

# Liability of Intermediaries for Copyright Infringement in the Case of Hosting on the Internet

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## 1 Preface

This article will focus on the liability of intermediaries on the Internet when hosting copyright infringing material. Particular emphasis will be placed on Article 14 of the Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society service, in particular electronic commerce, in the internal market (“the Directive”). Article 14 of the Directive establishes the legal framework on this matter.

This article examines whether the goals of the provisions in Article 14 of the Directive are achieved. The United States’ Digital Millennium Copyright Act (“DMCA”) which was voted for in October 1998 will be used as a basis for comparison whenever it proves helpful. Also, UK law will be referred to as an example of a EEA member state’s legal regime in this field.

The Introduction of the article will provide background information on why the question on liability of intermediary arises and what their characteristics and business environment are. The economic consequences of the possible standards of liability of intermediaries will be analysed in Chapter One, to evaluate whether the basic approach of the Directive is sensible. Chapter Two will provide information on the rationales behind the Directive and the DMCA, in order to verify that they are not aiming at different goals, to the detriment of their comparison. Furthermore, it will examine whether the aim of harmonisation within the EEA is reached. The final chapter will analyse the possibilities of Article 14’s interpretation, its economic and social implications and evaluate whether other goals than harmonisation, put forward in Chapter Two, have been reached.

## 2 Introduction

The Internet has imposed a new threat to copyright. Digitalisation and the wide network connection enable copyright works to be easily copied and distributed around the world in limited time. As the technology evolves, the more voluminous works and often more valuable can be disseminated on the Internet, opening a possibility of substantial loss for copyright-holders in case of infringements.

Hackers’ sites commonly offer serial numbers, access codes and software program that bypass or circumvent encryption or other technical protection that the copyright owner may have applied to its products. Also, they often use false names and Internet Protocol addresses, making it very hard both to identify infringers and to establish their physical location. Furthermore, as soon as their site has been taken down by one Internet Service Provider<sup>1</sup>, they tend to host their content with another. All the above-mentioned facts make the enforcement of the copyright-holders difficult.<sup>2</sup>

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<sup>1</sup> Defined in the end of the Introduction.

<sup>2</sup> Holleyman, R., *The impact on Intellectual Property: Jurisdiction, Enforcement and Dispute Resolution*, WIPO, 1999, p. 4.

It seems beyond doubt, that the ones who put material on the Internet, the so-called “content providers” are primary responsible for copyright infringement.<sup>3</sup> However, due to the above-mentioned difficulties of enforcement and as hackers tend not to have the financial capacity to pay compensation, the right-holders of copyright would suffer great loss if only actual infringers would be liable for their damage. Thus, the question arises whether third parties, the “on-line intermediaries” or “ISPs” should also be liable for infringement on the Internet. The “on-line intermediaries” are those who play various roles in disseminating material on the Internet, without taking part in its creation or selection. According to Article 14 of the Directive, the intermediaries are not liable for hosting infringing material unless they have had actual or constructive knowledge about the material and have not acted expeditiously to remove it after gaining such knowledge.

The mere possession of infringing material has seldom raised concerns in the field of copyright. For example in the UK, possession of infringing material is only a civil wrong if it is in the course of a business and if the infringer knows or “has reason to believe” that it is infringing copy of a work.<sup>4</sup> However, as the material hosted on the Internet forms the basis of all usage of it, the revenue of the ISPs which are in business for profit, originates one way or another with the material hosted; for example while some charge a specific amount per month for hosting material, others’ charges are dependent upon the number of visits to the hosted site. Thus, the profit driven ISPs are storing material on the Internet in the course of business. It can therefore be concluded that the same policy underlies the provision on possession in UK law and Article 14 of the Directive.

Online intermediaries can be categorised as follows:

- 1 The *network-operator* provides the facilities, such cables and routers, for the dissemination of the material.
- 2 The *access provider* provides access to the Internet.
- 3 The *host service provider* provides a server on which it rents space to users to host content.
- 4 *News groups and chat room operators* provide space for users to read information sent by other users and to post their own message.
- 5 *Information location tool providers* make tools available to Internet users for finding web sites where information they seek is located, often referred to as “search engines”.<sup>5</sup>

A person who wants to connect to the Internet and browse, thus can make an agreement with the access provider to gain access to the Internet. An example of an access provider is BT, which provides its subscribers with a CD-ROM to

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<sup>3</sup> Julià-Barceló, R., *Liability for on-line intermediaries* (1998) EIPR, 453, p. 454.

