

The Internet and Decisional Institutions: The Structural Advantages of Online Common Law Regulation

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INTRODUCTION

This Note evaluates the currently posited rules and regulations that attempt to balance internet service providers' ("ISPs") necessary use and transfer of copyrighted materials against the right of those copyright holders, ("content providers") to obtain just compensation for the use of their intellectual property. To understand this conflict over online property rights, it is first necessary to identify and understand the nature of the parties themselves before delving into the complexities of their economic interdependence, and the copyright issues resulting from the inherent tensions in that interdependence.

ISPs are commercial and non-commercial entities that connect users to the Internet, provided the user has her own access to the necessary hardware for this interface, namely a telephone line, modem and a personal computer.¹ ISPs have been defined by The Digital Millennium Copyright Act ("DMCA") 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

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1. See *ACLU v. Reno*, 929 F. Supp. 824, 833 (E.D. Pa. 1996).

content of the material as sent or received.”² The major commercial ISPs include local and long distance phone companies, as well as companies like America Online.³

Content providers are copyright holders who post their intellectual property onto the Internet. Because virtually everything that was copyrighted without the Internet is also available, in some form, on the Internet, content providers on the Web are as varied and incoherent a group as the list of registered copyright holders outside of the context of the Internet. Content providers are an extraordinarily diverse group of industries that relate with each other around one point, exploiting the potential of the Internet as a new medium where intellectual property can be contained, marketed and sold, and thus utilizing the enormous marketing capacity of Internet sales and distribution to their greatest advantage.

Though they have been adversaries at the center of a contentious policy debate, ISPs and copyright holders have a mutually dependent relationship, as online content necessitates the need for Internet access, while Internet access allows copyright holders to exploit the potential of the Internet.⁴ ISPs need to provide access to copyrighted materials to survive. However, this uncontrolled access to Internet content exposes content providers to uncompensated access to their property via online piracy. Online piracy is a form of copyright infringement that carries with it dramatic and severe implications beyond the scope of what the current Copyright regime has contemplated.⁵ Online piracy is the chief threat to the integrity of online intellectual property. It allows access to infringing works to an extent that causes damage to the value of intellectual property rights beyond any counterbalancing effects piracy may have in terms of enhancing the dissemination of ideas,

2. See 17 U.S.C. § 512(k)(1)(A) (Supp. IV 1998).

3. See S. REP. NO. 105-190, at 8-9 (1998).

4. See Timothy L. Skelton, Comment: *Internet Copyright Infringement and Service Providers: The Case for a Negotiated Rulemaking Alternative*, 35 SAN DIEGO L. REV. 220, 310 (1998) (arguing that “Copyright holders, content providers and Internet access providers have a mutually dependent relationship - quality online content increases demand for Internet access, while increased Internet access increases the demand for quality online content. Absent significant cooperation among content and access providers, the Internet can easily dissolve into a muddle of competing and parochial interests.”).

5. See *infra* Part II.A.

the quintessential public good. While such public access to useful information is certainly one of the stated goals of our copyright regime, the unprecedented powers of copying and distribution enabled by the Internet give infringers the ability to undercut the value of intellectual property to a degree outweighing its value as a vehicle for public access to ideas.⁶ Therefore, content providers, while greatly benefiting themselves from the distribution capabilities of the Internet, also face serious risks caused by online infringement, an infringement that in many cases would not exist without the use of ISPs.

While ISPs directly operate almost exclusively in non-infringing ways, they are often the vehicle for infringement. The access to the Internet they provide enables infringing postings of copyrighted materials. Further, by providing through their Internet portal and search engines access to infringing postings ISPs allow these infringements to achieve an independent value that undercuts the value of the material controlled by the content provider. However, the value of the services of an ISP depends on giving its subscribers the widest possible access to any materials of any kind posted on the Internet, and as of yet there is simply no technologically or economically viable method for ISPs themselves to automatically screen out both the access to, and the creation of, infringing postings.⁷ Therefore, a one sided rule of liability that punishes ISPs for allowing infringements would only have a punitive value, and as such not truly eliminate the problem, and would unduly hinder the operations of an industry that allows the public to access the vast resources of the Internet. However, applying no rule of liability at all to ISPs, who by virtue of their operations enable infringements, does not then allocate any of the costs of alleviating infringement to ISPs. This is problematic as a matter of economic

6. See Skelton, *supra* note 4, at 219.

Intellectual property theft on the Internet has reached epidemic proportions. Pirated copies of computer software and 'cracker' utilities used to defeat software copy-protection schemes are widely available. Copyrighted images and literary works are routinely displayed and copied, both in intentional and unknowing violation of their owner's rights. Bootleg copies of sound recordings, video, and other multimedia works are increasingly being exchanged on the Internet.

Id.

7. See *infra* note 192 and accompanying text.

efficiency because online infringement is a problem that has a vast social cost,⁸ and thus all actors involved in this problem should share some responsibility for alleviating it. Further, exempting ISPs from liability in this context is also inherently inequitable because at least some portion of an ISP's profits are generated by infringing activities, and thus they should not be allowed to profit from a morally and legally suspect activity without being subject to counterbalancing incentives, outside of their profit motives, aimed at encouraging their role in undermining online infringement. . . . Currently it is between these two polar opposites, the wide exemption from liability codified in the "Online Copyright Infringement Liability Limitation Act" (OCILLA),⁹ versus the unbounded liability advocated in the White Paper,¹⁰ that the legislative pendulum has swung. A better method of eroding the problem of online infringement would require a system of regulation that will efficiently and equitably distribute, between the copyright industry and ISPs, the incentives to combat online infringement. A rule of liability effectively balancing the intellectual property interests of ISPs and content providers currently does not exist in the relevant legislation. Further, the legislative responses that do exist have been predictably technologically uninformed, both due to the difficult and new problems they address, and to their hasty passage in the absence of a substantive body of common law doctrine that Congress could utilize when attempting to devise clear and equitable regulation.¹¹

Although adapting copyright law is essentially the province of Congress,¹² the existing legislation¹³ regarding ISP liability for

8. See *infra* notes 52-55 and accompanying text.

9. See Digital Millennium Copyright Act, Title II, Pub. L. No. 105-304, 117 U.S.C. §§ 201-203, 112 Stat. 2860, 2877-2886 (1998).

10. See INFORMATION INFRASTRUCTURE TASK FORCE, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE: THE REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS (1995) [hereinafter "White Paper"].

11. At the time of passage of the DMCA there were but a handful of cases addressing the central issue of this Note, virtually all of which are summarized in section II of this Note. As such, the DMCA was constructed without the guidance of common law doctrine, a situation this paper posits as an inherent flaw with both the DMCA itself and, if left unchecked, with any other proposed legislative regulation of ISP use of copyrighted materials.

12. See *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). The

copyright infringement was passed prematurely, that is, without any guidance via established common law principles. This Note argues that this is a serious problem with the DMCA because the common law as a decisional institution, as opposed to the legislature as a decisional institutions, is structurally superior as a method to regulate new and changing social contexts. Therefore, the common law presents a particular advantage when applied to the newest and most unregulated space of our time, the Internet. A three criteria test can be utilized to analyze the structural advantages and disadvantages of a particular decisional institution compared to others, as applied to particular problems. These criteria are derived from Thomas Barton's essay, *Common Law and Its Substitutes: The Allocation of Social Problems to Alternative Decisional Institutions*,¹⁴ where he outlines the inherent structural characteristics of the common law and the legislature as decisional institutions.¹⁵ Barton's criteria for analyzing the efficacy of particular decisional institutions as applied to particular problems is as follows:

The four most salient features of decision making structures are (1) the method of problem identification; (2) the degree to which decisions with the system are either 'deliberative,' that is, consciously fitted within a coherent, planned, and often goal directed order, or 'spontaneous,' that is, no consciously planned order or goal exists within the system, but a sort of equilibrium state is generated internally by a series of mutual adjustments among various decisions; (3) the roles that problem holders take in positing arguments and formulating decisions; and (4) the nature of the substantive justifications of the decisions. The decisional institutions

Court asserted :

As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or inventors in order to give the public appropriate access to their work product . . . Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials.

13. See 17 U.S.C. §§ 201-203 (1994 & Supp. IV 1998).

14. Thomas Barton, *Common Law and Its Substitutes: The Allocation of Social Problems to Alternative Decision Institutions*, 63 N.C. L. REV. 519 (1985).

15. See *id.* at 520. See also *infra* note 202 and accompanying text.

of common-law adjudication, the legislative process, and the free market contrast starkly along these four dimensions.¹⁶

These criteria allow a structural analysis of the considered regulatory schemes themselves, here the common law and legislation. When compared to legislation an application of those criteria yields the conclusion that the common law has the following inherent advantages, as a decisional institution applied as a regulatory scheme to ISP use of copyrighted materials: 1) the common law will encourage both sides of this issue to cooperate in identifying problems;¹⁷ 2) concerning solutions to those problems, the constructive function of the common law will create a body of legal principal¹⁸ allowing Congress to access both the common law doctrine, and the relevant industry customs to develop a “firsthand feeling”¹⁹ for these issues enabling Congress to legislate more efficiently;²⁰ and 3) the common law as a spontaneous decision system will facilitate the development of the spontaneous equilibrium that will maximize efficient use by ISPs of copyrighted materials.²¹

Therefore, in the context of this property dispute without coherent borders or limits, the common law presents the dual advantage of being able to simultaneously regulate, and to perform a constantly evolving informative function that can increase the functionality of future legislation by slowly mapping out the legal terrain in this uncharted territory. However, the common law will not only provide a benefit to the creators of future rules, it will also currently benefit both sides in this conflict by equitably distributing to the relevant parties, via a rule of liability, the incentives to battle one common problem, the insidious spread of online theft of copyrighted materials. A regulatory scheme that effects an equita-

16. *Id.*

17. *See infra* Part III.

18. *Id.*

19. *See* LON L. FULLER, ANATOMY OF LAW, 89 (1968) (Positing that “For complex human affairs, it can be argued that to legislate wisely one must acquire some firsthand feeling for the situations about which one is legislating. . .”).

20. *See infra* Part III.

21. *Id.*

ble balance of incentives to battle infringement between both parties will enable both sides to utilize the Internet to their own, and society's, benefit. This patience will then pay off in a system of legislative regulation that that will effect a similar balance of incentives, and will thus be sufficiently suited to this problem to be of lasting value.

Part I of this Note is a general introduction to the relevant Copyright law, the Internet as a whole, and the specific context of ISP use and transfer of copyrighted materials. Part II characterizes and defines the common law responses to ISP use of copyrighted materials, the legislative regulation of ISP use of copyrighted materials, and will also consider the recommendations of the White Paper.²² Part III of this Note argues that the common law, as a decisional institution, is at the present time superior to legislation as a regulatory scheme for ISP use of copyrighted materials. This Note concludes with the proposition that the common law will equitably balance the interests of both sides in this contentious debate, and aid Congress in its future legislation.

