privacy.)

Depending on whether it is to be interpreted broadly or narrowly, section 512(j)(1) of the DMCA in its current version may be broad enough to allow for the provision of a wide range of potentially effective judicial injunctions⁷⁰⁴. However, section 512(j)(2) still suggests that this option should be a last resort where no “less burdensome and comparably effective alternative” is available.

Such reservations and concerns towards injunctive reliefs in U.S. law may not be justified in the current technical landscape. With technical progress in data processing, filtering and other monitoring technologies, filtering has become far more common, efficient and cost-effective than it used to be. Moreover, advance in technology has enabled ISPs and OSPs to use more and more targeted filtering, either for security or brand image reasons (e.g. filter out potentially dangerous or inappropriate content, such as virus, malware, pornography, weapons, Nazi memorabilia, etc.), or for network management and/or other business reasons (e.g. traffic discrimination, targeted advertising, data mining, etc.).

Rolex SA, BGH.

⁷⁰⁴ See Section 17 U.S.C. § 512(j)(1) (supra). Such interpretation depends on whether “particular online site” and “particular online location” are to be interpreted strictly or broadly. The wording “online site” and “prevent and restrain” suggest that a broad interpretation should be permitted.

Efficient and targeted filtering technologies are thus widely available and already used by most OSPs to conduct their businesses and could thus be extended to infringement monitoring without major problems.

Moreover, contrary to what suggested in section 512(j)(2), in many instances, there are no “comparably effective” remedies available to the right holder to prevent or refrain access to copyright infringement on a specific website.

One way of providing additional remedies to the right holder against the violation of their rights online, without undermining innovation and free speech, could therefore be to allow a wider use of injunctive procedures against third parties whose services are used to infringe, as this is expressly provided in the Copyright and Enforcement Directive. Depending on the interpretation given to section 512(j)(2), this might not even require reform of the current U.S. legislation.

4.2.1.3 Extent of the service provider’s duty of care

Another area of law that remains largely different in Europe and in the United States is the presence in most EU countries - differently from the United States - of a general clause of “civil liability” or “general tort rule” from which many EU courts have carved out specific duty of care, bearing on any person whose activity is likely to damage another.

Based on this general “duty of care” under a “civil liability” or “negligence” theory, several courts in Europe have held Internet service providers liable for failing to implement on their website reasonable (and available) measures that would have prevented, stopped or at least reduced the impact of infringing activity on their website⁷⁰⁵.

⁷⁰⁵ See e.g. Cour de Cassation, Oct. 21 2008, **Sedo GmbH v. Hotel Meridien, Stephane H** (aff’ing Paris Court of Appeal March 7, 2007) (prec.); Troyes First instance Court (TGI), June 4, 2008, **Hermes v. eBay** (aff’d by Reims Court

By contrast, U.S. courts have generally refused to apply such a broad standard⁷⁰⁶, qualifying it in various occasions as a “watered down standard”.

Yet, elements of due care are beginning to appear in U.S. law and case law. For instance, section 512(i) of the DMCA requires service providers to implement certain responsible practices (policies against infringement, accommodation of standard technical protection, etc.) in order to benefit from liability exemption.

Likewise, some courts in the U.S. have held service providers liable for contributory infringement in circumstances where (i) they had built their entire business models on third party copyright’s infringement (by their users) and (ii) had failed to take any measures (e.g. filtering) to mitigate the massive infringement facilitated by their technologies⁷⁰⁷.

If introducing a broad obligation of “due care” in U.S. law may not be desirable because of the difference of tradition existing between U.S. and EU law⁷⁰⁸, introducing more considerations of due care in the assessment of the classical requirements triggering OSP liability under the DMCA and common law doctrine of vicarious and contributory liability could give right holders better remedies against the violation of their rights, without fundamentally undermining the capacity of “honest” (i.e. not entirely infringement-dependent) OSPs to continue to thrive in this business⁷⁰⁹.

of Appeal, July 20, 2010) (prec.); Paris Commercial Court June 30, 2008, **LVMH v. eBay** (aff’d by Paris Court of Appeal of Paris, Pole 5, ch. 2) Sept. 3, 2010 (prec.)

⁷⁰⁶ See e.g. **Tiffany v. eBay** (S.D.N.Y., 2008)

⁷⁰⁷ See e.g. **MGM v. Grokster**, 454 F. Supp. 2d 966, 989-91 (C.D. Cal. 2006)

⁷⁰⁸ But see Ellie Mercado, *Note And Recent Development; As Long As “It” Is Not Counterfeit* (prec.); at 18, 132 (suggesting to extend tort agency principles in order to place on specific service providers a heightened duty of care to prevent online infringement, specially when they (i) know or can reasonably anticipate such infringement (ii) exercise control over their users, (iii) are involved in some way in the user’s and (iv) derive profit from such infringement); See also Xenia P. Kobylarz, *Policing the Internet*, INTELL. PROP. L. & BUS. (June 2007), at 26,26; and RESTATEMENT (THIRD) OF UNFAIR COMPETITION, §27(b) (The American Law Institute, 1995) suggesting the existence of such duty in U.S. law.

⁷⁰⁹ See generally Jane C. Ginsburg, *Separating the Sony Sheep from the Grokster Goats. Reckoning the future Business Plans of Copyright Dependant technology entrepreneurs*, 50 ARIZ. L. REV. 577 at 587

4.2.1.4 Exceptions available to the defendants to a copyright or trademark infringement claim

In addition to giving right holders further remedies against the violation of their rights and OSPs further certainty on their liability and risk, it is also essential to give Internet users' full guarantees as to the exercise of their fundamental rights.

Yet, another area where legislation is still very fragmented within and between Europe and the United States is the range of exceptions available to Internet users (and, where applicable, intermediaries) in defense to a claim for copyright or trademark infringement.

As discussed above, Europe and the United States are traditionally said to have adopted an almost contradictory approach (large monopoly vs. freedom of use) in their treatment of the exceptions to trademark and copyright law⁷¹⁰, and the situation is also very fragmented in Europe. In particular, the Copyright Directive only includes one compulsory exception (transient or incidental copying as part of a network transmission), while other major exceptions (private copy, short quotation, press reviews, parody, pastiche and caricatures) are only optional⁷¹¹. Any exception included by a member state in its legislation must additionally comply with the three-step test laid down by the Berne Convention and therefore (i) be limited to certain special cases, (ii) not conflict with a normal exploitation of the work, and (iii) not unreasonably prejudice the legitimate interests of the right holder⁷¹²

⁷¹⁰ See supra Section 2.2.3 Exceptions and Defenses. See also Martin Senftleben, *Bridging The Differences Between Copyright's Legal Traditions – The Emerging EC Fair Use Doctrine*, 57 J. COPYRIGHT SOC'Y 521 at 524. See also Eric J. Schwarts., *An Overview Of The International Treatment Of Exceptions*, 57 J. COPYRIGHT SOC'Y 473 at 474; Joseph M. Beck and Allison M. Scott, *The Changing Face Of Copyright Law: Resolving The Disconnect Between 20th Century Law And 21st Century Attitude: Digital Age Claims For Old World Rights*, 17 J. INTELL. PROPOS. L. 5; Anne Lepage, *Overview Of Exceptions And Limitations To Copyright In The Digital Environment*, E-COPYRIGHT BULLETIN (JAN-MARCH 2003).

⁷¹¹ See Section 2.2.3 (exceptions) supra and art. 5 of the copyright Directive

⁷¹² See art. 5 (5) of the Copyright Directive (prec.)

Although U.S. and EU courts have tended to apply these two systems in a consistent way⁷¹³, the various discrepancies existing in the list and treatment of exceptions by different countries still create a great deal of legal insecurity for the different stakeholders.

Advocating for the introduction of a fair use exception in Europe and/or the introduction of a “closed” list of exception in the United States is certainly not very realistic - nor even desirable - in view of the difference of tradition and case law existing between Europe and the United States.

Yet, the three steps test laid down in the Berne Convention and more recently in the Copyright Directive, by arguably introducing in EU law the fourth and more important condition of the U.S. fair use test⁷¹⁴, could be an instrument to bring the two systems further together. Relying on the threshold three-step tests reaffirmed in the Copyright Directive, EU member states could indeed introduce in their legislation most – if not all – exceptions provided in the Copyright Directive, while U.S. courts may take into consideration the Copyright Directive list of exceptions as an indicator of fair use under any traditional factor of fair use (e.g. under the general scope or under one of the four factors of fair use).

