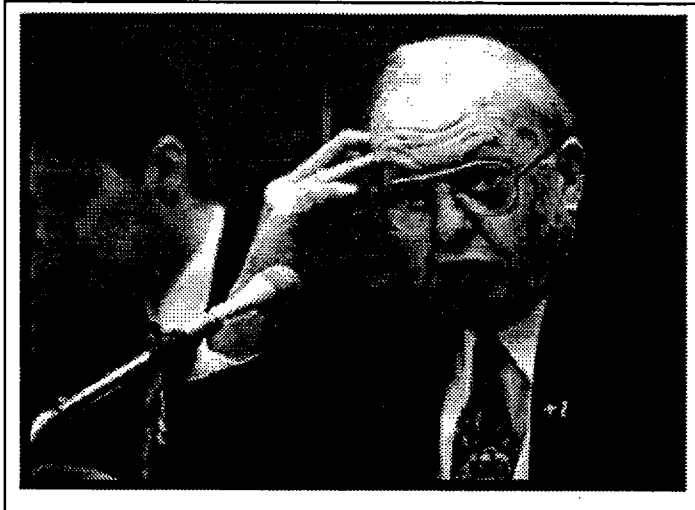




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RICK KOZAK

HOWARD COBLE: The North Carolina congressman has sponsored H.R. 354, which critics say goes far beyond preventing database piracy to prevent legitimate reuse of information for socially valuable purposes.

Making the World Safe for Databases

Once again, Congress shoots for a bill that balances the interests of publishers, scientists, educators -- and the public

By JONATHAN BAND

In the three years since the European Union adopted its database directive, Congress has been under the gun to come up with comparable legislation. The motivation: American companies may gain greater protection for their databases from European competitors if the U.S. follows Europe's lead.

But in the interim, a series of bills has fallen prey to basic policy differences among the affected parties -- mainly

entrenched database owners on the one hand, and value-added publishers and the science, education, and library communities on the other.

This year, four separate database bills were either formally introduced in Congress or placed in the Congressional Record for debate and consideration. This flurry of activity at the beginning of the 106th Congress indicates that database protection will be at the very top of this Congress' intellectual property agenda. Which of the four approaches Congress ultimately follows will have a major impact on the database industry and the economy at large, given its heavy reliance on information.

THE STATUS QUO

To properly analyze the need for this legislation, we must recognize that since the birth of the republic, facts have resided in the public domain. The law regards facts as the building blocks of knowledge that everyone is free to use and reuse. This allows a second-generation publisher to extract facts from public discourse or from an existing compilation for reuse in a new compilation.

Nonetheless, a database publisher has several ways of protecting his investment in collecting facts. First, the publisher can rely on copyright to protect the selection, coordination, and arrangement of facts in a compilation -- although not the facts themselves. Thus, copyright usually prevents the wholesale copying of a database -- which typically contains at least a minimal amount of expression; but does not protect the extraction and reuse of individual facts.

Second, a publisher can rely on contracts. Many databases, particularly online databases, are distributed subject to licensing agreements under which the licensee -- the user -- agrees not to disseminate the information.

Third, the publisher can rely on state common law misappropriation. Under this doctrine, the collector can prevent competitors from copying "hot news" or other time-sensitive information.

Fourth, the publisher can rely on technological measures.

These are particularly effective for protecting online databases, where the publisher can limit the user's access to relatively small amounts of information at any one time. These limitations impede the copying of the database as a whole. Technological measures now receive legal protection under the recently enacted Digital Millennium Copyright Act (DMCA). The DMCA created a new chapter 12 to the Copyright Act, which prohibits the manufacture and sale of devices which can circumvent technological protection measures.

Until 1991, the collector could rely on yet another legal doctrine: "sweat of the brow." In a few circuits, courts interpreted the Copyright Act as preventing the copying of facts in a compilation in which there were no expressive elements. In other words, the act was construed to protect selection or arrangement of facts. Courts in these jurisdictions thought it was unfair and unwise to afford no protection to the efforts of people who assembled plain-vanilla directories. It is important to note that sweat of the brow was largely a stop-gap measure; courts typically applied it to compilations which lacked any expression and which were copied in their entirety.

In 1991, however, the Supreme Court in *Feist v. Rural Telephone* found the sweat-of-the-brow doctrine unconstitutional. A unanimous court held that under the Copyright Act, copyright protection could extend only to expressive elements in compilations, and that effort without creativity could not convert facts into expression.