PART I. COPYRIGHT LAW AND THE INTERNET: AN INTRODUCTION

A. *Copyright Law*

Claims of copyright infringement, offline or online, are adjudicated in the federal court system²³ and currently the application of the Copyright Act to ISP's remains an issue of first impression in most jurisdictions.²⁴ The point of departure for any infringement claim is the Copyright Act of 1976.²⁵ Its basic concepts remain the same applied to the ISPs, ie. that to establish a claim of copyright infringement, a plaintiff must demonstrate (1) ownership of a valid copyright and (2) "copying"²⁶ of protectable expression by the de-

22. See White Paper, *supra* note 10.

23. See 28 U.S.C. § 1338(a) (1998)(Federal Courts have original jurisdiction to hear copyrighted claims.).

24. See Religious Technology Center v. Netcom On-Line Communications Services, Inc. 907 F. Supp. 1361, 1365 (N.D. Cal. 1995).

25. 17 U.S.C. §§ 101-803 (1994 & Supp. IV 1998).

26. *Netcom* 907 F. Supp. at 1367 n.7 (citing *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 n.3 (9th Cir. 1989) for that court's holding that in this context, "copying" is shorthand for the infringing use of any of the copyright owner's five exclusive rights).

defendant.²⁷ Application of the copyright laws to ISPs has usually been based on a theory of contributory and vicarious liability.²⁸ The Copyright Act extends protection to, *inter alia*, music, photography, and other “works of authorship.”²⁹ Computer software falls into the protected category of literary works.³⁰ Copyright holders are entitled to protection from the unauthorized transmission of their works.³¹ Any act encroaching on these protections constitutes an infringement,³² subject to the affirmative defense to copyright infringement, “fair use.”³³ This defense is designed to avoid applying copyright law when it would stifle the creativity and intellectual innovation the law was designed to foster in the first place.³⁴ Copyright has the ultimate goal of creating a balance between incentivizing the creation of socially valued expression through a limited monopoly grant, and enhancing the dissemination of the quintessential public good, ideas.³⁵

B. *The Internet, ISPs, and Content Providers*

Regarding ISP use of copyrighted materials, the balance between dissemination and innovation incentives that Copyright seeks to ensure must be struck in Cyberspace, the popular term for the world of electronic communications over computer networks.³⁶ Cyberspace includes the Internet, which is quickly becoming the

27. See *Baxter v. MCA, Inc.*, 812 F.2d 421, 423 (9th Cir. 1987).

28. See *Netcom*, 907 F. Supp. at 1369 (quoting MELVIN B. NIMMER AND DAVID NIMMER, NIMMER ON COPYRIGHT, §12.04[A][2][b], at 12-78, 79 (1995) arguing that when applying copyright law to an online Bulletin Board Service (“BBS”), a form of an ISP, “contributory infringement is more appropriate for dealing with BBS liability, first because it focuses attention on the BBS-users relationship and the way imposing liability on BBS operators may shape this relationship, and second because it better addresses the complexity of the relationship between BBS operators and subscribers”).

29. See 17 U.S.C. § 102(a) (1994).

30. See *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1247 (3d Cir. 1983)(citing H.R. REP. NO. 94-1476, 2d Sess. 54).

31. See 17 U.S.C. § 106 (1994 & Supp. IV 1998).

32. See 17 U.S.C. § 501(a) (1994).

33. See 17 U.S.C. § 107 (1994).

34. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1994).

35. See *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 n.10 (1983) (quoting H.R. REP. NO. 60-2222 at 7 (1909)).

36. See *Netcom* 907 F. Supp. at 1365 (citing Trotter Hardy, *The Proper Legal Regime for Cyberspace*, 55 U. PITT L. REV. 993, 994 (1994)).

world's most commonly utilized means of information exchange and communications.³⁷ The Internet is an electronic space created out of a "collection of thousands of local, regional, and global Internet Protocol networks. The Internet enables users to share files, search for information, send electronic mail, and log onto remote computers."³⁸ Use of the Internet can be roughly grouped into six categories: 1) one-to-one messaging (such as "e-mail") 2) one-to-one messaging via a "listserv" 3) distributed message databases (such as "USENET" newsgroups) 4) real time communications (such as "Internet Relay Chat" or "AOL Instant Messenger") 5) real time remote computer utilization (such as "telnet") and 6) remote information retrieval (such as "ftp," "gopher," and the "World Wide Web").³⁹ Of these six categories the method of Internet to user interface that has gained market preeminence is the World Wide Web ("Web").⁴⁰ The Web has become "the most advanced information system developed on the Internet," as it, "embraces within its data model most information in previously networked systems such as ftp, gopher, wais, and Usenet."⁴¹ The Web uses a formatting language called hypertext markup language ("HTML") which allows users to "click" on links to other types of resources and content, and be connected directly to the source of said content.⁴² These "hyperlinks" maximize user efficiency and flexibility, even when accessing information stored on multiple computers stationed around the world.⁴³

The Web not only allows user access to posted information, it also serves as a forum for user posting of information through "homepages."⁴⁴ Homepages are documents that allow an organization or individual to post text, images, and links to, for, and about information relevant to that individual or organization.⁴⁵ It

37. See *ACLU v. Reno*, 929 F. Supp. 824, 834 (E.D. Pa. 1996).

38. *Netcom*, 907 F. Supp. at 1365 (quoting David Bruning, *Along the InfoBahn*, *ASTRONOMY*, Vol. 23, No. 6, p.76 (June 1995)).

39. See *Reno*, 929 F. Supp. at 836.

40. See *id.*

41. *Id.*

42. See *id.*

43. See *id.*

44. *Id.*

45. See *id.*

is these links, from one computer to another, and from one document to another, that unify the Web into a single body of knowledge, and make the Web unique.⁴⁶ The Web's decentralized and universally accessible nature stands in diametric opposition to many of the information systems that have come before it.⁴⁷ Beyond making the Web unique, these characteristics also make it very easy for a publisher to reach large audiences, either intended or non-intended, without having to solicit these users directly.⁴⁸ Thus, "Unlike the newspaper, broadcast station, or cable system, Internet technology necessarily gives a speaker a worldwide audience."⁴⁹ Further, digital technology allows perfect copies to be made virtually instantaneously.⁵⁰ This has two important effects within the context of copyright law. On one hand, technology that reduces the effort and cost of copying and distribution, greatly undermines copyright owners' ability to control the exercise of copyright rights in order to realize their economic benefit.⁵¹ However, this very same technology has greatly eased the cost of dissemination, making copyrighted materials more readily available than at any other time in history.⁵² The unprecedented power of dissemination engendered by the Web, a power that ordinary users can utilize, has created a new and difficult challenge to the ability of copyright holders to enforce their ownership of intellectual property.⁵³ The chief threat to copyright holders presented by the

46. *See id.* at 837.

47. *See id.* at 838.

48. *See id.*

49. *Id.*

50. *See* Orrin G. Hatch, *Toward a Principled Approach to Copyright Legislation at the Turn of the Millenium*, 59 U. PITT. L. REV. 719, 726 (1998).

51. *See id.*

52. *See id.*

53. *See* Skelton, *supra* note 4, at 241, stating:

The potential for abuse with Web pages is great. Although Web site space is usually limited, thus providing insufficient storage space for stockpiles of pirated works, Web pages are frequently used to provide links to works located on [file transfer protocol] drop sites. Other Web pages help the visitor obtain pirated works by providing tools to defeat copy protection systems or by providing instructions for obtaining pirated software from other Internet services like Usenet, FTP, and IRC.

Id.

Internet's facilitation of information distribution is online piracy.⁵⁴ The scope of this problem is hard to define in concrete economic terms.⁵⁵ Though the damage of online piracy is hard to quantify in dollars, a driving motivation to protect copyright holders remains, "Widespread and open copyright abuse, it is feared, will establish a systemic cultural disregard for authors' intellectual property rights."⁵⁶ However, to fully consider solutions to the degradation of online intellectual property protections, the other side of the equation must be considered as well, the necessity of ensuring public access to copyrighted material on the Internet. That access is provided to the vast majority of the public via their subscription to an Internet service provider ("ISP").

ISPs handle enormous volumes of information,⁵⁷ and provide the user access to a broad array of content provided by the online service itself.⁵⁸ At the same time an ISP can also provide a user access to content located outside of their system via links to the larger resources of the Internet.⁵⁹ The distinction between these two operations relates to the relative control and knowledge the ISP then has of its subscriber's activities. The amount of control an ISP exercises over the content it provides access to is, as we will see, critical legally.⁶⁰ In sum, the essence of ISP operations, and their social utility, is that they provide the public, an "on-ramp into cyberspace."⁶¹

54. *See id.* at 219 (asserting that "Software and 'cracker' utilities used to defeat software copy-protection schemes are widely available. Copyrighted images and literary works are routinely displayed and copied, both in intentional and unknowing violation of their owner's rights. Bootleg copies of sound recordings, video, and other multimedia works are increasingly being exchanged on the Internet.").

55. *See id.* at 221 (citing various studies that assert "while total worldwide computer software industry losses are estimated at over \$13 billion annually, various estimates have placed the contribution of online piracy at anywhere from one third of the total losses to a relatively insignificant portion of the total losses.").

56. *Id.*

57. *See* Monica P. McCabe, et al., *Internet Copyright Infringement: Congress, Courts Address Liability of Third Parties*, N.Y.L.J. at S1, Aug. 10, 1998.

58. *See* Skelton, *supra* note 4, at 227

59. *See id.*

60. *See infra* Part II.

61. *See* Skelton, *supra* note 4, at 219 (citing *Latest Intelliquest Survey Reports 62 Million American Adults Access the Internet/Online Services* <<http://www.intelliquest.com/about/release41.htm>>).

II. COMMON LAW AND LEGISLATIVE REGULATION OF ISP USE OF COPYRIGHTED MATERIALS

The common law and the legislature have responded differently to the problem of ISP use of copyrighted materials both because of the inherently different nature of their respective tasks, and as a matter of policy. While the common law can be characterized as moving somewhat cautiously in its application and adaptation of existing Copyright law to this new context, the legislature, via the passage of the DMCA, has created industry wide exemptions from existing Copyright liability. These exemptions apply to the ISP industry, and give a far greater shield from liability to ISPs than the methodical compromise verdicts arrived at in our courts, whose principal characteristic has been the use of contributory and vicarious liability for copyright infringement as a way to balance both the interests of content providers and ISPs. This Note analyzes cases before the passage of the DMCA, as a way to more directly evaluate the structural efficacy of the common law unhindered by legislation, and to therefore be able to carry out the comparative analysis between the two systems that is central to the thesis of this Note.⁶²

A. *Common Law Doctrine Regarding ISP Use of Copyrighted Materials*

The first case to apply the Copyright Act to an online service provider was *Playboy Enterprises, Inc. v. Frena*.⁶³ PEI, the plaintiff in this case, sued the owner of a BBS for direct and contributory copyright infringement because copies of its photographs were made available to subscribers.⁶⁴ A BBS is a computer bulletin board that offers computer users the ability to obtain information from a central source accessed through a telephone modem.⁶⁵ BBSs also typically provide other services to their subscribers, in-

62. Namely that the common law, as a process of dispute resolution, is the most appropriate way to regulate ISP use of copyrighted materials at this point in the historical development of this problem.