In parallel to these possible adjustments, courts in Europe and in the United States should make an important step towards a more consistent interpretation of their legal framework.

4.2.2 An important step towards further harmonization in the interpretation of this legal framework by U.S. and EU courts

As explained above, U.S. and EU courts have interpreted differently most of the requirement triggering OSP liability, including the conditions of eligibility under a special regime of liability

⁷¹³ See Section 2.2.3.2 *supra* (Beyond some visible differences, a similar treatment of exception)

⁷¹⁴ Compare 17 U.S.C. § 107 (4) (effect of the use upon the potential market for, or value of the copyrighted work) and article 9(2) of the Berne Convention (not conflict with a normal exploitation of the work, and not unreasonably prejudice the legitimate interests of the right holder).

(4.2.2.1), the knowledge requirement (4.2.2.2), the adequate response standard (4.2.2.3), as well as the control and financial benefit requirement (4.2.2.4). Without reviewing again these concepts and their different interpretations by different courts - already outlined in Parts 2 and 3 - the present section suggests one interpretation for each of these concepts which may respond to the right holders' legitimate concerns to obtain efficient remedies against the violations of their right, while preserving the interests of the internet intermediaries to run their businesses and of the Internet users to access protected material according to the conditions permitted by the law.

4.2.2.1 Eligibility under the safe harbor provision

As set forth above, several courts in Europe have on various occasions denied major OSP such as auction websites, search engines, social media or sharing platforms, the benefit of the hosting exemption on the ground that their activity would not be limited to the mere activity of "hosting".

The E.C.J. itself has recently held that OSPs were eligible under the hosting exemption only to the extent that their role was "neutral" (i.e. of a mere technical, automatic and passive nature) and that they did not play an "active role" of such kind as to give them "knowledge of, or control over the data stored."

Yet, most of the online service providers involved in the research, gathering, displaying or treatment of third party data today do much more than merely "host" these data. Moreover, there is no doubt that most of these platforms play more than a "neutral role" (in the sense of being merely technical, automatic and passive) with respect to such content.

Despite being aware of the ambiguity and divergences of interpretation raised by the different categories of exemptions provided in the e-commerce Directive, the EU commission has declined to

create new categories of exemptions and/or to clarify the notion of “hosting” in order to include these new “intermediaries” services.

Even more concerning, by introducing a new requirement to hosting exemption in the form of the “neutrality” and/or “passivity” of the service provider, the E.C.J. has failed to bring further guidance to domestic courts in Europe on the definition and breadth of the hosting provider exemption. As a result, domestic courts in Europe still apply different regime of liability to similar or identical service providers⁷¹⁵.

Yet, providing harmonized rules and legal security for the different stakeholders was precisely the reason that motivated the adoption of the e-commerce Directive and the DMCA more than 10 years ago.

U.S. courts and many EU courts now tend to consider that the hosting safe harbor was clearly meant to cover more than mere electronic storage and should therefore cover intermediary services enabling access to UGC content⁷¹⁶.

Provided the other requirement conditioning the application of this exemptions are applied strictly and consistently, such interpretation would give a real legal security to OSPs, without fundamentally undermining the effective protection to which copyright and trademark owner are entitled in a digital world.

4.2.2.2 Knowledge standard

As seen above, both the DMCA and e-commerce Directive subject the service providers’ eligibility under the hosting provider to the conditions that (i) they did not have actual knowledge or sufficient

⁷¹⁵ See Part 3 *supra*

⁷¹⁶ See e.g. *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 620 F. Supp. 2d 1081 at 1088 (C.D. Cal. 2008), **UMG Recordings v. Veoh Networks Inc**, 665 F. Supp. 2d 1099, 1108 (C.D. Cal, 2009, **UMG Recordings, Inc. v. Shelter Capital Partners LLC**, 667 F.3d 1022 (9th Cir. 2011) and **Viacom International Inc et. Seq. vs. YouTube (SDNY, 2010)** (reversed on other ground by the 2nd Cir. in April 2012) and case law cited *supra* (Section 3.1.1 *supra* - eligibility)

awareness of infringing content or activity and (ii) upon obtaining this knowledge, they acted expeditiously to block or remove the infringing content.

However, U.S. courts have recently tended to require a level of awareness sometimes amounting to actual knowledge⁷¹⁷.

Yet, it follows from the Senate and House Reports on the DMCA⁷¹⁸ and from the wording of the law itself - which provides two alternative standards of knowledge - that not only actual knowledge, but also a (lower) level of awareness (qualified by the legislative reports as “red flags”), should trigger an obligation on the service provider to block or remove infringing content⁷¹⁹.

Such an interpretation would not only bring together the interpretation of the knowledge standard given by U.S. and EU courts, but it would also give service providers an additional incentive to remove obviously infringing content from their platform to the benefit of all stakeholders.

4.2.2.3 Appropriate answer to infringement

After obtaining knowledge of infringing content or activity, in both systems, a service provider is required to take appropriate steps to remove or disable access to the infringing material.

Yet, as explained above, U.S. and some domestic courts in Europe have interpreted differently the extent of the service provider’s obligations in such case. While in the United States the service provider is only required to take down the specific content(s) listed in the right holder notification, in Europe, the E.C.J. and several courts in Europe have taken the view that a service provider could

⁷¹⁷ See e.g. *Tiffany v eBay*, **UMG Recordings v. Veoh Networks Inc**, (C.D. Cal, 2009), **UMG Recordings, Inc. v. Shelter Capital Partners LLC** (9th Cir. 2011) **Viacom International Inc et. Seq. vs. YouTube (SDNY, 2010)** and case law quoted supra (see section 3.1.2.1 supra – knowledge)

⁷¹⁸ See S. REP 105-190 at 48-49 and H. REP 105-796 at 57-58

⁷¹⁹ *Ellie Mercado* (prec.) at 118; *Kate Goldwasser* (prec.) at 228-231, Winter 2010 (arguing that the Tiffany Court improperly analyzed the two prongs of the knowledge standard); Jason Kessler, *Note, Correcting The Standard For Contributory Trademark Liability Over The Internet*, 39 Colum. J.L. & SOC. PROBS. 375 (2006) at 376

be required to take additional steps to prevent the recurrence of a specified content, previously flagged as infringing, provided this does not impose upon a service provider a general monitoring obligation⁷²⁰.

Arguably, if a specific content or activity has already been notified as “unauthorized” or “infringing” and technical means can flag similar content, there is no reason to consider that the service provider cannot be aware of such infringing content or activity and should not take reasonable steps to prevent the recurrence of such content or activity

Provided such technical measures (e.g. targeted filtering) are feasible, not excessively burdensome for the service provider and not excessively invasive for the Internet user, such broad interpretation should therefore prevail before the court.

4.2.2.4 Absence of Control and financial benefit standard

To be insulated from liability under the DMCA, a service provider shall meet two additional conditions: it should not *financially benefit* from the infringing activity, if it has the *right and ability to control* it. As set forth above, several domestic courts in Europe have also taken into account these two further criteria, although the e-commerce Directive only mentions the “control” criteria.

Yet, in the United States, the “control” and “financial benefit” standard under the DMCA have been interpreted excessively restrictively in recent years⁷²¹.

By contrast, by introducing a broad “neutral role” requirement, the E.C.J. has opened the door to a greater involvement and possibly broad interpretation of these two criteria.

⁷²⁰ See E.C.J. Case C-70/10, Nov. 24, 2011, **Scarlet v. Sabam**, and E.U. domestic case law (see section 3.1.2.2 supra - appropriate answer

⁷²¹ See case law cited above part 3.1.2.3 (control) and 3.1.2.4 (financial benefit) and recent decision *Viacom Int’l, Inc., Football Ass’n Premier League Ltd. v. YouTube, Inc.* (2nd Cir. 2012) (see below)

If interpreting the control and financial benefit requirement in the light the U.S. common law theory of vicarious liability has been excluded by U.S. courts⁷²², a minimum consensus should be to interpret the “control” and “financial benefit” requirements in a way that OSPs may not be able to build their business model on third parties’ rights infringement⁷²³.

Interpreting the current framework governing OSP liability in Europe and in the United States in a strict and consistent way could thus offer right holders’ effective remedies against the infringement of their rights⁷²⁴, without deterring innovation and incentives for service providers to run their businesses⁷²⁵, nor chilling users’ fundamental rights⁷²⁶.

