GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE
Washington, D.C. 20230

June 9, 1999

The Honorable Howard Coble
Chairman, Subcommittee on Courts and
Intellectual Property
Committee on the Judiciary
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for giving the Administration an opportunity to elaborate upon the views expressed in our March 18 Statement. We applaud your attempts to fine-tune H.R. 354, the "Collections of Information Antipiracy Act," in response to the many issues that have since been raised, and recognize the considerable progress made by the House Judiciary Committee in crafting a balanced database bill.

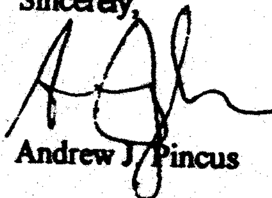
As I said in my March 18 Statement, we believe that the *Feist* decision has created a gap in the general incentive structure created by our country's intellectual property laws for the creation and distribution of valuable information products. We concur with your conclusion that misappropriation law can correct this gap in a manner particularly well-suited to the American legal system.

We respect your commitment to respond to the issues of all concerned parties and to move toward a bill that, as you said, "everyone can live with not too uncomfortably." In addition to providing the answers that follow, the Administration is prepared to provide any other assistance it can in this process.

We have been advised by the Office of Management that there is no objection to the submission of these views to the Congress from the standpoint of the Administration's program.

If you have any questions about the enclosures, or any other matter, please do not hesitate to contact me.

Sincerely,



Andrew J. Pincus

Enclosure

cc: The Honorable Howard L. Berman

Questions from Chairman Coble

1. ***How would an Administration proposal deal with a taking by a member of a specific community of a product developed for that community? This would lead to commercial harm (loss of customers) even though it would not involve extraction for commercial distribution on a distribution in commerce.***

One of the principal concerns of critics of H.R. 354 is precisely the fact pattern suggested by this question: that an individual using data without the database producer's authorization -- but without redistributing the data in any way -- could face the allegation that his or her activity had caused commercial harm to the database maker because the database maker had lost one customer. We acknowledge that U.S. copyright law can create liability for analogous private activity (at least where it involves private copying or distribution), but only if the activity does not fall within a fair use or first use exception, or is otherwise excused. While the copyright law may create potential liability for such individual activities, the Administration believes that both First Amendment concerns and practical considerations counsel against a database misappropriation law completely co-extensive with copyright law. We respect Chairman Coble's thoughtful adoption of a misappropriation model; almost all (if not *all*) reported case law under state misappropriation law concerns defendants who reintroduced or were likely to reintroduce the appropriated value into commerce.[1] We are not aware of any reported misappropriation cases against individuals for purely private uses.

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1 Some courts' formulations of state misappropriation law require the defendant to be in competition with the plaintiff, *see e.g. United States Golf Association v. St. Andrews Systems*, 749 F.2d 1028 (3d Cir. 1984) (New Jersey law), while other courts' description of their states' misappropriation laws would not seem to require such competition, but all cases of which we are aware involve a defendant who has reintroduced or appears likely to reintroduce the misappropriated value back into commerce. *See e.g. United States Golf Association v. Arroyo Software Corp.*, 49 USPQ2d 1979 (Cal. Ct. App. 1999) (golf handicap formulae misappropriated by software maker [California law]); *Board of Trade v. Dow Jones & Co.*, 108 Ill. App. 3d 681, 439 N.E.2d 536 (1982) *aff'd* 98 Ill.2d 109, 456 N.E.2d 84 (1983) (Illinois law).

As we said in our March 18 Statement, we believe that distribution in commerce should be understood broadly, consistent with First Amendment considerations. So understood, we believe that our proposed suggestion for the basic prohibition, particularly coupled with existing laws against unauthorized access into on-line systems, would provide database providers with adequate protection.[2]

2. *How would the Administration's version of the basic prohibition protect against the commercial harm resulting from multiple users who do not pay for access to a database because they can engage in "receptive activities such as viewing, reading, or analyzing" a database for free?*

We do not know what kind of factual situations are being envisioned in this question that would *not* involve some form of reproduction and *distribution* of the database, particularly in networked and digital environments. As we said in the March 18 Statement, we believe that a prohibition on distribution, broadly understood, covers most situations where the database producer might suffer substantial harm.