63. 839 F. Supp. 1552 (M.D. Fla. 1993).

64. *Id.* at 1554.

65. See *Playboy Enterprises, v. Russ Hardenbaugh, Inc.*, 982 F. Supp. 503, 505 (N.D. Ohio 1997).

cluding electronic mail, "chat rooms," and access to the Web.⁶⁶ Thus BBSs are ISPs as defined by the DMCA.⁶⁷ Plaintiffs in the instant case were granted judgment with respect to their claim of direct copyright infringement,⁶⁸ but the court did not consider whether the defendant, Mr. Frena was liable for contributory copyright infringement.⁶⁹ Plaintiff was able to establish the threshold elements of ownership/validity and copying.⁷⁰ The court stated that, "it does not matter that Defendant Frena did not make the copies itself."⁷¹ Such a holding shows the significance of applying direct liability to an ISP as it permits liability regardless of volition on the part of defendant.⁷² The holding in *Frena* was later criticized by the court in *Playboy v. Hardenbaugh* as overbroad.⁷³ The legacy of *Frena* is perhaps best characterized by the fact that the application of direct liability to an ISP has not been utilized in any other judicial determination since *Frena*.⁷⁴

Other theories of copyright infringement include contributory and vicarious liability,⁷⁵ and it has been argued that these, and not the automatic application of direct liability are more applicable in the context of ISPs.⁷⁶ In *Sega Enterprises v. Maphia*,⁷⁷ the court took the step of applying contributory and vicarious liability to an ISP. Here, the defendant BBS solicited subscribers to upload files containing copyrighted materials to the BBS in order to make them

66. *See id.*

67. *See* 17 U.S.C. § 512(k)(1)(A) (Supp. IV 1998).

68. *See Frena*, 839 F. Supp at 1559.

69. *See id.* at 1560.

70. *See id.* at 1556.

71. *Id.*

72. *See id.* at 1559.

73. *See Playboy Enterprises, Inc. v. Russ Hardenbaugh, Inc.*, 982 F. Supp. 503, 513 (criticizing the holding in *Frena* as essentially meaning that the mere creation of a BBS would then be sufficient to establish direct infringement liability where copyrighted material appeared on the system.).

74. *See* Steven E. Halpern, Note, *New Protections for Internet Service Providers: An Analysis of "The Online Copyright Liability Limitation Act,"* 23 SETON HALL LEGIS. J. 359, 369 (1999).

75. *See Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1983).

76. *See Religious Technology Center, Inc. v. Netcom On-Line Communications Services, Inc.*, 907 F. Supp. 1361, 1371 n.16 (N.D. Cal. 1995).

77. 857 F. Supp. 679 (N.D. Cal. 1994).

available for downloading by the other BBS subscribers.⁷⁸ These copyrighted materials were plaintiff Sega's video games.⁷⁹ The defendant both solicited the uploading of said files and received consideration for its subscribers' subsequent downloading of them.⁸⁰ Access to the games was granted on a fee based on users' purchase from the defendant of hardware that enabled copying of Sega games.⁸¹ The court found that the defendant's solicitation, direction, and enablement of the infringing use via its BBS constituted contributory infringement, regardless of defendant's ignorance of the times when game files were uploaded and downloaded.⁸²

The court addressed plaintiff's direct infringement claim, holding that, "Sega has established a *prima facie* case of direct copyright infringement under 17 U.S.C. § 501. Sega has established that unauthorized copies of its games are made when such games are uploaded to the MAPHIA bulletin boards, here with the knowledge of Defendant Scherman."⁸³

This language was later held to be entirely conclusory by a later case from the same district, *Religious Tech. Ctr. v. Netcom On-Line Commun. Servs.*⁸⁴ The court in *Netcom* found that the *Sega* court's reference to the "knowledge of the Defendant" indicated that the court was focusing on contributory infringement, "as knowledge is not an element of direct infringement."⁸⁵ The *Netcom* court further distinguished the *Sega* court's finding regarding direct infringement saying that the *Sega* court's references to direct infringement related to the direct liability of the "unknown users," a necessary finding as there can be no finding of contributory infringement by a defendant without someone else's direct infringement.⁸⁶ The *Netcom* court found that neither *Frena* nor *Sega* required the application of the direct infringement standard to an

78. *See id.* at 683.

79. *See id.*

80. *See id.*

81. *See id.* at 683-84.

82. *See id.* at 686-87.

83. *Id.* at 686.

84. *Netcom* 907 F. Supp. at 1371.

85. *Id.* at 1371.

86. *See id.* (citing 3 NIMMER ON COPYRIGHT §12.04[A][3][a], at 12-89).

ISP,⁸⁷ and the court further held that any holding for direct infringement in *Sega* was dicta, “as there was evidence that the defendant knew of the infringing uploads by users, and, in fact, actively encouraged such activity, thus supporting the contributory infringement theory.”⁸⁸

In *Netcom*, the copyright holder for certain published religious material sued Netcom, a BBS operator, for the copying, posting, and criticism of said materials by one of its subscribers.⁸⁹ The court held that Netcom was entitled to summary judgment dismissing plaintiff’s claims of direct and vicarious liability for infringement,⁹⁰ but that a question of material fact remained concerning plaintiff’s claim of contributory liability.⁹¹

Netcom’s first defense was that it was in essence a common carrier, subject to the exemption to strict liability codified in section 111 of the Copyright Act⁹² for passive carriers who are otherwise liable for secondary transmissions.⁹³ The court rejected this defense, holding that service providers are not natural monopolies bound to carry all the traffic that passes through them like a normal

87. *See id.* at 1371.

88. *See id.* at 1371, (citing *Sega*, 857 F. Supp. at 683).

89. *See Netcom*, 907 F. Supp. at 1365-68, 1373, 1381-82, (the process by which Netcom was implicated in this litigation is as follows. Erlich, the direct infringer, accessed the Internet by using a personal computer and a modem in his home to connect to another defendant’s, Klemserud’s, BBS. Klemserud’s BBS was connected to the Internet through a subscription with Netcom which allowed Klemserud to lease access to the Internet at a fixed rate. Having established this chain of access the basic process then would begin with Erlich connecting to the BBS, then transmitting his messages to the BBS where they were temporarily stored via an automated system. From here Netcom’s software automatically copied Erlich’s messages from Klemserud’s computer onto Netcom’s computer. Once on Netcom’s computer, messages are available to Netcom’s customers, who can then download them. Netcom’s local server makes these postings available to other servers, until all sites can have access worldwide, which takes a matter of hours.).

90. *See id.* at 1381, 1377.

91. *See id.* at 1381.

92. *See* 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §12.04[B][3] at 12-99 (1995)(citing 17 U.S.C. § 111(a)(3) (1994)).

93. *See Netcom*, 907 F. Supp. at 1369 n.12 (the court gives, as an example of a passive carrier engaging in activity that would qualify for the exemption, a phone company carrying an infringing facsimile transmission or storing an infringing audio recording on its voice mail.).

passive carrier.⁹⁴ Thus, the court found that Netcom did not qualify for the 17 U.S.C. § 111(a)(3) exemption adding, somewhat prophetically, that “Whether a new exemption should be carved out for online service providers is to be resolved by Congress, not the courts.”⁹⁵ However, the court still refused to hold Netcom directly liable, reasoning first that it was not bound by the holdings in *Sega* and *Frena* for reasons already discussed, and secondly that all the BBS actually did was create the space where the infringing activity occurred.⁹⁶ The court then invoked a powerful “slippery slope” argument, saying that to impose direct liability on a BBS where the operator did nothing more than provide space where information is exchanged:

would also result in liability for every single Usenet server in the worldwide link of computers transmitting Erlich’s [the direct infringer’s] message to every other computer. These parties, who are liable under plaintiffs’ theory, do no more than operate or implement a system that is essential if Usenet messages are to be widely distributed. There is no need to construe the Act to make all of these parties infringers. Although copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant’s system is merely used to create a copy by a third party.⁹⁷

Accordingly, the court found that the defendant, Netcom, was entitled to summary judgment on plaintiff’s claim of direct infringement.⁹⁸ The court then turned to the question of whether

94. *See id.* at 1369 n.12 (citing IITF REPORT 122 n.392)(citing Federal Communications Commission v. Midwest Video Corp., 440 U.S. 689, 701 (1979)).

95. *Id.*

96. *See id.* at 1369. The court held:

Netcom’s act of designing or implementing a system that automatically and uniformly creates temporary copies of all data sent through it is not unlike that of the owner of a copying machine who lets the public make copies with it. Although some of the people using the machine may directly infringe copyrights, courts analyze the machine under the rubric of contributory infringement, not direct infringement.

Id.

97. *Id.* at 1369-70.

98. *See id.* at 1381.

Netcom was liable for contributory infringement, citing the justification for contributory infringement articulated in *Sony Corp. v. Universal Studios, Inc.*⁹⁹ The threshold question in such a determination is whether the defendant, “with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another.”¹⁰⁰ Netcom’s first defense to the claim that it had knowledge that its BBS was the forum for an infringing use was by analogizing itself to a lessor of real property, citing cases holding that such lessors were not liable unless they had knowledge of the infringing use at the time of the signing of the lease.¹⁰¹ The court, however, distinguished Netcom from a landlord because Netcom retained some control over the use of its system.¹⁰² The court found that the relevant time frame was not the inception of the business relationship between the infringing subscriber and Netcom, rather that the relevant inquiry went to the moment when Netcom provided its services to allow the infringing subscriber to infringe plaintiff’s copyrights.¹⁰³ The court’s other rationale for not allowing Netcom’s first defense,¹⁰⁴ was that “adopting such a rule would relieve a BBS of liability for failing to take steps to remove infringing works from its system even after being handed a court’s order finding infringement.”¹⁰⁵

99. 464 U.S. 417, 435 (1984) The Court held that:

The absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringement on certain parties who have not themselves engaged in the infringing activity. For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.

Id.

100. *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

101. *See Netcom*, 907 F. Supp. at 1373 (defendant citing cases holding that there is no contributory infringement by the lessors of premises that are later used for infringement unless the lessor had knowledge of the intended use at the time of the signing of the lease.).