Yet, practice has shown that the implementation of these regulations alone has little effect on the growth of online piracy. In all likelihood, the solution to online infringement should come from the market: only by fostering the development and growth of a legal and convenient alternative to online piracy will piracy be tackled effectively and sustainably. (4.3).

4.3 Fostering cooperation and business-driven solutions

Because of the very high costs and limited success of their litigation campaigns against users and platforms, right holders have turned in recent years to ISPs and OSPs in order to obtain their

⁷²² See e.g. **Fonovisa Inc. v. Cherry Auction, Inc.**, (9th cir., 1996) (interpreting the control standard as the right to terminate vendors for any reason, control their access to the venue and promote the venue and the financial benefit standard as the fact of reaping substantial financial benefit from admission fees, concession stand sales, and parking fees, all of which directly flow from customers who wanted to buy counterfeit recordings.) But see **Viacom Int’l, Inc., Football Ass’n Premier League Ltd. v. YouTube, Inc.** (2nd Cir. 2012) rejecting such interpretation and holding that the control requirement under the DMCA would require “something more” than under the theory of vicarious liability.

⁷²³ See Jane C. Ginsburg, *Separating The Sony Sheep From The Grokster Goats: Reckoning The Future Business Plans Of Copyright Dependent Technology Entrepreneurs*, 50 ARIS. L. REV. 577 at 599

⁷²⁴ See supra e.g. notice and take down procedures, injunctive relieves, liability of service providers where they know, encourage, incentivize or control infringing activity, etc.)

⁷²⁵ See supra, e.g. safe harbor protection, prohibition of general monitoring obligation.

⁷²⁶ See supra, e.g. fair use, exceptions and privacy rules. See also KEITH E. MASKUS, *INTELLECTUAL PROPERTY RIGHTS IN THE GLOBAL ECONOMY* (Institute for International Economics, 2000) at 97 et seq. and at 197 (showing that the global trend towards a better protection and harmonization of IP right in Europe and in the U.S. is globally favorable to innovation and growth in these economic areas.)

voluntary cooperation⁷²⁷. In turn, OSPs have generally responded to these initiatives, either for reasons of convenience, brand image, network management and/or any other business reasons⁷²⁸.

Recent years have thus seen a shift from a “passive-reactive” approach (from the right holders towards users and intermediaries, in order to obtain remedies) to an “active-preventive” approach (through the implementation of bi-lateral or multi-lateral agreements between right holders and intermediaries).

This approach, fostered by government policies⁷²⁹, voluntary multi-stakeholder agreements⁷³⁰, legislative enactments⁷³¹ and judicial rulings⁷³² includes the implementation of technical measures (4.3.1), educative measures (4.3.2), streamlined enforcement measures (4.3.3) and business solutions (4.3.4).

⁷²⁷ See WIPO Study, *Role And Responsibility Of Internet Intermediaries In The Field Of Copyright And Related Rights* (prec. supra note 19), at 62 et seq.; See also *Comments Of The MPAA In Response To The Workshop On The Role Of Content In The Broadband Ecosystem Before The Fed. Comm’n*, GN Docket No 09-51 (asking the government to step aside and not interpose any legal or regulatory obstacles preventing ISP and right owner from working out industry-led solutions to tackle online infringement); see also BSA’s *position on Appropriate Measures to Deter Online Piracy of Content* (recommending filtering and industry-led solution to tackle online infringement)

⁷²⁸ Jeremy de Beer and Christopher D. Clemmer, *Global Trends In Online Copyright Enforcement: A Non-Neutral Role For Network Intermediaries?* 49 JURIMETRICS, J.375-409 (2009) at 389; Annemarie Bridy, *Graduated Response And The Turn To Private Ordering In Online Copyright Enforcement*, 89 OR. L. REV. 81

⁷²⁹ See S. REP. No 105-190 at 20, and H. Rep. 105-796 at 72 (1998) (stressing that one of the essential goal of the DMCA was to “preserve strong incentives for service providers and copyright owners to cooperate to detect and deal with copyright infringements that take place in the digital networked environment”); see also White house’s 2010 Joint Strategic Plan on Intellectual Property Enforcement (Office of the U.S. Intellectual Prop. Enforcement Coordinator) at 17, reaffirming this goal today (“The administration believes that it is essential for the private sector, including content owners, Internet service providers, advertising brokers, payment processors and search engines, to work collaboratively (...) to seek practical and efficient solutions to address infringement.”)

⁷³⁰ See e.g. Principles for User Generated Content Services (UGC Principles) (2007), Long term programming agreement between Disney and Verizon (2005), Notice-forwarding agreement between Verizon and the RIAA (2009) (see CNET news report) and Nate Anderson, *Verizon to Forward RIAA Warning Letters (but that’s all)*, (ARS TECHNICA, Nov. 13, 2009), European Protocol (MoU) between major right-holders and platforms to establish a code of practice in the fight against the sale of counterfeit goods over the Internet (May 2011) -

⁷³¹ See e.g. HADOPI (FR) and DEA (EN) bill in France and the U.K.)

⁷³² **Perfect 10, Inc. v. CCBill, LLC**, 340 F. Supp. 2d 1077, 1088 (C.D. Cal. 2004) holding an ISP liable for non terminating its relationship with a client after several notifications of infringement from right holders (rev’d on other grounds *Perfect 10, Inc. v. CCBill, LLC*, 481 F. Supp. 2d 751)

While none of these solutions may be the “silver bullet solution” to online piracy, they may contribute to offer efficient and sustainable tools to reduce online piracy significantly, while not undermining the development of digital technologies and user’s fundamental rights⁷³³.

4.3.1 Technical measures: filtering technologies and DRM

Technical remedies to online infringement notably include the implementation of filtering technologies (4.3.1.1) and DRM (4.3.1.2).

4.3.1.1 Monitoring and filtering technologies

With advance of technology, ISP and other intermediaries have now at their disposal a wide range of technologies⁷³⁴ allowing them to analyze, filter and/or monitor the kind of information passing through their servers by way of an essentially automated – and therefore financially affordable - process⁷³⁵.

⁷³³ Todd Evan Lerner, *Playing The Blame Game Online, Who Is Liable When Counterfeit Goods Are Sold Through Online Auction Houses*, PACE INTERNATIONAL LAW REVIEW, Winter 2010 (“Litigation may not be the best answer to the online counterfeit problem. Online auction sites and brand owners should be required to partner together to fight against counterfeit, since it adversely affects both”)

⁷³⁴ Notably, technologies such as Dtechnet® (used by EMI and other right holders to identify uploaders of unauthorized files on peer-to-peer website), Copysense® (produced by Audible Magic and used by e.g. Myspace, Dailymotion and Facebook), and Content ID® (used by Youtube) have been developed in recent years. In parallel, smart technologies such as Deep Packet Inspection (DPI) allowing ISPs and platforms to look beyond the header of a data packet to analyze content are increasingly used by ISP, notably for security reason and network management, although they raise serious privacy issues.

⁷³⁵ See e.g. Audible Magic’s Brief of Amicus Curiae in *Viacom International v. Youtube* (prec.), Sept. 27, 2011, docket n°471

Such technologies are increasingly used by ISPs and other businesses online not only for reasons of security (anti-virus, malware, etc.) and legal obligations (pornography, etc.)⁷³⁶ but also for business reasons (e.g. management of network congestion⁷³⁷, targeting advertising, etc.).

Whereas preventive monitoring was traditionally considered excessively burdensome for ISPs and/or other UGC websites⁷³⁸, inefficient⁷³⁹ and/or invasive for users, these arguments may be questionable today, subject further clarifications and regulations on privacy issues⁷⁴⁰.

As ISPs and other UGC websites are increasingly involved in the selection, management and/or analysis of the data passing through their “pipes” or servers, their eligibility under the “mere conduit”, “caching” and “hosting” safe harbor under both the DMCA and e-commerce Directive may further become questionable⁷⁴¹.

Moreover, if courts in Europe and in the United States have - in line with article 15 of the e-commerce Directive and with the DMCA - generally declined to impose upon service providers “general monitoring obligations”⁷⁴², more and more courts in Europe and in the United States tend

⁷³⁶ Katie Hafner, *Tiffany and eBay in Fight Over Fakes*, N.Y. TIMES, Nov. 27, 2007 (stressing that company like eBay has successfully monitored via a set of targeted filters, the sale of several other categories of illegal items, including human organs, firearms and child pornography.)