In the realm of copyright, a book publisher who has sold a copy of his work will not have a cause of action arising from any "harm" from multiple users viewing, reading, or analyzing the same copy of that work. In addition, the first sale doctrine extinguishes the copyright holder's right to prevent these activities as long as the owner of the copy does not *reproduce* the copyrighted work. We assume that the first sale doctrine in section 1403(f) of H.R. 354 is intended to work the same way. In other words, in the case of alienated copies of databases (for example, volumes of F.2d, the Official Airline Guide, or the Physician's Desk Reference), the

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[2] As we said in our March 18 Statement, the Administration believes that 18 U.S.C. § 1030 already creates both civil and criminal liability for unauthorized access into an on-line database. As an interesting point of comparison, the European Union's Database Directive expressly permits countries to allow private copying of "non-electronic" databases (Article 6(2)(a)) and the implementation of the Directive has, in several EU Member States, permitted private non-digital copying of databases. *See e.g.* Act on Copyright in Literary and Artistic Works (Sweden), as amended up to January 1, 1998, Article 12 and Article 49; Code de la propriété intellectuelle (France), Titre IV, chapter 2, Article L. 342-3 (2).

database producer already *lacks* any means under H.R. 354 to stop the owner of the copy of the database from permitting other people to view, read, or analyze the database by using the copy of the database.

Finally, in its March 18 Statement, the Administration recognized that acts of "extraction" or duplication of databases by individuals could conceivably undermine the commercial market for a database product when those acts are repeated, systematic or become customary in a particular field. We are not familiar with any reported cases of this kind nor have we heard claims that this is a significant problem, but we would be happy to work with the Subcommittee to explore ways that this danger could be addressed consistent with First Amendment concerns.

3. Which exceptions would still be necessary if this approach is taken?

If the Administration's suggestions for the basic prohibition were adopted, the provisions of the "permitted acts" section 1403 should be amended to reflect the new operative terms of the basic prohibition. We believe that these provisions would still have independent value, although the concerned parties might discuss whether section 1403(a) is needed if the basic prohibition is amended pursuant to the Administration's suggestions (including the requirement of "substantial harm"). The Administration continues to believe that a general "permitted acts" provision analogous to, and at least co-extensive with, section 107 of the Copyright Act should be part of any database protection legislation.

4. Could the Administration give examples of the type of de minimis activities that it fears could be subject to liability unless the standard of harm is elevated to "substantial harm"?

Where a database is marketed under a license agreement, any use other than those explicitly permitted under the license would presumably "harm" the market in that the database owner could have secured a higher license fee for the enhanced use. For example, a user of a licensed database might access her office PC remotely and, in so doing, unintentionally exceed the terms of the license agreement. In the case of a print copy of a database sold to a business

consultant, the consultant might use, in her new book on innovative business practices, a considerable amount of data from the database while causing only *de minimis* harm to the actual and reasonable markets for the database.

In general, we are concerned that legislation inviting legal actions based on insubstantial harm could be used to inhibit access to and use of information, especially by non-profit organizations and small businesses who do not have the resources to stand firm against the threat of litigation. At the same time, if the statutory standard were "substantial harm," parties might still use contracts to allocate liability for insubstantial harm.

5. Why should a database producer be required to sustain "substantial harm" from competitors before it can take legal action? Do other bodies of law, like state misappropriation, trademark, or trade secrecy, require this?

Initially, we note that H.R. 354 does not protect database producers from harm solely from "competitors." And, in fact, no one proposes to protect database producers from all competitive harm; competitive harm is at the essence of market competition. If, however, H.R. 354 were limited only to wrongful harm from competitors, many of the practical concerns raised by the different groups, as well as our constitutional concerns, would be greatly lessened.

We believe that, as a practical matter, raising the standard from "harm" to "substantial harm" would not greatly affect the number or nature of cases litigated under a database protection law. In general, plaintiffs will not litigate unless they are suffering substantial harm from some misappropriation. But raising the standard to "substantial harm" will allay concerns of many data users that allegations of *de minimis* harm would give rise to a colorable claim under the statute. As we stated in our response to Question 4, these concerns could lead to the suppression of highly valuable products and services that have only an incidental impact on the database provider's market. There is also a concern that if the standard remains only "harm," some plaintiffs may argue that courts should *presume* harm as is done in some areas of intellectual property litigation; obviously, such a presumption would be antithetical to the misappropriation approach.

Different bodies of law may integrate "substantiality" or otherwise raise the bar for plaintiffs in different ways.[3] In trade secrecy actions, a requirement of culpable behavior effectively discourages actions involving only *de minimis* harm. In trademark infringement actions, plaintiffs must prove more than just *some* likelihood of confusion; they must prove that an appreciable or substantial number of reasonable buyers are likely to be confused.[4] Given that the database protection law will be a completely new form of statutory liability, we believe it is better to establish a substantial harm requirement in the statute, rather than wait for such a standard to evolve in the courts.