102. *See id.* at 1374.

103. *See id.* (applying the holding of *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 265 F. Supp. 399, 403 (S.D.N.Y. 1966) for the concept of analyzing knowledge at time that defendant rendered its particular service.).

104. *See supra* text accompanying notes 86-87.

105. *Id.* at 1373 n.20.

The next issue addressed by the court concerned the effect of plaintiff's notice to defendant that it was allowing an infringing use on its BBS.¹⁰⁶ The notice was a letter from the plaintiff to Netcom advising Netcom that its BBS contained an infringing posting.¹⁰⁷ The court found that Netcom was participating in Erlich's public distribution of plaintiff's works, and thus if plaintiffs could prove Netcom knew its subscriber's posting was infringing, they would be liable for contributory infringement because their failure to stop an infringing copy from being distributed worldwide would constitute substantial participation.¹⁰⁸ Substantial participation is where a defendant has knowledge of the primary infringer's infringing activities and it "induces, causes, or materially contributes to the infringing conduct of" the primary infringer.¹⁰⁹ In finding that plaintiff had raised a question of material fact sufficient to survive summary judgment,¹¹⁰ the court held that, assuming Netcom could technologically prevent damage to plaintiff's works, it would be fair to hold Netcom liable for contributory infringement where Netcom had knowledge of the infringing use by its subscriber and continued to allow the public distribution of the primary infringer's postings.¹¹¹ As a defense to this, the court was most persuaded by Netcom's argument that it was beyond the control of a BBS operator to verify a claim of infringement where there is the possibility of a fair use.¹¹²

To assert their third claim, vicarious liability, Plaintiff had to

106. *See id.* at 1374.

107. *See id.*

108. *See id.* (citing R.T. NIMMER, *THE LAW OF COMPUTER TECHNOLOGY*, P15.11B, at S15-42 (2d ed. 1994)(opining that "where information service is less directly involved in the enterprise of creating unauthorized copies a finding of contributory infringement is not likely").

109. *Id.* at 1375 (citing *Gershwin Publ'g*, 443 F.2d at 1162).

110. *See id.* at 1381.

111. *See id.* at 1375.

112. The court stated:

Where a BBS operator cannot reasonably verify a claim of infringement, either because of a possible fair use defense, the lack of copyright notices on the copies, or the copyright holder's failure to provide the necessary documentation to show that there is a likely infringement, the operator's lack of knowledge will be found reasonable and there will be no liability for contributory infringement for allowing the continued distribution of the works on its system.

See id. at 1374.

prove that Netcom received direct financial benefit from the infringing activities of its users.¹¹³ Analogizing Netcom to a landlord the court looked at the nature of Netcom's fee because, where a defendant rents space for a fixed fee that has no relationship to the activities of the lessee courts usually do not find vicarious liability, as there is no direct financial gain from the infringing activity.¹¹⁴ The court, as a finding of fact, held that there was no evidence that any of the infringing uses by Netcom subscribers enhanced the value of Netcom's services, even in the more attenuated sense of economic gain via attracting new subscribers.¹¹⁵ Having failed to raise a genuine question of material fact regarding Netcom's vicarious liability for infringement, plaintiff's claim, like its claim for direct infringement, failed to survive summary judgment.¹¹⁶

Netcom represents the application of the three-standard approach¹¹⁷ to ISP's. The application of this standard has been followed by the cases that have succeeded *Netcom*.¹¹⁸ In addition, the court's main holding regarding ISP liability for copyright infringement¹¹⁹ has been codified in the "Online Copyright Infringement Liability Limitation Act," ("OCILLA").¹²⁰ These significant contributions to the case law have caused at least one commentator to label the *Netcom* case as the most significant rul-

113. *See id.* at 1376.

114. *See id.* (citing *Roy Export Co. v. Trustees of Columbia University*, 344 F. Supp. 1350, 1353 (S.D.N.Y. 1972), *see also* Kelly Tickle, Comment, *The Vicarious Liability of Electronic Bulletin Board Operators for the Copyright Infringement Occurring on Their Bulletin Boards*, 80 IOWA L. REV. 391, 415 (1995)(arguing that BBS operators, "lease cyberspace" and should thus be treated like landlords, who are not liable for infringement that occurs on their premises)).

115. *See id.* at 1377.

116. *See id.*

117. *See* *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 435 n.17 (1984)(quoting *Sony Corp. v. Universal City Studios*, 480 F. Supp. 429, 457-58 (C.D. Cal. 1979)).

118. *See* Halpern, *supra* note 74, at 374.

119. *See supra* note 77, and accompanying text.

120. *See* *Hearings on H.R. 2180 & 2281 Before the House Judiciary Subcommittee on Courts and Intellectual Property*, 105th Cong. 10 (Sept. 16, 1997)(testimony of Marybeth Peters, Register of Copyrights, saying that, according to the Register of Copyrights, the "Online Copyright Infringement Liability Limitation Act," is in some ways a codification of *Netcom*).

ing concerning ISP liability for copyright infringement.¹²¹

Another case that addressed ISP liability for copyright infringement was *Marobie-FL, Inc. v. National Association of Fire Equipment Distributors*.¹²² Plaintiff was the copyright owner of art used by persons within the fire service industry.¹²³ The National Association of Fire Equipment Distributors (“NAFED”) posted, without permission, a copy of said art on its web site.¹²⁴ The ISP in the case was Northwest Nexus Inc., and to determine their liability the court followed the lead of *Netcom* and applied the standard for vicarious liability in virtually the same way as it was articulated in *Netcom*.¹²⁵ Further in accord with *Netcom* the court found that a defendant ISP could not be subject to direct liability.¹²⁶ The court’s rationale was based mainly on the proposition, similarly stated in *Netcom*, that Northwest was not directly liable because it, “only provided the means to copy, distribute, or display plaintiff’s works, much like the owner of a public copying machine used by a third party to copy protected material.”¹²⁷

The next case was *Playboy Enterprises, Inc. v. Hardenbaugh*.¹²⁸ Defendant was a subscription BBS¹²⁹ that offered as part of its services the ability for subscribers to download adult photographs in exchange for uploading different photographs.¹³⁰ Defendant also had a policy of screening photos where its employees would view all files in the upload file and move them into the file generally available to users.¹³¹ The court then found that these two facts, “transform defendants from passive providers of space in which infringing activities happened to occur to active participants in the process of copyright infringement,”¹³²

121. See Halpern, *supra* note 74, at 369.

122. 983 F. Supp. 1167 (N.D. Ill. 1997).

123. See *id.* at 1171.

124. See *id.*

125. See *id.* at 1179.

126. See *id.* at 1178.

127. *Id.*

128. 982 F. Supp. 503 (N.D. Ohio 1997).

129. See *id.* at 505.

130. See *id.*

131. See *id.* at 513.

132. *Id.*

and thus the court found the defendant directly liable for copyright infringement.¹³³ The court still applied the standard set forth in *Netcom*, namely that a finding of direct liability requires direct participation by the defendant.¹³⁴ Further, the court also found the BBS liable under contributory infringement¹³⁵ and in doing so applied the same substantial participation analysis articulated in *Netcom*.¹³⁶ Finally, as a matter of public policy, the court accepted plaintiff's proposition that:

it is more reasonable . . . to place the cost of protecting against copyright infringement on the parties who provide the system which facilitates infringement, rather than on the innocent owner of the copyright . . . [and] if defendants cannot divine an efficient way to operate a computer BBS free of copyrighted material . . . then defendants have the option of leaving the industry.¹³⁷

The court in *Playboy Enterprises, Inc. v. Webbworld, Inc.*¹³⁸ also followed *Netcom*.¹³⁹ However, as in *Hardenbaugh*, the *Netcom* standard provided no protection for defendant because the court found that the defendant BBS was not a mere conduit for information, but rather that the defendant "exercised total dominion over the content of its site."¹⁴⁰ This was because the BBS in *Webbworld* was actually selling the infringing material,¹⁴¹ and thus plaintiff's copyrights were directly violated by the actions of the defendant.¹⁴²

In sum, the trend of decisional law is not to hold ISPs liable for

133. *See id.* (holding that, "the facts in this case, unlike *Frena* and *Netcom*, are sufficient to establish that defendants *themselves* engaged in two of the activities reserved to copyright owners under 17 U.S.C. 106.").

134. *See id.* at 512-13.

135. *See id.* at 514.

136. *See id.*

137. *Id.* at 510-11.

138. 991 F. Supp. 543 (N.D. Tex 1997).

139. *See id.* at 552 (finding defendant, as a passive ISP, exempt from direct liability).

140. *Id.*

141. *See id.*

142. *See id.* at 551-52.

direct infringement.¹⁴³ As for contributory infringement, the trend is not to hold providers liable unless they have knowledge of the infringement.¹⁴⁴ For vicarious infringement, the trend is to hold providers liable only if they derive direct financial benefit from the infringement.¹⁴⁵

B. *ISP Liability for Copyright Infringement: The Legislative Response*

As a result of their uncertain status under the common law many ISP's became concerned about the potential for their liability.¹⁴⁶ Service providers have argued that they needed more certainty in order to attract the substantial investments necessary to fulfill the potential of the Internet.¹⁴⁷ In order to achieve this certainty, ISPs argued that traditional notions of direct, contributory, and vicarious liability should be abandoned due to the rapid advancement of complex communication technologies such as the Internet.¹⁴⁸ Some commentators also suggested that a provision,

143. See Hatch, *supra* note 50, at 749 n.80 (asserting that "Two courts have held that service providers cannot be liable for direct infringement where copies are made by third parties and stored on their system. Both courts likened service providers to owners of copying machines that allow third parties to make copies on them.") See *Marobie-FL, Inc. v. National Ass'n of Fire Equip. Distribs.*, 983 F. Supp. 1167, 1178 (N.D. Ill. 1997); *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1369, 1372-73 (N.D. Cal. 1995). *But see Playboy Enters., Inc., v. Frena*, 839 F. Supp. 1552, 1559 (M.D. Fla. 1993)(holding a BBS operator liable for direct infringement where a subscriber uploaded infringing copies to his system).

144. See *id.* (quoting *Netcom.*, 907 F. Supp. at 1375 for the court's assertion that, "It is fair, assuming Netcom is able to take simple measures to prevent further damage to plaintiff's copyrighted works, to hold Netcom liable for contributory infringement where Netcom has knowledge of infringing postings yet continues to aid in the accomplishment of purpose of publicly distributing the postings.")

145. See *id.*, (citing, *Marobie-FL*, 983 F. Supp. at 1179 for the holding that the service provider may not be held vicariously liable because it did not financially benefit from the infringements occurring on a Web page hosted by its system where the service provider charged a one-time set-up fee and a quarterly flat-fee that did not vary based on the number of "hits").