⁷³⁷ Peter K. Yu, *The Graduated Response*, 62 FLA. L. REV. 1373, 1387 (2010), Rob Friedan, *Internet Packet Sniffing And Its Impact On The Network Neutrality Debate And The Balance Of Power Between Intellectual Property Creators And Consumers*, 18 FORDHAM INTELL. PROP. MEDIA & ENT. L. J. 633, 645 (2008)

⁷³⁸ See e.g. 17 U.S.C § 512 (i)

⁷³⁹ See **Viacom International Inc et. Seq. vs. Youtube** (S.D.N.Y. 2010) (prec.) at 528, see also

UMG Recording v. Veoh Networks Inc, 665 F. Supp. 2d at 1116-18 (automated Audible Magic filter “does not meet the standard of reliability and verifiability required by the Ninth Circuit in order to justify terminating a user’s account”); see also Paris Court of Appeal (1st ch.) July 11, 2008, **eBay v. LVMH** (dismissing eBay’s request for a four months period in order to implement filters ordered by the first instance Court, on ground that eBay was supposed to exercise control over its own activity (available at Legalis.net). See Catherine Holohan & Carol Matlack, *Ebay Gets Buffeted In Europe*, BUS. WK. (July 1, 2008) (available at <http://www.businessweek.com>).

⁷⁴⁰ The current E.U. proposal of reform of the E.U.’s 1995 Data Protection rule (aimed at strengthening online privacy rights) and the parallel Consumer Data Privacy Bill in the U.S. may change the deal. In regulating these issues, law makers will however have to balance the user’s legitimate right of privacy with the right holder’s legitimate right of property.

⁷⁴¹ Rob Frieden, *Internet Packet Sniffing And Its Impact On The Network Neutrality Debate And The Balance Of Power Between Intellectual Property Creators And Consumers*, 18 FORDHAM INTELL. PROP. MEDIA & ENT. L. J. 633 (2008) at 645; Annemarie Bridy, *Graduated Response An The Turn To Private Ordering In Online Copyright Enforcement*, OR. L. REV. 81 at 121. See also **Arista Records LLC v. Usenet.com, Inc**, 633 F. Supp. 2d at 148 (denying safe harbor because of active role in the management of infringing data.

⁷⁴² See article 15 of Council Directive 2000/31/EC and E.C.J. decision in *Scarlet v. Sabam*, E.C.J. case C-70/10 (prec.)

to impose upon service providers an obligation to take “reasonable steps to prevent online infringement”.

Specifically, in Europe, several courts have carved out of the general tort obligation a due-care obligation to implement state-of-the-art preventive filtering technologies and/or to take pro-active steps, against repeat infringers and/or (already notified) infringing content⁷⁴³.

Likewise, if U.S. courts have generally declined to impose any express filtering obligations upon any intermediary, installing state-of-the-art preventive filtering has generally been interpreted by U.S. courts as an indicator of a good faith effort to hinder infringement, shielding its user from contributory liability⁷⁴⁴. Conversely, the decision made by an intermediary to deliberately not filter out infringing use where such filters are easily available, with the aim of reaping further benefit from infringing activity, has been analyzed as a probative feature of contributory liability or inducement⁷⁴⁵.

⁷⁴³ See e.g. **Jean-Yves Lafesse v. Myspace**, TGI Paris, June 22, 2007 (ordering Myspace to filter out unauthorized skits from actor Jean-Yves Lafesse. This decision was ultimately vacated, but on procedural ground (see C.A. Paris, 14eme ch. Section A, cot. 29, 2008)); **Christian C., Nord Ouest Production v. Dailymotion, UGC Images** (prec.) (ordering Dailymotion to implement filtering technologies to prevent infringing activity), TGI Creteil, Dec. 14, 2010, **INA v. Youtube** (ordering Youtube to implement filtering technologies to avoid further dissemination of infringing material), **Zagig Production v. Google Video** (prec.) ordering Google to implement targeted and temporary filtering technologies to avoid recurrence of infringing material, TGI Paris April 28, 2011, **SPPF v. Youtube** (obligation to avoid further dissemination of infringing content).

⁷⁴⁴ See e.g. **UMG Recording v. Veoh Networks Inc**, 665 F. Supp. 2d at 1003; **Io Group Inc. v. Veoh Networks, Inc**, 586 F Supp. 2d 1132 at 1144 (in which the “take down, stay down” practice implemented by Veoh served as one of the few indications that Veoh has a “working notification system” and “a procedure for dealing with copyright infringement notices”); **Tiffany v. eBay** (SDNY, 2008) (insisting on the preventive filters implemented by eBay in holding it was not liable under contributory and/or vicarious liability, although eBay had no obligations to filter out infringing content – see esp. see section 3 of the judgment “*eBay Took Additional Steps to Stop the Sale of Counterfeit Tiffany Goods*”). On this point, see also Tim Wu, *The Copyright Paradox*, 2005, Sup. Ct Rev. 229, 247 (suggesting that voluntary filtering may shield service providers from contributory liability.)

⁷⁴⁵ See **MGM Studios, Inc v. Grokster Ltd**, 545 U.S. 913 (2005) at 2781 et seq. and **MGM Studios, Inc v. Grokster Ltd**, 454 F. Supp. 2D 966 (C.D. Cal, 2006) at 989-91 (“although StreamCast is not required to prevent all the harm that is facilitated by the technology, it must at least make a good faith attempt to mitigate the massive infringement facilitated by its technology. See also **Perfect 10 v. Amazon.com**, 487 F. 3d at 728-729 (“a service provider knowing failure to prevent infringing actions could be the basis for imposing contributory liability. (...) Applying our test, Google could be held contributory liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10’s copyrighted works, and failed to take such steps.”). On this point, see Jane Ginsburg, *Copyright Control V. Compensation: The Prospects For Exclusive Rights After Grokster And Kazaa*, in PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW (prec.) 110,123 at 114 and 117-118; see also Jane C. Ginsburg, *Separating the Sony Sheep from the Grokster*

Moreover, section 512(i) of the U.S. DMCA⁷⁴⁶ - conditioning eligibility under any of the DCMA safe harbors to the implementation of an express policy providing for termination in appropriate circumstances of repeat infringers – may further give service providers a strong incentive to take reasonable steps against online infringement.

In practice, many stakeholders have entered into private agreements involving, among other measures, the implementation of identification and filtering technologies⁷⁴⁷.

The User Generated Content (UGC) principles⁷⁴⁸, entered into by preeminent right holders⁷⁴⁹ and major intermediaries⁷⁵⁰ in 2007 and requiring ISPs and OSPs to implement a series of fingerprinting and filtering technologies aimed at preventing the recurrence of infringing content, are a good example of such multi-lateral agreement⁷⁵¹.

Although such obligations are not binding, by defining and enumerating a series of good practices, agreed upon by major stakeholders from different industries and with different interests, they indeed set a standard which courts may refer in assessing whether the service provider has used reasonable efforts to prevent online infringement on its platform.

Likewise, such principles exert a decisive influence on the sector practices, including parties that do

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⁷⁴⁶ See 17 U.S.C. § 512 (i) (1) (A) (“the limitation on liability established by this section shall apply to a service provider only if the service provider (a) has adopted and reasonably implemented, and informs 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”)

⁷⁴⁷ See e.g. European Protocol (Memorandum of Understanding (MoU) (prec.) signed in May 2011 between major right holders and Internet Platforms providing, notably the implementation by ISPs of proactive and preventive measures to tackle online infringement. See also UGCPRINCIPLES.COM, Press release, *Dailymotion Et Al, Internet And Media Industry Leaders Unveil Principles To Foster Online Innovation While Protecting Copyrights* (Oct. 18, 2007), John Leyden, *eBay breaks bread with luxury goods firms*, THE REGISTER (July 21, 2008). See also *The Olivennes’s Commission, The “Elysee Agreement” for the Development and Protection of Creative Works and Cultural Programs on the New Networks*, Nov. 23, 2007 (program led by the head of the main French music store FNAC and various stakeholders to facilitate the development and protection of creative works and cultural programs on the net.)

⁷⁴⁸ Principles for User Generated Content Services (UGC Principles) (2007)

⁷⁴⁹ Including CBS, Disney, Fox Entertainment, Sony Picture and Viacom

⁷⁵⁰ Including Dailymotion, Microsoft, Veho and MySpace

⁷⁵¹ See UGC Principles §3

not belong to the agreement. To this regard, the identification and filtering tools implemented by YouTube⁷⁵² allowing right holders to identify automatically their content (through the implementation of fingerprinting and matching technologies) and to take down, claim (e.g. ask for credits), monitor (e.g. obtain statistics) or monetize (e.g. get revenue sharing) such use at their own discretion, seem modeled after the UGC principles, although YouTube does not belong to this agreement⁷⁵³.