6. ***The concepts of actual and potential markets are drawn from similar concepts in copyright law. Please expand on Administration concerns that the concepts of "actual" and "potential" market "could be subject to manipulation by private entities, and could too easily expose legitimate practices to substantial liability."***

We agree that "potential market" is an important concept of copyright law; in fact, many of our concerns about how this concept would be used in any database protection law echo the concerns of courts and commentators that this concept be construed with proper limit in the area of copyright.[5] There is a danger of both circularity and overbreadth here, as plaintiffs could try to

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[3] It is worth noting that these other laws also do not establish rights to control and restrict the distribution and use of *information*, which is a principal reason that these other laws do not raise serious First Amendment concerns. *See e.g. Harper & Row Publishers, Inc. v. The Nation Enterprises*, 471 U.S. 539, 556, 560 (1985) (explaining that the Copyright Act's distinction between copyrightable expression and uncopyrightable facts and ideas helps to reconcile the restrictions of the Act with the First Amendment).

[4] J. THOMAS MCCARTHY, 3 MCCARTHY ON TRADEMARKS, § 23:2 at 23-8 to 23-9. In fact, once the survey evidence shows confusion dipping into single digits, courts tend to hold that this evidence weighs *against* a finding of confusion. *See Henri's Food Prods. Co. v. Kraft, Inc.*, 717 F.2d 352, 358 (7th Cir. 1983) (treating a survey finding confusion among 7.6% of consumers as evidence against finding infringement); *Wuv's Int'l, Inc. v. Love's Enters., Inc.* 208 U.S.P.Q. (BNA) 736, 756 (D. Colo. 1980) (holding that 9% confusion among consumers is a "questionable amount of confusion"); *S.S. Kresge Co. v. United Factory Outlet, Inc.*, 598 F.2d 694, 697 (1st Cir. 1979) (being unconvinced by a showing that 7.2% of consumers were confused).

[5] *See e.g.*, MELVILLE B. NIMMER AND DAVID NIMMER, 4 NIMMER ON COPYRIGHT § 13.05[A][4] at 13-182 to 13-186 (discussing danger of circularity in definition of potential market).

define the potential market for their own database products by questionable claims that they have business plans to develop a particular market or by claims that they "serve" a particular market through websites and license options (even where they never have had any sales in that market).[6]

We recommend that the Subcommittee consider proposals to limit "potential market" or any analogous concept. Possible approaches to limiting this concept include copyright cases that have confined potential markets to "traditional, reasonable, or likely to be developed markets";[7] the trademark doctrine limiting "natural expansion" of marks that are not well-known marks; and the proposal in the Hatch discussion draft to narrow "potential market" to "neighboring market" with an objectively determined definition of the latter. These suggestions are not intended to be exhaustive and the Administration would be pleased to work with the Subcommittee on other ideas for limiting the scope of potential markets.

7. *Is the Administration proposing a mandatory notice system, making protection conditioned on providing notice? Would this cause any problems on the international level?*

The Administration is not proposing the kind of notice system that existed under the 1909 Copyright Act under which the absence of notice upon publication could result in the permanent forfeiture of copyright protection. We are suggesting that a misappropriation law should not demand that users investigate the full pedigree of a database and ensure that there is a clear chain of title wherever the investigation leads. A user who has neither knowledge nor reason to know of asserted protection under the statute should not face strict liability, let alone criminal sanctions. We think that the Subcommittee should explore ways that lack of notice could be a defense,

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[6] Some plaintiffs might even try to rely on copyright precedent that suggests that even where the plaintiff has *disavowed* a particular market, it remains a "potential market" for calculations of damages. *See e.g., Salinger v. Random House*, 811 F.2d 90, 99 (2d Cir. 1987) (diminution of market value in plaintiff's works "is not lessened by the fact that their author has disavowed the intention to publish them during his lifetime . . . He is entitled to protect his *opportunity* to sell the letters," [emphasis in the original]). The second part of the disjunctive definition of § 1401(3) would open the possibility for this kind of argument.

[7] *American Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 931 (2d Cir. 1994), *cert. dismissed*, 116 S.Ct. 592 (1995).

partial or complete, for particular defendants. We would like to see database producers and users work together to develop and continue to refine guidelines on this issue.

The European Commission believes that extra-copyright protection of databases falls outside the Trade-Related Aspects of Intellectual Property Rights (TRIPS) and copyright treaty obligations; if this is correct, then any notice system (even in the strong pre-1976 sense) would not create any problems in relation to the United States' treaty obligation.

Nonetheless, it is important to remember that, if passed, domestic database protection legislation will become the basis for the U.S. position on, and eventual acceptance of, any international treaty obligations concerning database protection. Perhaps the greatest dilemma that could confront the United States on the international front would be for this country to accept international standards based on our own domestic implementing legislation, only to have that legislation later declared unconstitutional by the courts. This would affect not only any database protection treaty obligations, it would undermine our leadership in global electronic commerce generally.