<sup>4</sup> Copyright, Design and Patent Act 1988 (“CDPA”) section 23(a).

<sup>5</sup> Julià-Barceló, R., *Liability for on-line intermediaries* (1998) EIPR, 453, p. 454.

install the necessary software to connect to the Internet. However, if a person wants to disseminate material on the world wide web, he/she has to enter into a contract with a host service provider e. g. AOL. Also, he/she will have the opportunity to post the material on a chat room or a newsgroup.

As this article concentrates on the liability of intermediaries in case of hosting, it will focus on those in category three and four above and use the term "ISPs" or "intermediaries" to identify them. It should be noted that one intermediary often provides a few of the services described above and also makes content available itself, causing different legal regimes to apply to its different activities.

### 3 Possible Types of Liability of ISPs

In order to evaluate the possible answers to the question of whether hosting service provider should bear liability in case of copyright infringement by their customers by hosting infringing material, it is necessary to assert the standards of liability that could be imposed upon the ISPs and the effect of each one of them. In addition, this chapter includes the arguments that ISPs and copyright-holders have put forward in the legal debate that has surrounded this issue. As the arguments raised by interest groups at the EC forum are not available, the discussion will concentrate on the debate leading up to adoption of the DMCA in the USA.

#### 3.1 *Strict Liability*

It could be stipulated by law that whenever infringing material is stored on ISP's facilities and distributed therefrom, the ISP would be liable irrespective of its level of knowledge of the infringing material. The arguments put forward for imposing strict liability on ISPs include that the ISPs are in a better position than the copyright-holders to prevent or to stop the infringing activity, as they can block access to infringing material.<sup>6</sup> Copyright-holders have maintained that the legislators should not be convinced by the arguments of the ISPs stating that they are not able to monitor the content of their facilities and should therefore not be held liable for content that they could not know about. Big distribution companies cannot realistically be expected to review all the books, records, software, and videos they sell; yet each of these entities may be subject to liability if the copies or works it sells are infringing.<sup>7</sup>

The ISPs have firmly objected to this standard of liability by pointing out that it does not recognise the realities of their operations, as ISPs may not have any practical ability to control, on a real-time basis, the content of the information

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<sup>6</sup> Hagen, E., *On-line Service Provider Liability: The Latest US Copyright Conundrum*, (1996) 7 Ent. L. R. p. 274, p. 279.

<sup>7</sup> For example in the UK under s. 22 of the CDPA, a company which has a constructive knowledge that books that it imports are infringing copies of copyright material may be liable for that infringement, cf. *Sillitoe v. McGraw-Hill Book Co Ltd.* [1983] FSR 545.

residing on their systems.<sup>8</sup> They have argued that ISPs are neither like newspaper publishers that have opportunities to review each article before it goes to press nor booksellers who can handle each book or magazine and ascertain whether it is an authorised copy; an ISP only “maintains hardware and software that automatically follows the instructions it receives from individual customers, thereby transporting messages from one location to another”.<sup>9</sup>

One possibility for ISPs to avoid liability according to the strict standard is to prevent infringing material being stored on their facilities. The ways to do so seem to be to restrict access to the Internet to those actors who are regarded as sufficiently trustworthy or to monitor the sites that are hosted on their servers.<sup>10</sup> Furthermore, ISPs could buy insurance to cover their potential liability.

Although software is available which can facilitate monitoring,<sup>11</sup> it seems to require having personnel who constantly watch over the material hosted on the ISPs facilities, as the material hosted on a server can change considerably in a limited period of time. However, it has been pointed out that it is technically impossible to monitor all material, which rest on a server, inter alia because some of it is heavily encrypted.<sup>12</sup> Furthermore, it would be difficult for the monitoring employees to assess whether new material infringes copyright or not, inter alia whether there is an underlying licence.<sup>13</sup> Hence, it is virtually impossible for ISPs to avoid the responsibility if strict liability would be imposed upon them. It has also been argued that monitoring could raise grave privacy concerns, as it would encompass all information, which is stored on ISPs’ facilities, including e-mail messages.<sup>14</sup>

The ISPs have pointed out that the expenditure due to monitoring or insurance would lead to substantial increase in cost for the ISPs.<sup>15</sup> ISPs would balance that cost against the possible risk of having to bear responsibility for infringement and the consequent expenses. Either they would decide to try to avoid infringing material to be hosted on their facilities or they would take the risk of liability, in addition to buying insurance. Both ways would cause increase in ISPs’ expenditure. That expenditure would lead to, either, increases in cost for the users of the Internet, and/or a decrease in the revenue of the ISPs.