Likewise, filters could also be implemented, to a certain degree, to curtail trademark infringement online, although these filters may be less accurate (none the less because trademarked goods cannot be “fingerprinted”).

Price minister, a French equivalent for eBay, gives a good illustration of what can be done in this regard.

Taking up the cause of fighting piracy as their brand image, Price minister has set up, with the help of right holders, a series of “suspicious factors” (or “red flags”) that can be an indicator of infringing activity, including (i) the description of the goods (e.g. misspelling, description of the item as a counterfeit, imitation or copy, etc.) (ii) the quantity of identical goods offered at a time (e.g. more than three or five products of the same kind), (iii) the price (e.g. low price for a product usually sold at a much higher price) and (iv) the former behavior of a seller (e.g. repeat infringers).

Suspicious factors, detected through the implementation of targeted filtering (quantity, price and/or keyword filtering that can be used in combination) and manual reviews (sampling), will trigger an automatic notice requiring the seller to justify the authenticity of the product offered (e.g. by producing the invoice or any other element showing the authenticity of the product.) The proof of

⁷⁵² See Youtube website, What is Content ID? See also Andy Greenberg, *You Tube’s Filters Fails To Please*, FORBES.COM (Oct. 18, 2007).

⁷⁵³ In particular, while Content ID began as a program available to YouTube’s business partners only, it is now available to everybody, in accordance with §3(e) of the UGC principles.

authenticity (where provided) is then manually reviewed before the offer can be published. In most of the case where the product is indeed a counterfeit, Priceminister reports that the user will likely drop the offer and/or migrate to another website more complacent about online infringement. As a result, the process remains economically viable and particularly efficient⁷⁵⁴.

These practices have thus been followed by other online marketplace and endorsed in a multi stakeholder anti-counterfeiting charter signed under the patronage of the French government⁷⁵⁵.

On the other hands, right holders, directly and primarily interested in the protection of their rights, should be required to collaborate actively in this process⁷⁵⁶.

Filtering is therefore primarily a case of intense cooperation between right holders – which should do their best efforts to characterize their rights and their typical violations (fingerprinting of their copyrighted works, description and characterization of their brands and common abuses) - and platforms – which should do their best efforts to implement state-of-the-art filtering technologies to stop and prevent the recurrence of infringing content.

Moreover, filtering technologies should also accommodate fair use and other exemption recognized by copyright and trademark law (and/or uses outside the scope of copyright/trademark law) by providing specific mechanisms such as counter-notifications procedures and manual reviews⁷⁵⁷.

In parallel to these monitoring technology, the use of protective technology (DRM) may provide right holders with further preventive reliefs in their fight against infringement.

⁷⁵⁴ See PCimpact.com, *Lutte Contre La Contrefaçon, Dans Les Couloirs De Priceminister, (Fight against infringement, behind the scenes of Priceminister)* Feb. 28, 2009

⁷⁵⁵ See Charte de lutte contre la contrefaçon sur Internet (anti-counterfeiting charter) signed by major right holders and several e-commerce platforms including Priceminister and 2xmoinscher under the Patronage of the French government (Dec. 2009); see also Global Anti-counterfeiting Network, French Government launches new Internet anti-counterfeiting charter (April 2010).

⁷⁵⁶ See CA Paris (ch. 4, sec. A) May 5, 2009, **Dailymotion v. Nord Ouest Production et al.** (dismissing plaintiff's infringement claim because had declined to follow up on offers from Dailymotion to fingerprint its work) (prec.)

⁷⁵⁷ See UGC Principles § 3(d). See also Jane C. Ginsburg, *Separating The Sony Sheep From The Grokster Goats. Reckoning The Future Business Plans Of Copyright Dependant Technology Entrepreneurs*, 50 ARIZ. L. REV. 577 at 588-590

4.3.1.2 DRM

In face of the failure of their court actions to thwart online piracy, copyright holders have turned to technical solutions in the form of Digital Right Management (DRM) systems⁷⁵⁸, to protect their rights online.

DRM systems indeed enable hardware manufacturers, publishers, copyright holders and individuals to control, monitor and meter the use of their digital content and devices on line.

By granting specific anti-circumvention protection to these systems, U.S. and EU lawmakers (notably in the WIPO Copyright Treaty, Copyright Directive and U.S. DMCA⁷⁵⁹) have further incentivized the use of these technologies and, beyond, the dissemination of copyrighted content online⁷⁶⁰.

Yet, DRM has also raised different concerns pertaining to (i) their limited guarantees in term of interoperability, (ii) their restricted effect on some legitimate use (e.g. fair use, private copy where it is provided as an exception, etc.) and (iii) their inability to tackle online infringement to the extent where they are largely circumventable⁷⁶¹.

However, most of these objections could be overcome and/or addressed through specific technical or practical adjustments.

⁷⁵⁸ DRM are software-based technologies enabling a right holder to prevent users from making any unauthorized use of her work, but also to control, monitor and meter such uses.

⁷⁵⁹ See art. 11 WCT (prec.), art. 6 Copyright Directive and § 1201 DMCA (requiring contracting parties to provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of their rights).

⁷⁶⁰ See Apple iTunes service, which pioneered this DRM-based model of distribution.

⁷⁶¹ WIPO study, *Role and responsibility of Internet Intermediaries in the field of copyright and related rights* (prec. supra note 19), see Paul Petrick, *Why DRM Should Be Cause for Concern: An Economic and Legal Analysis of the Effect of Digital Technology on the Music Industry*, THE BERKMAN CENTER FOR INTERNET AND SOCIETY, Nov. 2004, available at cyber.law.harvard.edu

First, even if they can be circumvented, DRMs should protect copyrighted works against the majority of unauthorized uses by Internet users who do not have the skills, the time and/or the inclination to circumvent them⁷⁶².

Interoperability and “private copy” issues can then be addressed through specific modifications and/or improvements of the software underlying the DRM in question. For instance, Apple iTunes DRM software now include the possibility to make a certain number of copies of a determinate work⁷⁶³. Likewise, inter-operability can be guaranteed through a mere adjustment of the software(s) underpinning the disputed DRM.

The compatibility between DRM and fair use may finally be addressed through specific procedures involving semi-automated process and human review. For instance, a “fair use request form” could be offered to users via an online standard form available on any right holder’s website. In case of fair use, the right holder would then have a certain time limit to provide a “key” to access the content in order to allow fair use, failing which the user could request a court or any other administrative body entrusted with this authority to authorize such use, in case it involves fair use or a specific exemption provided by the applicable law. The use of the copyrighted content outside the scope of the authorization granted by the right holder could then be sanctioned through specific sanctions in order to deter the user from going beyond such authorizations. Other practical solutions could also be worked out between stakeholders⁷⁶⁴.

⁷⁶² Compare with Daniel Castro (ITIF) observations about circumvention of DNS filtering “*PIPA/SOPA: Responding To Critics And Finding A Path Forward*, ITIF, Dec. 2011. Available at itif.org

⁷⁶³ See Paul Petrick, *Why DRM Should Be Cause for Concern: An Economic and Legal Analysis of the Effect of Digital Technology on the Music Industry* (prec.) , p.8.

⁷⁶⁴ For a similar proposal, see Jerome H. Reichman, Graeme B. Dinwoodie and Pamela Samuelson, *A Reverse Notice And Takedown Regime To Enable Public Interest Uses Of Technically Protected Copyrighted Work*, in *PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW*, Alain Strowel (2009) at 229 et seq.

As long as the online market will be flooded with unauthorized content and/or counterfeits, it is thus not realistic to ask right holders to stop using DRMs to protect their work online⁷⁶⁵. Yet, improvements may be done to make these technical measures comply with users' rights.

In parallel to the implementation of technical measures aimed at preventing online infringement, educative measures, aimed at deterring Internet users to engage in copyright and trademark infringement, should also be pursued.

4.3.2 Educational measures: information and some level of graduated response

Because of the dramatic increase of infringing activity online, the cost implied by every single action launched against Internet users and the low prospect of return to suing individual infringers, right holders have tended to focus their litigation efforts against intermediaries or “mere facilitators”, rather than direct infringers⁷⁶⁶. Yet, suing intermediaries, rather than users - beyond the stifling effect it can cause on innovation and free-speech⁷⁶⁷, also makes users less accountable for their actions.