146. See *Hearings on H.R. 2281 & 2180 Before the House Subcommittee on the Courts and Intellectual Property, Committee on the Judiciary*, 105th Congress 1 (Sept. 16, 1997)(statement of The Honorable Howard Coble, Chairman).

147. See Hatch, *supra* note 50, at 749.

148. See *Hearings on H.R. 2180, Before the House Subcommittee on Courts and Intellectual Property*, 105th Cong. 1 (Sept. 16, 1997)(testimony of Ronald G. Dunn, President, Information Industry Association) at 2.

requiring volition by the ISP in the infringement as a prerequisite to liability, should be added to the Copyright Act, thereby eliminating the application of strict liability to ISPs.¹⁴⁹ ISPs argued that without protective legislation American consumers would have to bear the costs of uncertain liability for ISPs, and thus access to the Internet would become less available.¹⁵⁰ They also argued that there would be less investment in ISP technology in the absence of clear standards.¹⁵¹ Service providers have, on the whole, lobbied extensively for wide exemptions from liability for copyright infringement, including seeking exemptions regardless of their level of knowledge, control, or involvement in the acquisition or transmission of infringing material.¹⁵²

Copyright holders lobbied Congress as well, including Michael K. Kirk of the American Intellectual Property Law Association, who called the race to enact this legislation, “a solution in search of a problem.”¹⁵³ Kirk suggested that there are at least two rationales for abstaining from adapting the copyright act at that time: 1) courts have not yet interpreted copyright law in manner which would have a chilling effect on ISP’s and 2) legislation constrains the courts at the very time they need most room to forge ISP liability doctrine.¹⁵⁴

Senator Orrin Hatch, while arguing for uniformity of copyright

149. See Scott K. Pomeroy, *Promoting the Progress of Science and the Useful Arts in the Digital Domain: Copyright, Computer Bulletin Boards, and Liability for Infringement by Others*, 45 EMORY L. J. 1036, 1082 (1996).

150. See *Hearings on H.R. 2281 & 2180 Before the House Subcommittee on the Courts and Intellectual Property, Committee on the Judiciary*, 105th Cong. 1 (Sept. 16, 1997) (see testimony of Roy Neel at 1).

151. See S. Rep. No. 105-190, at 8 (1998).

152. See *Hearings on H.R. 2180, Before the House Subcommittee on Courts and Intellectual Property*, 105th Cong. 1 (Sept. 16, 1997) (testimony of Ronald G. Dunn, President, Information Industry Association, at 2).

153. See *Hearings on H.R. 2180 and H.R. 2281 Before the Subcommittee On Courts and Intellectual Property, House Committee On the Judiciary*, 105th Cong. (1997)(statement of Michael K. Kirk, Executive Director of the American Intellectual Property Law Association, saying “The courts have demonstrated their ability to interpret the copyright law flexibly, and in a manner that has produced fair results.”).

154. See *id.* (Kirk saying that it would be better to wait and see how the case law concerning ISP liability develops and that legislation at this point exempting ISP’s from liability would merely be based on, “hypothetical chilling effects and purely speculative concerns.”).

protection,¹⁵⁵ also advocated maintaining strong protections for copyright holders, whose intellectual property is worth more in export sales than the goods sold in any other industry.¹⁵⁶ He points out as well that, “copyright industries are creating American jobs at nearly three times the rate of other industries,”¹⁵⁷ and that those very industries, “employed more workers than any single manufacturing sector, accounting for nearly 5.15% of the total U.S. workforce.”¹⁵⁸ The stunning power of the copyright industry, according to Hatch, is mainly because of the strong intellectual property protection copyright holders have traditionally enjoyed.¹⁵⁹ It is this strong intellectual property protection that may be harmed by a premature statutory exemption to ISP’s for copyright infringement liability, possibly removing any incentive for them to keep the Internet free of infringing content.¹⁶⁰

Considering therefore the enormity of the copyright industry, and thus the vast impact on the economy caused by any major change in copyright legislation, Hatch articulated the following three part standard to be applied when considering making copyright legislation regarding “high tech” issues: “(1) to refrain from legislation unless it is really necessary; (2) to address only those problems that have already identified themselves or that can be seen on the horizon; and (3) to make sure that technology is free to develop in any direction.”

Regarding factor one, whether legislation was really necessary, an important place to begin is the recommendations of the Information Infrastructure Task Force, (IITF) formed by the Clinton

155. See Hatch, *supra* note 50, at 730 (arguing that, “Uniformity of copyright protection guards against the debilitating effects of global piracy and holds out the promise of a vibrant global marketplace for creative works.”).

156. See *id.* at 731 (citing STEPHEN E. SIWEK & GALE MOSTELLER, ECONOMISTS INCORPORATED, COPYRIGHT INDUSTRIES IN THE U.S. ECONOMY: THE 1998 REPORT 3 (1998) (saying that, “the copyright industries’ foreign sales were larger than the U.S. Commerce Department’s International Trade Administration estimates of almost all other leading industry sectors.”).

157. *Id.* (citing SIWEK & MOSTELLER at 3, 11).

158. *Id.* (citing SIWEK & MOSTELLER at 11-12).

159. See *id.* at 731.

160. See Joseph Levi, *Will Online Service Provider Liability Unravel the Web?*, 477 PLI/Pat 547, 562-66 (1996).

administration on February 1993.¹⁶¹ From its inception the task force was organized into three committees: the Telecommunications Policy Committee, the Committee on Applications and Technology, and the Information Policy Committee, (IPC).¹⁶² The IPC established the Working Group on Intellectual Property Rights (Working Group), to discuss the applicability of existing copyright law to the National Information Infrastructure (NII).¹⁶³ Further, the mandate of the Working Group was “to recommend only those changes that are essential to adapt the law to the needs of” the Internet community.¹⁶⁴ Echoing the holdings of *Sega I* and *Frena*, the White Paper concluded that the best way to protect an author’s rights was to hold ISPs liable for the infringing activities of their subscribers, even absent intent to infringe, stressing that this approach was consistent with the strict liability standard of the Copyright Act.¹⁶⁵ The White Paper argued that this liability was, for ISPs, an inherent cost of doing business.¹⁶⁶ Further, it argued that ISPs were in a better position often than the copyright holder herself, and could shift responsibility for infringement to their subscribers via indemnities and warranties, purchasing insurance, and utilizing private market use controls designed to eliminate the posting of infringing material.¹⁶⁷ The recommendations of the White paper were the genesis of the proposed National Information Infrastructure Copyright Protection Act (NII Copyright Protection Act)¹⁶⁸ and the final draft of the Conference On Fair Use Guidelines (CONFU Guidelines).¹⁶⁹

161. See White Paper, *supra* note 10 at 1.

162. See *id.* at 1.

163. See *id.* at 8, 179 (the NII includes all currently available digital services, and what is envisioned in the future to be a high-speed, interactive, digital communications system that will integrate the nation’s computers, telephones, televisions, radios, and fax machines.).

164. See *id.* at 5-6.

165. See *id.* at 116-22.

166. See *id.* at 117.

167. See *id.* at 123.

168. The Working Group’s proposals were introduced into Congress as S. 1284, 104th Cong. (1995), and H.R. 2441, 104th Cong. (1995), respectively.

169. See BRUCE A. LEHMAN, THE CONFERENCE ON FAIR USE: REPORT TO THE COMMISSIONER ON THE CONCLUSION OF THE FIRST PHASE OF THE CONFERENCE ON FAIR USE 7-9 (1997).

In September of 1997, Representative Coble of North Carolina introduced in the House of Representatives a bill directed solely toward limiting ISP liability, the On-Line Copyright Liability Limitation Act (OCLLA).¹⁷⁰ Around this time as well Senator Ashcroft of Missouri introduced in the Senate a bill containing numerous modifications to the Copyright Act known as the Technology for Educators and Children (TECH) Act.¹⁷¹ Also at this time Senator Ashcroft and Senator Hatch initiated and participated in negotiations between ISPs and copyright holders that resulted in the first draft of what would become title II of the DMCA.¹⁷² Title II of the DMCA may also be cited as the OCILLA.¹⁷³ The OCILLA was then introduced in February 1998 by Representative Coble, and was, along with the whole of the DMCA, subsequently adopted¹⁷⁴ and soon after became effective as law.¹⁷⁵

The OCILLA amends the Copyright Act to include a new section¹⁷⁶ that provides “safe harbors” from monetary damages that ISPs can qualify for under certain circumstances.¹⁷⁷ Section 512 delineates four general categories¹⁷⁸ of activity for which an ISP’s infringement may be limited; transitory communications;¹⁷⁹ sys-

170. H.R. 2180, 105th Cong. (1997).

171. S. 1146, 105th Cong. (1997).

172. See Hatch, *supra* note 50, at 750 (“After two months of laborious and at times acrimonious face-to-face sessions, the service providers and content providers reached an agreement on draft legislation for service provider liability . . . I incorporated it into the DMCA as Title II”).

173. See 17 U.S.C. § 201 (1994).

174. See 144 CONG. REC. S11887 (daily ed. Oct. 8, 1998). See also 144 CONG. REC. H10615 (daily ed. Oct. 12, 1998).

175. See Digital Millennium Copyright Act, Pub. L. No. 105-304, §§ 201-203, 112 Stat. 2860, 2877-2886 (Oct. 28, 1998).

176. See 17 U.S.C. § 512 (Supp. IV 1998).

177. See S. REP. NO. 105-190, at 67 (1998).

178. See 17 U.S.C. § 512(a)-(d) (Supp. IV 1998).

179. See 17 U.S.C. § 512(a), which states:

Transitory Digital Network Communications, A service provider shall not be liable for monetary relief, or, except as provided in subsection (I), for injunctive or other equitable relief, for infringement of copyright by reason of the provider’s transmitting, routing, or providing connections for, material through a system or network controlled operated by or for the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections, if- (1) The transmission of the material was initiated by or at the direction of a person other than the ser-

tem caching;¹⁸⁰ storage of information on systems at the direction of its users;¹⁸¹ and information location tools.¹⁸² These safe har-

vice provider; (2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider; (3) the serviced provider does not select the recipients of the material except as an automatic response to the request of another person; (4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections and (5) the material is transmitted through the system or network without modification of its content.

Id.

180. See 17 U.S.C. § 512(b) (This provision applies the same limitation on liability as 17 U.S.C. § 512(a). However in the context of caching there are some differences, including what seems to be a requirement that ISP's take affirmative steps, once notified of an infringing use, to eradicate it. See also 17 U.S.C. § 512(b)(2)(e):

If that person described in paragraph (1)(a) makes that material available online without the authorization of the copyright owner of the material, the service provider responds expeditiously to remove, or disable access to, the material that is claimed to be infringing upon notification of claimed infringement as described in subsection (c)(3), except that this subparagraph applies only if- (I) the material has previously been removed from the originating site or access to it has been disabled, or a court has ordered that the material be removed from the originating site or that access to the material on the originating site be disabled; and (II) the party giving the notification includes in the notification a statement from the originating site or access to it has been disabled or that a court has ordered that the material be removed from the originating site or that access to the material on the originating site be disabled.