8. ***The Administration states that "[e]ven when government-generated data remains available to the public from the government, it may be much more difficult to obtain that the private, value-added product." Part of the "value-added" nature of a commercial database product is that it is easily available, as a result of significant effort and expenditure of resources by the database producer. Does the Administration have any concerns that requiring database producers to advertise the source of the government-generated data will undermine incentives for database producers involved in beneficial dissemination of such data?***

No, the Administration does not have such concerns. If there truly is "value-added" in a commercial database product, then the private database producer has little to lose in enhanced transparency, *i.e.* telling the data consumer the origin of some of the original data. We believe that most commercial database producers make a significant investment in enhancing or "processing" government data, so that the commercial product is quite different from what may be available from the government. This is especially true when the government data is combined with data from other sources into the commercial product.

But even if the main value of a commercial database product is *only* that it is "easily available," many, perhaps most, data consumers will stay with the commercial product. After a data consumer learns that the source information in a commercial database came from a particular agency in Washington, DC, the user would still face the task of researching availability, format, cost, etc. from the government agency *and* the cost in time, money, and energy of actually obtaining the information. Lawyers continue to rely on a variety of commercial legal publishers although they often know exactly where to obtain the same court opinions from public sources.

We believe that the proposed notices would be neither "advertis[ing]" for government agencies nor "invitations to customers to go elsewhere to get their information" (the comment of one database industry representative at the March 18 hearing). Here, as in other areas of the economy, we believe that providing consumers with more information on products is desirable; we believe that requiring disclosure of information *and then allowing consumer choice* is preferable to regulatory consumer protection schemes. Disclosure of the government source of information in a commercial database should dampen tendencies toward unreasonable prices, will help overcome some "sole source" concerns, and will motivate commercial entities to add more value to their products to further distinguish them from government data.

9. ***The Administration states that "some aspects of maintaining data such as checking . . . are really aspects of collecting." What is the basis for this conclusion and would this allow for sufficient incentives for those databases where investment is directed more at verifications and updating than addition of new items?***

We believe that verification and updating are inherently part of the historic notion of "industrious collection." If necessary, this can be clarified through legislative history.

10. ***The Administration states that the activity of "organizing" is protectable under copyright law, and that therefore inclusion of the term in the bill is not necessary to provide incentives for this activity. The copyright law does not protect the activity of organizing, only the result of that activity if the selection and arrangement of the information is <u>original</u>. Moreover, the scope of protection for copyrightable databases is "thin." How would the protection of the activity of "collecting" provide sufficient incentives for: 1) databases whose organization is not original, and 2) for copyrightable databases whose scope of protection is "thin?"***

Copyright law does not protect "the activity of organizing" a database; as we understand it, neither does H.R. 354. H.R. 354 offers protection to part of the *results* of organizing under certain conditions (a market interest resulting from substantial investment in the activity), just as copyright offers protection to part of the results of organizing under certain conditions (a market interest resulting from originality).

We view many forms of "organizing" such as the sorting of gathered data into categories as encompassed by "collecting" and integral to the notion of "industrious collection."[8] Otherwise, it is not clear that this is a real problem, *i.e.* that there is a need to protect databases where the investment lies *only* in organizing data and *not* in any aspect of collecting it. If the Subcommittee were to identify such databases we would be happy to revisit this question, but all of the commercial databases described in testimony before the Subcommittee appear to involve significant investment in data collection, understood as both gathering data and organizing the gathered data.

11. Intensive investment is required to keep massive databases up to date and accurate. That is what often makes them valuable to users, especially scientists and researchers. How would incentives be provided for such valuable activities if the prohibition on misappropriation applied only to the activity of "collecting"?

Keeping databases up to date means collecting new data, replacing old entries with new data, and determining whether old entries should remain in a collection. The process of "verification" or "reconfirmation" of a data point is typically the collection of a new data point. We believe that these activities are encompassed within "industrious collection" and would be

[8] For example, one on-line dictionary source draws the following distinction between "gather" and "collect": "GATHER is the most general term for bringing or coming together from a spread-out or scattered state <a crowd quickly gathered>. COLLECT often implies careful selection or orderly arrangement <collected books on gardening>." http://www.m-w.com/ cgi-bin/mweb?book= Dictionary&va=gather. *See also* WERNER MEUNSTERBERGER, COLLECTING: AN UNRULY PASSION 4 (1994) (defining collecting as the "selecting, gathering, and keeping of objects" and noting that collectors "assemble" collections).

covered by "collecting."[9] We would add that as long as an updated database has a substantial number of new/revised entries, the kind of wholesale appropriation that occurred in the *Warren Publishing* and *ProCD* cases would be impossible without triggering liability.

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[9] At the same time, we would caution the Subcommittee that the addition of "maintaining" as a grounds for protection under a database protection statute might tempt some database producers to claim that perfunctory (and/or unnecessary) verification of old data should trigger a new term of protection over that old data. For example, in a growing database of chemical compounds or a continuing series of law case reports, old entries commonly will not require verification and a less scrupulous party might try to argue that its "verification" of these old entries entitled the party to a new term of protection.