Educational steps, including general and targeted information to users, with the aim of promoting respect for intellectual property rights and discouraging users from engaging in trademark and copyright infringement, should thus be continued and improved, especially through targeted measures (e.g. towards youngest portion of the population, during the upload process, etc.)⁷⁶⁸.

Educational letter campaigns and some kind of graduated responses, with further guarantee for users, could also be carried on and extended to other countries.

⁷⁶⁵ Angela Mills Wade and Mark Bide: *The Answer To The Machine Is In The Machine* (“the best response to the challenges posed by the growth in the online sector lies in a more effective deployment of technology to enable more efficient licensing solution”).

⁷⁶⁶ See Mark A. Lemley & Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56, STAN. L. REV. 1345 (2004) at 1349

⁷⁶⁷ *Id.* at 1379-1390

⁷⁶⁸ See UGC principles n°1-2

Beyond the success apparently met by these procedures in the countries where they have been applied⁷⁶⁹, graduated responses are indeed generally seen as an effective, affordable and speedy alternative to court proceedings⁷⁷⁰. They further include an educational aspect that court proceedings do not have, notably by encouraging users to migrate to legal alternatives rather than merely “punishing” them⁷⁷¹. Finally, if graduated response systems have raised many criticisms from ISPs, consumer⁷⁷² and free speech⁷⁷³ associations, most of these critics have focused either on their argued lack of efficiency and/or on procedural aspects (privacy, due process, proportionality of the sanction)⁷⁷⁴ that may be overcome.

As regards first their alleged inefficiency, one could respond that if the implementation of these procedures may have led some users to migrate to other kind of platforms or to use encryption technology, it might not be the case for the majority of the targeted users. Indeed, in many cases, users may find easier to migrate to a legal platform - especially where they are widely available and offer a wide choice of content and business models - rather than taking the risk of an administrative and/or legal sanction⁷⁷⁵.

Likewise, the substantial concerns raised by these associates regarding users’ rights may be remedied through specific adjustment of this procedure.

⁷⁶⁹ See HADOPI Report (Sept. 2011) and CEDU (French House’s Education and Cultural Commission) Report (Oct. 2011) at 18.

⁷⁷⁰ Alain Strowel, *Internet Piracy As A Wake Up Call For Copyright Law Makers – Is The “Graduated Response” A Good Reply?* (2009) 1 WIPO J. 75 at 77-80; Annemarie Bridy, *Graduated Response And The Turn To Private Ordering In Online Copyright Enforcement*, 89 OR. L. REV. 81

⁷⁷¹ See Peter Yu, *The Graduated Response*, 62 FLORIDA LAW REVIEW, at 1381

⁷⁷² See UFC Que Choisir Report: *La loi Création et Internet, une mauvaise solution à un faux problème (Creation and Internet Law: a bad solution to a false problem)* (prec.)

⁷⁷³ See EFF, *RIAA V. The People: Turns From Lawsuits To 3 Strikes*; La Quadrature du Net, *Will France Introduce The Digital Guillotine In Europe* (2008), RSF Report, *Amid Growing Criticism, HADOPI Reports On Measures To Combat Digital Piracy* (2011).

⁷⁷⁴ See WIPO Study, *Role and responsibility of Internet Intermediaries in the field of copyright and related rights* (prec. supra note 19) at 36 et seq.;

⁷⁷⁵ *Id.* at 65-66; See also Mark A. Lemley & Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation* (prec.) at 1426.

For instance, a satisfactory graduated response scheme (i.e. efficient without stifling innovation and free speech) could include:

- (i) the maximum guarantees as regard the respect of a user's privacy and rights to due process (e.g. accuracy of the identification process, protection of the anonymity of the user outside any court order, judicial review before sanction, counter-notification mechanisms, protection of fair use and exceptions, etc.),
- (ii) a fair allocation of the costs between the different stakeholders (right holders, ISP and the state), and
- (iii) a set of graduated, adequate and proportionate sanctions that would not include any violation of the user's fundamental rights (e.g. damages proportionate to the gravity and scale of the infringement, "escalation" of the sanctioning process, "speed sanction" and short suspension of Internet access, if any, only as a last resort).

In Europe, although graduated response regulations are only provided in few countries (most notably, France and the U.K.) "graduated response" systems are already implemented in many EU member states⁷⁷⁶.

Likewise, in the United States, section 512 (i) of the DMCA (conditioning eligibility under any safe harbor to the implementation by the service provider of a policy providing for the termination of access for repeat infringers) arguably introduces in U.S. law the legal framework for voluntary system of graduated response⁷⁷⁷.

⁷⁷⁶ In Ireland, for instance, Eircom, one of the main Irish ISP, agreed as part as a settlement agreement to a major litigations with several right holders, to implement a system of graduated response against its users engaging in unauthorized peer-to-peer. This agreement was ratified by the Irish High Court in April 2010. See Irish High Court (IEHC), Apr. 16, 2010, **EMI Records & Ors v. Eircom Ltd** (available at <http://www.courts.ie>)

⁷⁷⁷ See June M. Besek, Jane C. Ginsburg, Lital Helman, Philippa Loengard, Eva Subotnik & Elana Bensoul, *United States Response To Questionnaire Concerning Boundaries And Interfaces With Respect To Copyright And Related Rights*, ALAI 2011 Dubin (see esp. Question 6.1 at 18-19).

On this base, most U.S. ISPs already reserve in their policy the right to terminate users' access for trademark or copyright infringement⁷⁷⁸, while many ISPs have already acknowledged to have implemented this policy against repeat infringers⁷⁷⁹. By the same token, recent years have seen a multiplication of multilateral or bilateral agreements between major ISPs and right holders, most notably the Recording Industry of America (RIAA) and the Motion Picture Association of America (MPAA), involving the implementation by ISPs of some form of voluntary graduated response against repeat infringers⁷⁸⁰.

Because these procedures may bring positive results⁷⁸¹, without involving excessive costs, they should be carried out, with further procedural guarantees if need be.

To give any effect to these educational measures, it is however essential that the system also provide, in addition to legal alternative, for deterrent sanctions and enforcement procedures. Yet, if deterrent sanctions are already provided in both U.S. and EU legal framework⁷⁸², enforcement issues remain one of the first reasons for which right holders are generally declining to take action against users. To that end, another way to tackle online infringement more efficiently would be to reduce the cost of enforcement by introducing more streamlined procedures for copyright and trademark infringement.

⁷⁷⁸ See e.g. AT&T High Speed Internet Terms of Services (at §5bd)), Comcast Acceptable Use Policy for High-Speed Internet services and Verizon Acceptable use Policy (at §3).

⁷⁷⁹ Nate Anderson, *Verizon to Forward RIAA Warning Letters (but that's all)* (prec.). See also Jeremy de Beer and Christopher D. Clemmer, *Global Trends In Online Copyright Enforcement: A Non-Neutral Role For Network Intermediaries?* 49 JURIMETRICS, J.375-409 (2009) at 389

⁷⁸⁰ See Annemarie Bridy, *Graduated Response And The Turn To Private Ordering In Online Copyright Enforcement* (prec.) at 81; Sarah McBride & Ethan Smith, *Music Industry To Abandon Mass Suits*, WALL ST. J., DEC. 19, 2008, The 1709 Blog (Ben) *U.S. ISPs To Inform And Alert* (July 2011) and, for a recent update, The 1709 Blog (Eleonora Rosati) *ISPs' Six Strikes Enforcement Plan In Force Next July*, March 15, 2012. For a critic of this new approach, see Doug Gross, *With SOPA, Anti-Piracy Advocates Take New Approach*, CNN, March 22, 2012.

⁷⁸¹ See HADOPI Report (Sept. 2011) and CEDU (French House's Education and Cultural Commission) Report (Oct. 2011) at 18 (reporting that after a year of implementation, only 60 people out of the 470,000 recipients of the first or second warning letter would have engaged in a third act of infringement). Contra, for a critical approach towards these figures, see Torrentfreak, *France Track Down 18 Million File-Sharers* and BBC news *French downloaders face government grilling* (July 2011)

⁷⁸² Mark A. Lemley & Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation* (prec.) at 1395

4.3.3 Facilitating enforcement: alternative dispute resolution and streamlined enforcement procedure

One of the main reasons deterring right holders from taking actions against online infringement is the cost and difficulty of enforcement for such actions, along with their low prospect of return (notably due to anonymity, insolvency and high number of individual infringers online).