Id.

Of course to understand 17 U.S.C. § 512(b)(2)(e) the following sections must be kept in mind. 17 U.S.C. § 512(b)(1)(a) "The material is made available online by a person other than the service provider." 17 U.S.C. § 512(b)(2)(a) "the material described in paragraph (1) is transmitted to the subsequent users described in paragraph (1)(c) without modification to its content from the manner in which the material was transmitted from the person described in paragraph (1)(a)" and 17 U.S.C. § 512(b)(2)(b) "The service provider described in paragraph (1) complies with rules concerning the refreshing, reloading, or other updating of the material when specified by the person making the material available online in accordance with a generally accepted industry standard data communications protocol for the system or network through which that person makes the material available, except that this subparagraph applies only if those rules are not used by the person described in paragraph (1)(a) to prevent or unreasonably impair the intermediate storage to which this subsection applies."

181. See 17 U.S.C. § 512(c). This provision requires that the ISP not have actual knowledge of the infringement to qualify for the safe harbors in 17 U.S.C. §

bors are not solely determinative of an ISP's liability, rather they operate as a first line of defense against an infringement claim and an ISP "may still avail itself of any of the defenses, such as fair use, that are available to copyright defendants generally."¹⁸³ Thus the infringement liability of an ISP operating outside of one these safe harbor activities will be decided by existing case law.

However, the OCILLA mandates two overall conditions that a service provider must comply with before it is eligible for any of the Act's limitations on liability.¹⁸⁴ First, the service provider must have adopted and reasonably implemented a policy for the termination of services to subscribers who repeatedly engage in infringing activity online.¹⁸⁵ Second, service providers must accommodate and refrain from interfering with any, "standard technical measures" designed to protect or identify copyrighted works.¹⁸⁶

512(c)(1)(a)(I), and it also requires that once an ISP acquires such knowledge that it, "respond expeditiously to remove, or disable access to, the material that is claimed to be infringing." 17 U.S.C. § 512(c)(1)(a)(III). Further this provision also gives a specific safe harbor to non-profit educational institutions. 17 U.S.C. § 512(c)(2). The provision also requires that for the safe harbor the ISP maintain a designated agent to hear claims of infringement. 17 U.S.C. § 512(c)(3). Finally, this provision gives the elements of a sufficient notification to an ISP of copyright infringement. 17 U.S.C. § 512(c)(4).

182. See 17 U.S.C. § 512(d)(the OCILLA first defines information location tools in this context as anything, "referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link," 17 U.S.C. § 512(d). 17 U.S.C. § 512(d) then goes on to require the same actions upon receiving notice of infringement as 17 U.S.C. § 512(c), see 17 U.S.C. § 512(d)(1) except in the case where the ISP has indemnified itself, see 17 U.S.C. § 512(d)(3).

183. See *U.S. Copyright Office Summary* (Dec. 1998) at 9, <<http://www.loc.gov/copyright>>.

184. See *id.*

185. See 17 U.S.C. § 512(i)(1)(A) (Supp. IV 1998)(the limitations on liability only apply to a service provider who, "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.").

186. See 17 U.S.C. § 512(i)(1)(B) (Supp. IV 1998). See also 17 U.S.C. § 512(i)(2) (Supp. IV 1998) (identifying what qualifies as standard technical measures by three criteria, (A) that they 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

Another provision of the Act is very important in the context of attempting to balance the interests of ISPs and copyright holders; the Act expressly states that it should not be construed in such a manner that it requires service providers to police either its services or the content that travels through its networks and systems.¹⁸⁷ However, if an ISP does choose to monitor its services for infringing conduct, this is not a per se bar to the ISP's ability to invoke the liability limitations of the Act.¹⁸⁸ Both the provision in 17 U.S.C. 512(m) and the fact that the safe harbors shield ISP's from liability for monetary damages, shift the incentive to police infringing uses on the Web to the copyright holder because they combine to remove incentives for ISPs to address copyright infringement.¹⁸⁹

Some of the effects of the OCILLA can be illustrated by applying its provisions to an existing case and then analyzing how the Act would then change the result arrived at under the common law. One such example is provided by Daniel R. Cahoy, who cites *Frank Music Corp. v. CompuServe, Inc.*¹⁹⁰ as an example of a case where the threat of monetary liability produced an acceptable solution.¹⁹¹ The agreement reached between the parties in *Frank Music* clearly represents a balance between the interests of both par-

networks.).

187. See 17 U.S.C. § 512(m) (Supp. IV 1998) (for the proposition that, "Nothing in the Act should be interpreted to condition the applicability of its liability limitations on: (1) a service provider monitoring its services or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i); or (2) a service provider gaining access to, removing, or disabling access to material in cases in which such conduct is prohibited by law.").

188. See H.R. Rep. No. 105-796, at 73 (1998).

189. See Daniel R. Cahoy, Comment, *New Legislation Regarding On-Line Service Provider Liability for Copyright Infringement: A Solution In Search of a Problem?*, 38 IDEA 335, 359 (1998).

190. 93 Civ. 8153 (S.D.N.Y. 1993).

191. See Cahoy, *supra* note 189, at 359 (his analysis of the case was that "CompuServe, which operated a music BBS on which subscribers could upload and download digital versions of popular music, was sued by Frank Music and the National Music Publishers Association, music publishers that owned copyrights in some of the songs on CompuServe's BBS. Eventually, the parties agreed to a settlement in which CompuServe would pay a license fee to the publishers for the use of the music. CompuServe could then, in turn, recoup its costs by charging its subscribers a slightly increased fee for the right to access the BBS.").

ties, ISP and copyright holder alike, and for Cahoy and others, “such a beneficial agreement would not have resulted had CompuServe not faced some liability for its actions.”¹⁹² Cahoy goes on to say that, “Depending on how it characterized itself, CompuServe might not be liable at all under the TECH Act and liable only for an injunction under the OCILLA. Without the threat of liability, the party with the best ability to control the infringement is, effectively, out of the game.” However, the veracity of the proposition that ISPs are in a better position to control infringement is a debatable proposition at best, as there are not currently, nor on the horizon, economically feasible methods for ISPs to monitor their content for infringing uses.¹⁹³ Therefore, the fact that the OCILLA, contrary to the recommendations of the White Paper,¹⁹⁴ does not apply strict liability to ISPs, is more in accord with the technological and operative reality of ISP operations.¹⁹⁵

In sum, while it is fair to say that the OCILLA represents a victory for the ISP industry, that victory does not significantly under-

192. *See id.* at 359.

193. *See* Skelton, *supra* note 4, at 280-82. Skelton describes the feasibility of both manual monitoring and automated alternatives and asserting that:

[Manual] monitoring would have to be 24 hours a day since a web site can be changed at any moment. Monitors would have to be thoroughly trained since they would be asked to make legal judgements that they cannot make. The enormous cost of this program would be obviously passed on to the consumer. It is frequently suggested, without elaboration, that these costs might be minimized through the development of some automated system where, presumably, a program constantly scans the information stored on servers, examining each file to determine if it contains infringing content. Even assuming that such a system could be unilaterally developed by an ISP, a large assumption indeed, it would still be prohibitively expensive. An automated content screening system would still require large equipment expenditures. Although staffing costs would be less than under a manual system, the inspection process would still require a large measure of human judgment. No computer, for instance, can evaluate fair use, interpret the subtleties of software license, or perceive written words displayed in an image.

Id.

194. *See* White Paper, *supra* note 10, at 117.

195. *See* Skelton, *supra* note 4, at 290 (“other than subscriber identification and account termination, the entire 238-page report did not identify a single technologically feasible method by which ISPs could ‘prevent or stop’ infringement. In fact, the White Paper conceded that ‘it is still virtually impossible for operators of large systems to contemporaneously review every message transmitted or file uploaded.’)(citing White Paper at 116).

mine current protections for copyright holders. This is because given the incentive to police the use of their own intellectual property, content providers,¹⁹⁶ unlike ISPs, “have at their disposal many effective and time-tested technological solutions, as well as many other new technologies capable of immediate implementation.”¹⁹⁷ Thus the OCILLA, on the singular issue of allocating incentives for enforcing copyright protection, correctly puts the incentive on the content provider. However, concerning the efficacy of legislation as a regulatory scheme for ISPs, this is but one of many factors to be considered when applying regulation to a social context that was previously unregulated. This Note focuses on a broader question; identifying a regulatory scheme that creates, out of the debate between ISPs and copyright holders, negotiation between these parties of free market solutions that will equitably allocate both compensation for, and use of, the resource at the center of this debate, copyrighted intellectual property.

III. THE STRUCTURAL ADVANTAGES OF THE COMMON LAW AS THE REGULATORY REGIME FOR ISP USE OF COPYRIGHTED MATERIALS

Unlike other lawmaking, what defines the process of the common law is small change, upon which much larger change gets built; small understandings with which new understandings get

196. For the purposes of this Note, “content provider” is synonymous with “copyright holder.”

197. *See id.* at 297, 289-98 (this section gives a comprehensive enumeration of the technological solutions content providers can utilize to govern use of their copyrighted materials. One solution, among all the others, deserves specific mention here. This solution is the use of “smart card” technology.

As opposed to the familiar ‘dumb’ magnetic stripe system used with credit cards, smart cards have a tiny embedded microprocessor that can store data and sophisticated encryption keys. Using a smart card copyright protection system, the owner of a work would be required to insert an authorized card before the work could be used. Copies of the work are worthless to anyone without that authorized user’s card. Smart card systems are inexpensive, simple, and virtually foolproof. Additionally, since the code in the card’s microprocessor can be updated, a single card could be used for all programs, with its code being updated at the point of sale or, in the case of online purchases, over a secure encrypted connection. Although the card reader itself would be inexpensive and small enough to be implemented in even laptop computers, successful deployment would require the adoption of an industry standard card reader.

Id.

made. What counsels it here is the way this process will function to create in an as yet uninhabited, unconstructed, world. Thus in a sense what recommends the common law to cyberspace is not its efficiency, but its inefficiency.¹⁹⁸

Clearly, as we have seen throughout Part II of this Note, expecting ISPs to screen every posting they receive is not feasible. However, the better solution is not simply, though it is technologically possible, to force content providers to shoulder the entire cost of preventing infringement.¹⁹⁹ Though the provisions in the OCILLA are more logical than the imposition of strict liability on ISPs advocated in the White Paper, it still gives ISPs a fairly comprehensive limit on liability that is too one-sided to qualify as the most advantageous regulatory regime, particularly regarding an industry that is a true economic juggernaut, the copyright industry.²⁰⁰ This Note posits that currently, the common law will encourage solutions that represent a middle ground between the polar extremes of, at one end, the White Paper's assertion that ISPs should be strictly liable, and at the other, the statutory exemptions from liability in the OCILLA that safeguard the majority of ISP operations from the scrutiny of copyright infringement claims.