The former would result in a decrease in the use of the Internet and thus limit the possibilities of dissemination of copyrighted work on the Internet. The latter would cause a decrease in the number of ISPs on the relevant market as some would not have the financial capacity to fulfil their obligation or they would move to a jurisdiction with a more liberal set of rules,<sup>16</sup> which would lead to

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<sup>8</sup> NII Hearings, Heaton.

<sup>9</sup> NII Hearings, Purcell.

<sup>10</sup> Julià-Barceló, R., *Liability for on-line intermediaries* (1998) EIPR, 453, p. 462.

<sup>11</sup> Kirkwood, R. C., *When Should Computer Owners be liable for copyright Infringement by Users?* The University of Chicago Law Review, Vol 69, 1997, 709, p. 730.

<sup>12</sup> NII Hearings, Purcell; Julià-Barceló, R., *Liability for on-line intermediaries* (1998) EIPR, 453, p. 460.

<sup>13</sup> Julià-Barceló, R., *Liability for on-line intermediaries* (1998) EIPR, 453, p. 457, 460.

<sup>14</sup> HR 2180 Hearings, Neel.

<sup>15</sup> NII Hearings, Heaton; HR 2180 Hearings, Black.

<sup>16</sup> Julià-Barceló, R., *Liability for on-line intermediaries* (1998) EIPR, 453, p. 462.

impediment of the competition in this field and therefore further increase in price for the customers.

This system would also impose barriers to penetration of the ISP market, as it demands financial capacity to fulfil the legal obligation of the ISP. Those barriers to entry could affect the competition on the ISP market.

If on the other hand the access to the Internet were restricted to “trustworthy” persons, the nature of the Internet, as a forum for free discussion virtually open to everyone would be obstructed. Since it is impossible to assess perfectly who is “trustworthy”, this measure would not prevent infringements from occurring and would therefore not prevent an increase in expenses of the ISPs.

Strict liability of ISPs is obviously positive for the copyright-holders in a short term, as it opens a possibility for them to seek their remedies from the ISPs without having to prove their knowledge of the infringing material. It can thus be assumed that if this regime would be chosen, the copyright-holders would often choose to claim their remedies from the ISPs, as they tend to have “deeper pockets” and be easier to locate than the actual infringer. Also, the copyright-holders could put more material on the Internet, without having to fear that they would not get compensation or injunction if their works would be copied or disseminated through the Internet without their consent.

However, in the long run, this system has also its negative aspects for copyright-holders, as it would increase the cost of accessing the Internet, decrease the use of the Internet and therefore restrict the copyright-holders’ ability of disseminating their work to a large public.

According to this liability regime, it will become less likely that the actual infringers will have to compensate the loss suffered due to their illegal activity as copyright-holders would rather initiate proceedings against ISPs. Therefore, there will be less hindrance for them to continue to store infringing material on the Internet, which will encourage further infringement. That would again cause more cost for the Internet service providers, which will have further cumulative effects.

### **3.2 *With-fault Liability***

According to with-fault liability the ISPs would only be liable for infringement if they knew or should have known that the infringing material was hosted on their servers and that the material infringed someone’s right. Two levels of knowledge can be identified as a possible prerequisite for liability: actual knowledge (the ISP must have known of the infringing material to be liable) and constructive knowledge (the ISP must have been in position to know about the infringement).<sup>17</sup>

Copyright owners have claimed that this liability standard leads to a fair balance between the interests of the parties involved and that ISPs “must shoulder their fair share” of combating the piracy on the Internet.<sup>18</sup>

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<sup>17</sup> Julià-Barceló, R., *Liability for on-line intermediaries* (1998) EIPR, 453, p. 455.

<sup>18</sup> HR 2180 Hearings, Attaway.