Yet, several solutions have been or could be implemented to lower the cost and facilitate enforcement in the digital world, without necessarily undermining the user's and intermediaries' fundamental rights.

First of all, a *harmonized, simplified and automated notice and take down procedure*, allowing right holders to require the taking down of several infringing contents at a time, should be put in place.

Policies of "take down, stay down", for which ISPs and other intermediaries endeavor to filter out content already notified as infringing could also be contemplated to the extent they are broadly available to ISPs, practically required in some countries⁷⁸³ and analyzed as a good faith effort to tackle infringement-shielding intermediaries from liability in many other countries⁷⁸⁴.

As regards court enforcement, a *new streamlined procedure* could also be introduced for the most straightforward cases.

Several proposals have been made in this regard.

For instance, the dual administrative/judicial and/or private/public proceeding implemented by the French HADOPI law or the U.K. DEA could be an example of such a streamlined procedure applied to unauthorized file-sharing. In these systems, while the first (educative) steps are taken by private

⁷⁸³ See supra section 4.2.1.2 and 4.2.2.3

⁷⁸⁴ See *UMG Recording v. Veoh Networks Inc*, 665 F. Supp. 2d at 1003; *Io Group inc. v. Veoh Networks, Inc*, 586 F Supp. 2d 1132 at 1144. See generally Jane C. Ginsburg, *Separating The Sony Sheep From The Grokster Goats, Reckoning The Future Business Plans Of Copyright Dependent Technology Entrepreneurs* (prec.)

(e.g. ISPs/right holders) or administrative (e.g. HADOPI) entities, the second step (sanction) falls within the competence of a judicial authority. Indeed, by conditioning the implementation of any sanctions to a court order, these procedures guarantee users' fundamental rights, while limiting judicial actions to the cases of multiple repeat infringers, these procedures should help right holders to limit their actions to the most serious cases of infringement⁷⁸⁵.

Another interesting proposal to tackle unauthorized file-sharing is Anthony Reese and Mark Lemley's proposal for an online streamlined administrative proceeding, overseen by the copyright office, that would give copyright owners a quick, low cost alternative to enforce their rights against individual large-scale uploaders on unauthorized file-sharing network⁷⁸⁶.

Streamlined judicial proceedings, with simplified procedural rules and reduced time limits, could also be implemented for clear-cut cases of copyright or trademark infringements online⁷⁸⁷.

To this regard, Professor Ian Hargreaves has for instance suggested in his 2011 Report⁷⁸⁸ the introduction of a "small claims" track for low-value IP claims within the newly reformed U.K. Patents County Court (PCC).

Provided such procedures can offer sufficient guarantees in terms of due process and a real lower-cost alternative to regular civil or criminal proceedings⁷⁸⁹, such streamlined procedure and/or

⁷⁸⁵ The first statistics published by HADOPI seems to go in this sense: see HADOPI report (July 2011) (prec. supra) and BBC News, *French Downloaders Face Government Grilling* (July 2011)

⁷⁸⁶ Mark A. Lemley & Anthony Reese, *Reducing digital copyright infringement without restricting innovation*, (prec.) at 1410 et seq., clarifying that this procedure would only be available to straight-forward, large scale copyright infringement and would involve streamlined procedural rules (e.g. no face-to-face argument or discovery) and specific sanctions (esp. monetary sanctions and official designation as an infringer for the defeated defendant, possibly leading to suspension of Internet access in case of new infringements). But see note 789 below for a reservation on this proposal

⁷⁸⁷ See e.g. E.U. Commission' Proposal of a Regulation for an Online Dispute Resolution system for Consumer Dispute at a E.U. level (Nov. 2011). Such proceedings could for instance apply for clear-cut copyright infringement and/or trademark infringement up to a certain scale

⁷⁸⁸ Ian Hargreaves, *Digital Opportunity, A review of Intellectual Property and Growth*, Independent Report commissioned by the U.K. Government (May 2011), at

⁷⁸⁹ This might be the case in the U.S., more than in Europe. In particular, taking Mark Lemley and Anthony Reese's proposal referred above as an example, the prospect for the copyright holder (i) that she'll have to put forth a prima facie case of infringement (including, in addition to the registration and demonstration of her rights, a demonstration that her work was actually infringed and that the defendant, identified through her IP address, is indeed liable for this specific

alternative resolution dispute systems should be introduced for the most straight forward cases of copyright or trademark infringement online.

In parallel to these technical, educational and administrative measures, business solutions implemented by ISPs, intermediaries and right holders may finally offer the best weapon against online infringement.

4.3.4 Fostering the legitimate market for digital content

The best weapon against online piracy is probably to offer a vast range of widely available and convenient legitimate alternatives to online piracy. To that end, further steps should be taken to facilitate the distribution of legal content online through streamlined licensing and clearing processes (4.3.4.1) and the fostering of legitimate business solutions (4.3.4.2).

4.3.4.1 Fostering “streamlined licensing process”

One essential hurdle to the wide dissemination of (authorized) content online is the difficulty met by the different stakeholders (right holders and platforms interested in acquiring content) to strike licensing deals in the digital environment.

Specifically, platforms willing to use copyrighted works on a legitimate basis (through licensing contract) are facing countless difficulties in identifying their legitimate right holders (especially on a world-wide basis), assembling the different required authorizations (including towards national

infringement) (ii) that the defendant will be given an opportunity to rebut or defend against the claim, including by raising fair use or other specific defenses that could disqualify the claim from eligibility under the administrative procedure and therefore require her to start again the procedure *abs initio* before a civil Court, and (iii) that she may need a judicial order to enforce the administrative decision in case of non compliance, is not particularly appealing in comparison with most (continental) European civil litigation (that require the same elements as (i) and (ii), but have the vantage to be directly enforceable and not so easily challengeable.)

collecting society), and finding an agreement on the price of such transactions. Platforms also report competition issues, inconsistencies between the different licensing terms applied by businesses from different sectors or sizes, unbalanced bargaining powers and difficulty for any new entrants to penetrate the content distribution market.⁷⁹⁰

On their side, right holders, notably individual creators, also experience difficulties in securing their rights over the Internet, controlling the distribution of their work online and reaping benefits from the distribution of their work online.

Often, transaction costs are so high that either the copyrighted work will be used without authorization - thereby infringing the right holder's copyright - or the work will not be used at all, depriving the right holder from potential compensation⁷⁹¹ and the user from access to the work.

As a result, all the stakeholders would gain in a more accessible, transparent market for rights as well as the implementation of streamlined clearing and licensing processes.

There are different proposals in this regard.

Specifically, the European Union has been working in the last three years on the creation of a "Digital Single Market in creative common" and on the simplification of pan-European licensing for online work. A proposal of legislation in this regard is expected in 2012⁷⁹².

In his 2010 Report, Professor Ian Hargreaves suggests that the U.K. should establish a "Digital Copyright Exchange", i.e. a digital marketplace where licenses in copyright content could be readily bought and sold⁷⁹³.

⁷⁹⁰ Ian Hargreaves, *Digital Opportunity, A review of Intellectual Property and Growth*, Independent Report commissioned by the U.K. Government (May 2011), at 4.17 (p. 29) (mentioning, notably that it took nearly five years to BBC to assemble the rights necessary to launch its popular iPlayer service, while a streaming service said it took them about nine month to strike their first deals with music collecting societies.)

⁷⁹¹ In economic terms or any other terms, including promotional.

⁷⁹² Digital Agenda for Europe, Pillar 1: Digital Single Market Announcing A Proposal Of Legislation For Pan-European Licensing For Online Work In Spring 2012.

⁷⁹³ Ian Hargreaves, *Digital Opportunity, A review of Intellectual Property and Growth*, Independent Report commissioned by the U.K. Government (May 2011), at 4.14 to 4.32. See also, for a similar proposal in Ireland

In its submission to the European Commission for “*a big idea for the digital agenda*”, the European Publishing Council (EPC)⁷⁹⁴ has for its part suggested that a human and machine-readable “digital copyright symbol” should be created to deliver information automatically on the conditions of use of any copyrighted work⁷⁹⁵.

Other initiatives such as Creative Commons⁷⁹⁶, ACAP⁷⁹⁷, the Global Repertoire Database⁷⁹⁸ or the Linked Content Coalition⁷⁹⁹, also aim at simplifying the clearing or licensing process of copyrighted content, through the creation of common standards, machine-readable information, international registry of copyright, or standard-based infrastructure⁸⁰⁰.