What is needed by both ISPs and content providers is regulation that enhances the cooperative aspects of the relationship between these parties. This maximizes an aspect of their relationship that gets too little attention; the fact that they are mutually dependent.²⁰¹ This Note first posits that the best way to achieve this coop-

198. See Lawrence Lessig, *The Path of Cyberlaw*, 104 YALE L.J. 1743, 1745 (1995).

199. See Skelton, *supra* note 4, at 311, in which he opines:

What is clearly needed is a liability regime that provides for the proper distribution of economic incentives upon both content providers and service providers. Strict liability for service providers fails to properly distribute these incentives, as too much incentive is placed upon the shoulders of those least able to effectively respond. Likewise, unqualified exemption from liability for service providers also fails to properly distribute these incentives, as too little incentive is provided for service providers to assist copyright owners.

Id.

200. See Hatch, *supra* note 50, at 750.

201. See Skelton, *supra* note 4, at 310 (quoting Information Technology Association of America, *Intellectual Property Protection in Cyberspace: Towards a New Consensus*, for the contention that "Copyright holders, content providers and Internet access

eration would be through a fair allocation of the costs associated with ISP use of copyrighted materials, as this would represent an equitable solution. Secondly, this Note contends that this fair allocation can be achieved via the application to this conflict of one of the three decisional institutions our society utilizes to regulate behavior, the common law, legislation, and free market self regulation. There then remains two simple, yet profound, questions: which system, and why?

Thomas D. Barton, in his essay, *Common Law and Its Substitutes: The Allocation of Social Problems to Alternative Decisional Institutions*,²⁰² utilizes an analytical framework contrasting and defining the structure of both the common law and legislation. His framework is based on what he considers to be, “The four most salient features of decision making structures.”²⁰³ Using these criteria is an effective way to “match problems and procedures.”²⁰⁴ The test used in this Note utilizes the first three of his criteria in order to ascertain the relative merits of each decisional institution as applied to the basic problem addressed in this Note, regulating ISP use of copyrighted materials in a fair way. The advantage of using Barton’s analytical framework is that it addresses the proposition, first stated by Lon L. Fuller, that “certain problems may be

providers have a mutually dependent relationship - quality online content increases demand for Internet access, while increased Internet access increases the demand for quality online content. Absent significant cooperation among content and access providers, the Internet can easily dissolve into a muddle of competing and parochial interests.”)

202. See Barton, *supra* note 14, at 519.

203. See *id.* at 520-21 (Barton’s criteria for analyzing the efficacy of particular decisional institutions as applied to particular problems is as follows:

The four most salient features of decision making structures are (1) the method of problem identification; (2) the degree to which decisions within the system are either ‘deliberative,’ that is, consciously fitted within a coherent, planned, and often goal directed order, or ‘spontaneous,’ that is, no consciously planned order or goal exists within the system, but a sort of equilibrium state is generated internally by a series of mutual adjustments among the various decisions; (3) the roles that problem holders take in positing arguments and formulating solutions; and (4) the nature of the substantive justifications of the decisions. The decisional institutions of common-law adjudication, the legislative process, and the free market contrast starkly along these four dimensions.

Id.

204. *Id.* at 520 (“By examining the structures of common-law adjudication, the legislative process, and the free market in relation to the demands made on these decisional institutions, general criteria emerge to match problems and procedures.”).

solved better by one institution than another.”²⁰⁵ Unfortunately, this seemingly simple proposition is “rarely discussed.”²⁰⁶ A structural analysis of the pros and cons of various decisional institutions has as of yet, not been applied to the problem of ISP use of copyrighted materials. This Note initiates that discussion, building on Barton’s thesis that such an analysis will, “improve the accuracy, efficiency, and acceptability of social problem-solving procedures.”²⁰⁷ After applying the first three of Barton’s criteria,²⁰⁸ this Note concludes that the common law is the most advantageous decisional system, because it provides both a current solution to the problems created by ISP use of the content provider’s intellectual property, and an important body of knowledge that can be the basis for more effective future legislation.

A. Common Law vs. Legislative Problem Identification

The first characteristic of a decisional system identified by Barton is its method of problem identification.²⁰⁹ The mechanisms of problem identification then are distinguished from one another via two aspects, whether they are either “active” or “reactive.”²¹⁰

Adjudication is reactive;²¹¹ it does not seek out problems, rather problems are brought to this decisional institution via petition.²¹² Legislation is active,²¹³ and as opposed to adjudication,

205. *Id.* at 520 n. 4 (citing Lon L. Fuller, *Irrigation and Tyranny*, 17 STAN. L. REV. 1021, 1030-34 (1965)). Barton says that, “Fuller was the first to raise the possibility of better decision making by examining the structure of problems, which he termed the ‘manageability of social tasks,’ and the variety of procedures available to resolve given problems.” *Id.*

206. *Id.* at 520.

207. *Id.* at 520.

208. *Id.*

209. *See id.* at 521.

210. *See id.*

211. *See* HAYEK, LAW, LEGISLATION AND LIBERTY 21 (1976)(for Hayek’s proposition that rules are selected through a process of evolution and are not shaped by knowledge of future needs.) *See also* Barton, *supra* note 14, at 521 (citing AMERICAN COURT SYSTEMS: READINGS IN JUDICIAL PROCESS AND BEHAVIOR 8 (S. Goldman & A. Sarat eds., 1978); Donald J. Black, *The Mobilization of Law*, 2 J. LEGAL STUD. 125, 128 (1973); J. Woodford Howard, Jr., *Adjudication Considered As a Process of Conflict Resolution: A Variation on Separation of Power*, 18 J. PUB. L. 339, 343 (1969)).

212. *See id.* (citing AMERICAN COURT SYSTEMS: READINGS IN JUDICIAL PROCESS AND BEHAVIOR 5).

legislators, rather than the problem-holders themselves, define the breadth and severity of the problem.²¹⁴ An active system, then, has the benefit of acting preemptively.²¹⁵

The problem with the reactive system is that it has difficulty ordering behavior via ex-ante incentives, meaning that a problem can be identified only when the injury, rather than its risk, has surfaced.²¹⁶ However, the OCILLA failed to take advantage of the benefits of the active system, because it mandated the solution of injunctive relief, which operates post haste and thus is not preemptive. Injunction in this context operates post haste because ISPs know that if they ever enable infringement, the worst that will happen is what they had little incentive for doing in the first place, removing the offending material. Therefore, the threat of an injunction provides little incentive for an ISP to assist a content provider in identifying infringement. This forces the content provider to assume the entire cost of identifying the infringement, in addition to the inherent cost of the litigation necessary to eliminate that infringement. Orrin Hatch claims that the OCILLA provides incentives for ISPs and content providers to cooperate in order to minimize copyright infringement on the Internet.²¹⁷ This is quite dubious, however, given that the OCILLA removes the greatest incentive for ISPs to engage in said cooperation: monetary damages for their contributory or vicarious liability. Monetary damages would provide an ex ante incentive, because the threat of monetary liability would force an ISP to do more than wait for a content provider to identify an infringement so that they can remove it. ISPs, then, under the common law, would likely cooperate with copyright holders in identifying infringement so as to avoid substantially participating or enabling the infringement, and thus exposing themselves to contributory and vicarious liability. The OCILLA,

213. See *id.* (citing Howard, *supra* note 211, at 346).

214. See *id.* (citing Howard, *supra* note 211, at 344).

215. See *id.* at 522 (for the concept “Even if perfect accuracy could exist in assigning responsibility for injury, adjudication may be less suitable as a decisional system than a more active system like legislation. If the problem was identified when the original environmental decision was made, rather than only after injury had arisen, some or all of the injury could be prevented.”).

216. See *id.*

217. See Hatch, *supra* note 50, at 750.

in reductive terms, allows ISPs, as long as they are conducting a safe harbor activity, to allow infringements knowing that once they are caught they merely have to terminate a subscriber's thirty to forty dollar a month account. This by itself is not sufficient to encourage them to help content providers in the process of problem identification.

Therefore, the legislative act, in this case the OCILLA, has actively identified a problem. However, it does not actively create an incentive for ISPs themselves to identify the problem, and thus provides no incentive for them to cooperate with content providers in this endeavor. The reactive system of the common law, while admittedly engendering a high transaction cost, may more effectively encourage cooperative problem identification between the parties by forcing, through the imposition of contributory and vicarious liability, ISPs to assume some of this burden as well. This cooperative identification does not necessarily mean ISPs will have to develop technological solutions to help identify infringement, which, as we have seen, is unfeasible at this moment in history. Rather, this cooperation will likely take the form of cost sharing between the parties, a more equitable solution given the fact that copyright holders themselves, due to technological issues, have to assume the primary cost. However, regardless of the actual manifestation of their negotiated solutions, as a structural matter, the threat of liability and litigation costs presented by the common law creates incentives for ISPs to cooperate with content providers in identifying problems. As both parties are mutually dependent, the fact that the OCILLA removes most of the incentive for ISPs to contribute to the task of problem identification, does not accentuate the positives of that interactive relationship. Rather, by placing an unequal burden on the content provider, the OCILLA does little to help the Internet avoid dissolving "into a muddle of competing and parochial interests."²¹⁸ However, though the common law may indeed encourage copyright holders and ISPs to cooperate in identifying problems, it has further advantages over legislation as a method to resolve the intellectual property dispute between ISPs and content providers.

218. *See supra* note 200.

B. *The Role of Problem Holders*

When addressing the use of the common law as a method of resolving copyright disputes, the point of departure remains that at its essence, copyright is a statutory system.²¹⁹ While this is true, often statutes, like the OCILLA itself, are informed by the common law. Therefore, it may be advantageous to wait until there are more than handful of cases addressing the issue, as the DMCA attempted to do, before legislating. A body of common law doctrine may perform an informational function that can assist the legislature in heeding Fuller's warning that, "For complex human affairs, it can be argued that to legislate wisely one must acquire some firsthand feeling for the situations about which one is legislating."²²⁰ However if the common law is to assist in creating a "firsthand feeling," regarding ISP liability for copyright infringement, it must be educated as to the issue. The process by which the common law becomes educated to any issue is best understood via the application of Barton's next criteria concerning the structure of the common law and legislation, the role of problem holders.²²¹

The role of the problem holder is an especially important consideration in the context of a new and relatively undefined social problem like regulating ISP use of copyrighted materials. This problem in particular has inspired frustration on both sides of the issue with the inadequate ability of both the courts and the legislature to address it.²²² Common law liability, unlike legislative safe

219. See Skelton, *supra* note 4, at 265 (arguing that, "although courts must necessarily consider these policy issues, copyright is statutory in nature, thereby forcing the courts to render decisions that are not only fair, but also simultaneously consistent with both the express provisions of the Copyright Act and its underlying policy goals.").