FOLLOWING THE EU

Although the Supreme Court decided *Feist* in 1991, the serious effort to enact database legislation did not begin until 1996, after the European Union adopted its Database Directive. Under this regime, a second-generation publisher could not extract a substantial part of a first-generation database, even if the second publisher did not extract any protectable expression. The Database Directive's *sui generis* protection is available only on a reciprocity basis. That is, a non-EU publisher can receive the heightened level of protection only if the publisher's country of origin affords an equivalent level of protection. Accordingly, if the U.S. does not enact database legislation on par with the EU Database

Directive, then U.S. publishers cannot receive this added protection in Europe.

There is, however, a large loophole in this reciprocity requirement. If a non-EU publisher has a subsidiary operating in the EU, then databases distributed by the subsidiary should be able to receive the heightened protection.

In response to the EU directive, Rep. Carlos Moorhead (R-Calif.) introduced H.R. 3531 in 1996. The bill established a *sui generis* database protection regime even more stringent than the EU Directive's and with a longer term (25 years) than the EU directive (15 years). But H.R. 3531 died with the end of the 104th Congress.

In the 105th Congress, database protection reappeared in the form of H.R. 2652, introduced by Rep. Howard Coble (R-N.C.), chairman of the House Subcommittee on Courts and Intellectual Property. Although the legislation aimed to guard against the tort of misappropriation, rather than establish databases as intellectual properties, the substantive tests were almost identical to those in H.R. 3531. H.R. 2652 found support among large database publishers such as Reed Elsevier Inc. (which owns Lexis-Nexis and publishes the *Martindale-Hubbell Law Directory*) and Thomson Corp. (which owns West Publishing Co.).

But value-added publishers and the science, education, and library communities argued that H.R. 2652 was unnecessary -- that copyright, contract, common law misappropriation and technological barriers give database publishers adequate protection. Moreover, these opponents contended that the database industry was healthy and that there was no market failure which required legislative correction.

Nonetheless, H.R. 2652 passed the House twice -- once as a stand-alone bill, and the second time as part of the House's version of the Digital Millennium Copyright Act. At this point, the Department of Commerce, the Department of Justice, and the Federal Trade Commission all registered serious concerns with the bill. In the House-Senate conference on the DMCA in the closing days of the 105th Congress, the database portion was dropped.

THE PENDING 'ANTI-PIRACY' BILL

On Jan. 19, Rep. Coble introduced H.R. 354, which is virtually identical to H.R. 2652. Under H.R. 354, a person cannot extract, or use in commerce, a quantitatively or qualitatively substantial part of a collection of information gathered or maintained by another person through the investment of substantial resources so as to harm the actual or potential market for a product or service containing that collection of information. The goal of the legislation is to protect the investment in databases by restoring the sweat-of-the-brow doctrine and ensuring protection for U.S. publishers under the Database Directive through the establishment of a comparable regime here.

The specific problems identified by the critics of H.R. 2652 exist in H.R. 354 as well. According to these critics, H.R. 354 goes far beyond preventing database piracy, and prevents legitimate reuse of information for socially valuable purposes. Specifically, because H.R. 354 prevents the taking of a "qualitatively substantial" part, the second-generation publisher is at risk whenever he extracts any information from an existing database; he has no way of knowing what the first publisher, or a court, will consider "qualitatively substantial."

Further, most, if not all, value-added databases will harm a "potential market" for a product containing the first collection of information. Indeed, the market for a value-added database almost by definition is a potential market for a product containing the collection of information. Additionally, even a small amount of market harm would appear to trigger liability. (H.R. 354 contains a "fair use"-like provision not found in H.R. 2652, but it is drafted so narrowly as to provide little comfort to most value-added publishers.)

Another concern identified by opponents of H.R. 354 is sole-source databases. For many database markets, there is no feasible way for another person to collect the information independently. This may be because the information is historical, and thus can be found only in an existing database; or because the publisher has a special relationship with the producer of the information. The protection afforded by H.R. 354 guarantees these publishers monopoly prices.

A final major concern is that notwithstanding the 15-year term limit, H.R. 354 as a practical matter confers perpetual protection for databases. This is particularly the case with dynamic online databases, where the second publisher has no way of knowing for which portions of the database protection has expired.