For a growing number of actors in this industry, rights licensing in the digital environment should become a “one-click process”, where the communication of permissions and licensing terms would take place automatically⁸⁰¹.

A way to do that would be to integrate guidelines and conditions of use for a determinate content in the right holder’s website API⁸⁰², as is now offered by many U.S. companies⁸⁰³.

Whether it will be the result of technical innovation or legislative reform, a simplification of the licensing process and some level of standardization in this regard will be critical to a wider

Copyright Review Committee for the (Irish) Department of Jobs, Enterprise and Innovation, *Copyright and Innovation, A Consultation Paper* (Dublin, 2012) (prec.) at §3.3, 18

⁷⁹⁴ See epceurope.org, what is the EPC? (“the European Publishers Council is a high level group of Chairmen and CEOs of leading European media corporations actively involved in multimedia markets spanning newspaper, magazine, book, journal, internet and online database publishers, radio and TV broadcasting”).

⁷⁹⁵ European Publisher Council, “*The answer to the machine is in the machine*”: *A Big Idea for the Digital Agenda submitted by the European Publishers Council*.

⁷⁹⁶ See Creative Common website. Creative common licenses offer a range of machine-readable licenses primarily appropriate to the management of non-commercial content.

⁷⁹⁷ See The-acap.org (Automated Content Access Protocol enables content provider to communicate their copyright permissions information in a machine-readable language.)

⁷⁹⁸ See Global Repertoire Database website (“the scope of the GRD is to provide (...) a single, comprehensive and authoritative representation of the global ownership and control of musical works.”)

⁷⁹⁹ See EPC Linked Content Coalition (proposing the development of a standards-based infrastructure allowing copyright to be licensed and administered more effectively).

⁸⁰⁰ For a similar initiative applied to course readers see Stanford Codex and Media Print on Demand Project

⁸⁰¹ Ian Hargreaves, *Digital Opportunity, A review of Intellectual Property and Growth* (prec.) at 4.16 and 4.20

⁸⁰² See API entry in Wikipedia (“Application Programming Interface (API) is a source code-based specification intended to be used as an interface by software components to communicate with each other.”)

⁸⁰³ See e.g. YouTube’s API

dissemination of creative content in the digital environment. Lawmakers should thus remove legal barriers and foster initiatives aimed at enabling a streamlined cross-border licensing process for copyrighted content in the digital environment.

In parallel, governments and lawmakers should foster the development of innovative and new business models enabling a wide distribution of online content, while preserving a source of revenue for content creators and right holders.

4.3.4.2 Expanding the legitimate market for digital content

In a digital environment, consumers want to have access to their music, entertainment, favorite brands or derivative products anytime, anywhere. One of the reasons of the massive success of online piracy - beyond the reasons attached to the very character of the Internet (ubiquity, anonymity, easiness of access, etc) - is that unauthorized platforms have met a market need for new online distribution solutions, that authorized channels of distribution had largely ignored⁸⁰⁴.

Yet, in recent years, online distribution platforms, either in the content (music, video, entertainment etc.) or in the luxury industries (haute couture, luxury brands, etc.), have made their way in the digital environment.

⁸⁰⁴ See e.g. Andrew W. Eichner, *File Sharing, A Tool For Innovation Or A Criminal Instrument?* BOSTON COLLEGE INTELLECTUAL PROPERTY & TECHNOLOGY FORUM, Sept. 2011 (explaining that the success of Napster is, at least partially due to the fact that the market did not offer any legitimate alternative at that time); The same holds for online distribution of luxury goods where for years, right holders have tried to resist the “digital revolution” either by fear of losing control over the distribution of their goods (especially in context of selective distribution network), or by conviction that online distribution would not meet the standard of quality and services required for the distribution of luxury goods. See E.C.J. Case C-439-09, Oct. 13 2011 **Pierre Fabre Dermo Cosmetique SAS v. President de l’Autorité de la concurrence et al.** at 41-46 (prohibiting the absolute ban of Internet sales in selective distribution network contract unless it is justified by a legitimate aim, and clarifying that neither the need to provide individual advice to customers, nor the need to maintain a prestigious image are legitimate aims for restricting competition).

Authorized downloading and/or streaming platforms are increasingly offering access to authorized content⁸⁰⁵, while more and more businesses are offering luxury goods on line, taking advantage of outstanding new markets and revenue opportunities⁸⁰⁶.

These platforms have experimented with success a wide variety of business models, beyond the traditional subscription-based and advertising business models, including:

- Micropayment/pay on demand model (e.g. Apple's iTunes, VOD services, Amazon's Kindle)
- "Freemium" models (e.g. New York Times, Spotify or LinkedIn): combining free and subscription base services)
- Donations and/or community development models: relying on voluntary contributions from their users (e.g. Wikipedia),
- Bundled offers: cross-subsidization model in which a content service (e.g. music) is included in the purchase of a hardware device (e.g. Smartphone, tablet, etc.) or a telecommunication service (e.g. ISP or mobile phone network subscription) for free or for a flat rate add-on (e.g. partnership streaming platform Deezer and ISP Orange in France)
- All-you-can-eat (e.g. Napster, Sony, Netflix) or metered (e.g. New York Times) subscription model.
- Pay what you want model (e.g. Radiohead with their In Rainbows album⁸⁰⁷)
- Cross subsidization model (free music subsidized by merchandising, concerts, etc.)
- Subsidization by users in exchange of virtual goods (e.g. the music discovery platform LessThan3 offering their users different "badges" in exchange for their financial

⁸⁰⁵ See IFPI Digital Music Report 2011, stressing that there are currently more than 400 licensed digital music services worldwide.

⁸⁰⁶ See e.g. Modewalk website, U.S. online marketplace (pure player) dedicated to the sale of luxury goods).

⁸⁰⁷ When Radiohead first released their "In Rainbows" album in October 2007, the album was exclusively available through a specific website where fans could download the album either for free or for a price of their own choosing.

contributions)

Because these services are increasingly efficient, user-friendly and constitute a good alternative to unauthorized distribution networks, they are meeting with increasing success⁸⁰⁸.

By offering new market opportunities for right holders, new business opportunities for innovative entrepreneurs and a wider choice of branded goods for consumers, these new businesses model may be the best weapon against online infringement.

5. CONCLUSION

If the legal framework concerning OSPs' liability is thus largely similar in Europe and in the United States, it has been interpreted in a very different way, resulting in inadequate protection for right holders and a great deal of legal insecurity for right holders, Internet intermediaries and users in the digital environment.

The recent legislative reforms and/or draft reforms introduced in Europe and in the United States to tackle online piracy have only exacerbated the tension existing between the interests of the right holders, intermediaries and platforms, by shifting the cost of copyright and/or trademark enforcement onto one of these stakeholders.

In fact, legislation may not be the best solution to tackle infringement in the digital environment context.

Despite rapid growth of the online environment, the Internet is indeed still in a state of flux and various disruptive innovations could radically change the technological landscape in the next few years.

⁸⁰⁸ See Ann Bartow, *Arresting Technology*, 1 BUFFALO INTELL. PROP. L.J. 95, at 118-119 (2001) (stressing that “as long as it is reasonably convenient, efficient and economical to gain access to copyrighted content by legal means, then few people are likely to invest a lot of time and energy in obtaining [the content illegally]”)

Moreover, Europe and the United States already provide in their current legislation a set of robust remedies to address online infringement.

A first step to tackle online infringement would therefore be to harmonize further the legal framework - and above all its interpretations by U.S. and EU courts - so that (i) right holders may be granted efficient remedies against the infringement of their right online, (ii) intermediaries may continue to run their businesses in the most efficient way and (iii) Internet users may use and access to protected content and branded products to the fullest extent permitted by law.

In parallel to these harmonization efforts, lawmakers should foster the implementation of business-driven solutions emerging from the cooperation between main stakeholders, including the creation of an environment favorable to the development of a legitimate market for online content, the protection of technical measures (DRM, filtering) aimed at preserving the right holders' control over their works, the use of educative and streamlined enforcement procedure aimed at deterring online piracy and the implementation of legislative reforms aimed at facilitating the licensing and distribution of online content. Only an integrated and consistent effort, involving the cooperation of all the stakeholders, may indeed allow Europe and the United States to curb infringement effectively and sustainably, while fostering digital technology and preserving users' rights.

(Stanford, April 30, 2012)

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