220. See FULLER, *supra* note 19, at 90.

221. See Barton, *supra* note 14, at 528.

222. Skelton argues that:

although most courts considering Internet issues have at least made a laudable effort to become familiar with the technology, their decisions have nonetheless frequently been grounded upon incorrect facts and faulty assumptions and have failed to provide clear answers to the service provider liability question. Likewise, the few laws that Congress has passed in response to the Internet have been widely criticized as technically unworkable and the Congressional testimony to date on the bitterly divisive issue of service provider liability shows that witnesses on both sides of the issue have frequently presented Congress

harbors, creates incentives for ISP and copyright holder alike to either self regulate or litigate, an important distinction because in either scenario the problem holders themselves will be the chief participants. Their decisions and solutions will form both industry standards, and a common law doctrine that will be the result of the aggregate solutions of the problem holders themselves.²²³ This is an advantage when addressing novel issues because the problem holders themselves are likely more informed about the social and technological context that contains the conflict. Thus, industry standards and an emerging common law doctrine, created out of the aggregate decisions of the content providers and ISPs themselves, generate a great benefit as an informational construct that can inform later legislation. This body of knowledge and practice will be of more value in achieving an equitable solution than the benefits presented by legislation's most salient feature, its active preemption of problems, which as we have seen, has presented no practical advantage as applied in the OCILLA.²²⁴

The increased role of problem holders within a common law regulatory system may also generate more efficient rules than legislative regulations. Commentators have argued that rules, representing the aggregation of numerous decisions by the affected actors themselves, evolve towards efficiency.²²⁵ What is remarkable

with testimony comprised of equal measures of fact and hyperbole.

See Skelton, *supra* note 4, at 222-23.

223. See Barton, *supra* note 14, at 523 (arguing that "Unlike adjudication, in which the opportunity to make arguments directly to the decision maker is guaranteed, the legislative process does not ensure such participation.") See also Paul H. Rubin, *Why is the Common Law Efficient?* 6 J. LEGAL STUD. 51, 53 (1977) (discussing the creation of the common law as an "evolutionary mechanism whose direction proceeds for the utility maximizing decisions of disputants rather than from the wisdom of judges.").

224. See Lessig, *supra* note 198, at 1745.

What is special about the common law here is its constructive function. What recommends it is the process that it offers, with its partial answers, to repeated if slightly varied questions, in a range of contexts with a world of different talent and ideals. If, as Levi said, the common law is democratic, it is democratic not because many people get to vote together on what the law should mean, but because many people get to say what the common law should mean, each after the other, in a temporarily spaced dialogue of cases and jurisdictions.

Id. (citing EDWARD H. LEVI, AN INTRODUCTION TO LEGAL REASONING, 5-6 (1949)).

225. See Rubin *supra* note 223, at 53 (arguing that, "If both parties to a certain type of legal dispute have a substantial interest in future cases of this sort, then precedents will

about this insight is that the solutions contrived outside of the common law will be the result of free market self regulation. Therefore, under this view, only those regulations that are not efficient are litigated because of the high transaction cost associated with litigation.²²⁶ One concern however, regarding the common law's efficiency in the context of the Internet has been that the judiciary is ill informed to deal with these issues.²²⁷ However, even if that proposition is assumed true, it may not be a very serious problem concerning the development of new doctrine as a whole, because it is litigants, and not the judiciary, who drive the common law rule making process.²²⁸ Thus, the inefficient self regulation will be transformed through the emerging common law doctrine into the efficient rule, while the majority of ISP regulation will remain the result of either settlement or private agreement due to the prohibitive cost of litigation. In this context the high transaction cost of litigation actually emerges as an advantage as it forces the problem holders, via their private agreements, to directly resolve their disputes, thus creating agreements that reflect only the input of those directly involved. Importantly, whether via settlement, private agreement, or even a lawsuit, the problem holders themselves will be the driving force creating problem solving regulations. That this process can inform the legislature regarding these issues is not a speculative concept, industry custom and common law doctrine often serve as the basis for a majority of legislated rules. Notice that, what was arguably the most economically efficient solution proposed by the OCILLA, the placing, via the safe harbor provisions, of incentives to monitor copyright infringement

evolve towards efficiency, the common law situation posited by Posner. If rules are inefficient, there will be an incentive for the party held liable to force litigation; if rules are efficient, there will be not such incentive. Thus, efficient rules will be maintained, and inefficient rules litigated until overturned.”).

226. *See id.* at 61 (for the proposition that the common law changes to increase efficiency in that inefficient rules are those most likely to be litigated, because the prohibitive transaction cost of litigation only allows the litigation of rules so inefficient that they justify that cost.)

227. *See Skelton, supra* note 4, at 222-23.

228. *See Rubin, supra* note 223, at 53 (discussing the creation of the common law as an “evolutionary mechanism whose direction proceeds from the utility maximizing decisions of disputants rather than from the wisdom of judges.”).

on the lowest cost avoider,²²⁹ was virtually the “codification of *Netcom*.”²³⁰

In sum, because regulation via the common law increases the role of problem holders, it will produce both efficient and informed rules. These can form the basis for future amendments to the Copyright Act, resulting in more effective and relevant copyright legislation regulating ISP use of copyrighted materials.

C. *Spontaneous vs. Deliberative Decision Making*

Barton’s second criteria, for analyzing the differences between legislation and the common law as decisional institutions, concerns how they operate as either deliberative or spontaneous methods of decision making.²³¹ The common law, under Barton’s view, represents spontaneous decision making,²³² while legislation conversely represents deliberative decision making.²³³ This characterization of the common law parallels Fuller’s assertion that the common law represents an important governmental manifestation of autonomous ordering.²³⁴ Further, the Internet is, as has been thoroughly explicated in this Note, the result of the aggregate input

229. Because of technological realities content providers could bear the burden of physically monitoring infringements better than ISPs and thus they represented in this scenario the lowest cost avoider. Obviously, it is more efficient to force the party who can avoid at the least cost, the lowest cost avoider, to face liability for not then avoiding.

230. See *Hearings on H.R. 2180 & 2281 Before the House Judiciary Subcommittee on Courts and Intellectual Property*, 105th Cong. 10 (Sept. 16, 1997).

231. See Barton, *supra* note 14, at 523.

232. See *id.* at 524 (asserting that, “Although each adjudicatory decision is highly deliberative, involving a careful consideration of contending arguments and resulting in a clear choice between alternatives, the atomistic nature of the legal system lends a distinctly spontaneous quality to the common law doctrines that emerge.”).

233. See *id.*

234. See Robert G. Bone, *Lon Fuller’s Theory of Adjudication and the False Dichotomy Between Dispute Resolution and Public Law Models of Litigation*, 75 B.U.L. REV. 1273, 1290 (1995).

“In Fuller’s theory, autonomous ordering was private ordering in the sense that it appealed to the capacity of each individual to recognize for herself the rightness of a particular scheme. However, governmental as well as private institutions could harness that capacity, provided only that the institution in question set ideas in competition with one another so reason could select among them. Indeed, Fuller believed that common law adjudication was an important governmental process of autonomous ordering.

Id. (citing LON L. FULLER, *THE LAW IN QUEST OF ITSELF*, at 131-140)

and output of multiple actors both creating and acting within a decentralized system of information exchange. Thus the Internet, as well as the common law, is the manifest result of autonomous ordering. This similarity between the two systems, both spontaneous rather than deliberative, and both examples of autonomous ordering, again recommends the application of the common law as a regulatory method.

A private ordering like the Internet, while self regulating, parallels systems of regulation that reflect diverse input of ideas and argument which then create aggregate results from said input. The common law is such a system as it is based on the concept that “many people get to say what the common law should mean, each after the other, in a temporarily spaced dialogue of cases and jurisdictions.”²³⁵

However, this conceptual link between the two systems via the unifying concept of autonomous ordering is not merely a structural similarity, it also shows why the common law can help regulate ISP use of copyrighted material. This occurs because the common law as autonomous ordering, and hence a spontaneous system, maximizes the development of spontaneous equilibrium, especially compared to the effects of a deliberative system like legislation. This is relevant to the issue at hand because ISP use of copyrighted materials is a problem characterized by a high number of variables,²³⁶ and “Problems with large numbers of variables that interact or trade off among one another generally are solved best by allowing the spontaneous equilibrium to emerge.”²³⁷ The common law, more so than legislation, maximizes the necessary spontaneous equilibrium that will more efficiently regulate ISP use of copyrighted materials because, “Such problems require a complex optimization of the competing variables; and deliberative procedures often are incapable of reconciling such complexities.”²³⁸ There-

235. See Lessig, *supra* note 198, at 1745.

236. The variables in the problem of ISP use of copyrighted material are almost innumerable. For starters they include, uncertain technological solutions, uncertain applications of existing statutes to the Internet, the difficulties in even assessing the damage done by online piracy with certainty, the rational and irrational decisions of the problem holders themselves, and so on.

237. See Barton, *supra* note 14, at 523.

238. *Id.*

fore, not only are the common law and the Internet structurally similar as spontaneous systems of autonomous ordering, this similarity performs a utilitarian function, the maximizing of the spontaneous equilibrium that will most effectively solve a problem like ISP use of copyrighted materials.

CONCLUSION

The application of existing copyright statutes to the new and often bewildering context of the Internet presents many challenges. The conflict between ISPs and content providers is not easily resolved, yet it is very serious because these mutually dependent parties need an efficient solution to this conflict in order to best utilize the advantages of the Internet. Because what both parties offer to the world is essentially what the world wants out of the Internet—content and access to that content, all users of the Internet would be benefited by rules ordering this relationship that enhance the operational capacity of both parties. Such a regulatory regime, achieved through the emerging common law doctrine and future legislation embodying that doctrine, would enhance the absolute value, particularly to the ordinary consumer, of the Internet itself.

Regarding that ultimate goal, this Note first posited that maximizing cooperation between these parties would have beneficial effects. I then analyzed the distinguishing characteristics of both legislation and the common law as decisional systems, and determined from that analysis the efficacy of each system as a solution to the problems created by ISP use of copyrighted materials. This analysis was done after a fairly comprehensive survey of the currently posited solutions to our problem both systems had presented. This Note then concludes with the proposition that, although copyright is a creature of statute, the common law presents at the current time multiple advantages that outweigh the current advantages presented by preemptive legislation. Further, I posit that the developing common law doctrine will enable the creation in the future of effective amendments to the Copyright Act regulating ISP use of copyrighted materials, and thus maximize the positives of regulation in this context.