For these reasons, the opponents of H.R. 354 believe it will inflict serious harm on many sectors of the economy that rely heavily on access to information. Financial publishers such as Bloomberg and Dun & Bradstreet have concluded that it will increase the cost of the information they incorporate in their products. Similarly, scientists feel H.R. 354 will destroy the culture of sharing information which is so integral to scientific progress.

On Mar. 18, the House IP subcommittee held a hearing on H.R. 354. At the hearing, a witness for the administration echoed many of these concerns.

HATCHING AN ALTERNATIVE

On Jan. 19, Senate Judiciary Committee Chairman Orrin Hatch placed in the Congressional Record a lengthy statement concerning database protection. The statement included three alternative approaches to database protection, which he was presenting to his colleagues for purposes of discussion. The first approach was Coble's H.R. 354, discussed above. The second approach was the Database Fair Competition and Research Promotion Act, proposed by the opponents of H.R. 354. The third approach was a draft produced by the Senate Judiciary Committee staff while the DMCA was in the House-Senate conference in the fall of 1998.

The staff bill was an attempt to bridge the gap between the proponents and opponents of H.R. 2652. In essence, the staff draft moderated H.R. 2652's language. The staff bill replaced "potential market" with "neighboring market." Further, the staff draft required a showing of "substantial harm," rather than any harm. These changes were intended to permit more value-added uses by limiting the scope of the prohibition. To prevent perpetual protection, the staff bill added a requirement of depositing the database with the Copyright

Office. That way, the second publisher could determine which facts entered the public domain after 15 years.

To ameliorate the sole-source problem, the staff draft allowed application of the misuse doctrine to databases. Moreover, the staff draft included a provision intended to limit the liability of online service providers for the distribution of infringing databases. This provision paralleled the safe harbors of Title II of the DMCA.

While the staff bill attempts to correct the perceived deficiencies in H.R. 354, it follows that bill's basic template of a broad prohibition with specific exceptions. These exceptions, however, still do not permit many value-added uses, particularly by commercial publishers.

The last approach placed in the Congressional Record by Chairman Hatch targets parasitical copying of databases, without prohibiting reuse of information to create new kinds of databases. Specifically, this bill prohibits a person from duplicating someone else's database in a second database which competes head-to-head with the first database. In addition, the bill prohibits misrepresentations concerning the currency, comprehensiveness, and source of the information in the database.

NARROWER APPROACH, WIDER SUPPORT

By establishing a narrower prohibition than H.R. 354, this bill does not prevent reuse of information in innovative databases. It also deals with the sole-source problem by limiting the remedies for duplicating a sole-source database to a reasonable royalty.

This narrow approach has widespread support among value-added publishers, the science, education and research communities, and large corporate users of information. They believe that this bill successfully balances concerns about database piracy with the need to use previously gathered information as a foundation for new products.

Yet another approach to database protection has been pitched by Sen. John McCain, who chairs the Senate Commerce Committee. While the other three bills increase protection for databases, the McCain bill, S. 95, prohibits any limitation on

"the dissemination by any medium of mass communication" of stock trading information.

The stock exchanges, particularly the New York Stock Exchange and NASDAQ, strongly supported H.R. 2652 in the last Congress, and presumably will support H.R. 354 in this Congress. Financial publishers such as Bloomberg, as well as stock brokerages such as Charles Schwab & Co. Inc., fear that the exchanges will use broad database protection like H.R. 354 to increase the price of the live feeds of stock quotes, and otherwise restrict the downstream use of this information. S. 95 resolves this dispute by making stock information even more available than it is currently. (Although S. 95 targets only stock trading information, Senator McCain has indicated that he is interested in the broader database issue.)

CONCLUSION

The four database bills presented on Jan. 19 will head the database industry -- and arguably the economy as a whole -- in dramatically different directions. While H.R. 354 will grant first-generation publishers a new weapon against piracy, it will also provide them with unprecedented control over downstream competition. At the other end of the spectrum, S. 95 indicates that the database debate is not without risk to first-generation publishers. Congress may very well decide to deprive them of some of the protections they now have.

Many database publishers are de facto monopolists, and Congress is appropriately suspicious of monopolies in the Information Age. In between these two extremes, the Database Fair Competition and Research Promotion Act provides an incremental increase in protection to first-generation publishers against pirates, without constraining legitimate activities by second-generation publishers.

The outcome of this debate is as uncertain as the options these bills present are wide. One thing is certain: any database protection legislation enacted this year will have enormous ramifications for online commerce, scientific research and information in the public domain.

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