ISPs have argued that if this standard of liability were imposed upon them, the “actual knowledge” standard should be applied. They maintain that a low constructive standard would entail a real risk of liability although they had not taken any volitional act in furtherance of any infringement motive and “even though it is not even sure if there is in fact any infringement”.<sup>19</sup> Also, the ISPs maintain that applying a low standard of constructive knowledge would result in significant responsibilities for the ISPs of wrongful acts of others and considerable expenses in protecting the private property of copyright owners.<sup>20</sup>

Imposing the actual knowledge standard would lead to a low risk of liability for the ISPs, as in that case it must be established that the ISP actually knew about the infringing material in order to trigger the potential liability.<sup>21</sup> Therefore, it is likely that ISPs would take the risk of liability and not monitor the content stored on their facilities or limit access to resources. This is particularly true for ISPs whose income is based on the amount of content stored, as they best promote their self-interest by allowing access as quickly and as easily as possible.<sup>22</sup> However, the more profound consequences of this regime would be the lack of incentive for copyright-holders to use the Internet for dissemination of their works, as it would entail the fact that the copyright-holders would most probably have a case against only the actual infringer in case of copyright infringement.

A constructive knowledge standard imposes a higher risk of liability for ISPs than the actual knowledge one, making it more feasible for the ISPs to attempt to avoid the liability. This regime would thus cause a higher rise in the price of using the Internet, than in the case of the actual knowledge standard and could thus have a more hampering effect on the use of the Internet, entailing lower income for the ISP, the result of which have been described above. However, this regime would make it more worthwhile for copyright-holders to host their material on the Internet, which could in turn lower the prices for using the Internet as ISPs would be gaining another valuable source of income.

An issue often raised in this context is the concept of “notice and take-down.” Under this approach ISPs would be subject to liability if, firstly, they were given notice of the fact that infringing material was on their system or by other means gained knowledge of that fact, and, secondly, ignored such notice or knowledge.

Many ISPs opposed this suggestion, by claiming that it would be impossible, both economically and in terms of response time for each ISP to “hire an army of lawyers to ascertain the viability of claims of copyright infringement as they arise”.<sup>23</sup> Related to this argument is the one that ISPs should not become *de facto* arbitrators of copyright disputes, or be made to bear the cost and other burdens of the copyright enforcement functions.<sup>24</sup> They also pointed out that if it turned

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<sup>19</sup> NII Hearings, Heaton; HR 2180 Hearings, Black.

<sup>20</sup> NII Hearings, Heaton.

<sup>21</sup> Or the ISP is to prove that he did not have actual knowledge, if the onus of proof lies with him.

<sup>22</sup> Loughnan, S., *Service Provider Liability for User Copyright Infringement on the Internet*, Australian Intellectual Property Journal, 8 (1997), 18, p. 20.

<sup>23</sup> NII Hearings, Purcell.

<sup>24</sup> NII Hearings, Heaton.

out that the hosted material was not contrary to copyright law, the ISP would have treated its customer unfairly and might have exposed itself to a claim by its customer.<sup>25</sup>

This system would raise the ISPs' costs, as they would need to have sufficient resources to handle the notices, or the other means by which they can acquire knowledge, and assess whether they should block material. However, constant monitoring would not be necessary. Thus, it is likely that the ISPs' cost due to this regime would not be as much as in relation to the systems, which require constant monitoring.

Copyright-holders would benefit from this regime, as it would open the possibility of addressing the ISPs in case of copyright infringement, in addition to the actual infringers. The ISPs would have the necessary incentive to block material, as they would otherwise face liability. However, if the increase in expenditure for ISPs led to a considerable increase in the cost of using the Internet, it would not become as effective a medium to distribute copyrighted work to the public.

### 3.3 *Vicarious Liability*

According to vicarious liability, a defendant can be liable for copyright infringement if he/she had the right and the ability to supervise the infringing activity and had direct financial interest in such activities.<sup>26</sup>

ISPs have disputed that vicarious liability should apply to them. They have pointed out that vicarious liability is based on the relationship between an employer and its employees or agents; since the employer is able to control the actions of the employees or agents and is positioned to gain direct benefits from those actions, it is fair to hold an employer liable for those acts of its employees and agents that are carried out in the scope of their employment or agency. However, as ISPs have neither the power to control the actions of their customers, nor gain benefit directly from their actions, they have argued that it is not fair nor rational to hold them liable for the actions of their customers.<sup>27</sup>

The prerequisite for vicarious liability is the ability to control. Vicarious liability would thus only be imposed upon ISPs on the assumption that ISPs are able to control the material hosted on their facilities, the only possibility of which is monitoring. As discussed above, it is impossible for ISPs to monitor the content on their facilities in real time. Applying vicarious liability would therefore mean imposing strict liability upon ISPs with all the economic and social effects that have been described above.<sup>28</sup>

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<sup>25</sup> NII Hearings, Purcell.

<sup>26</sup> Daub, J. A. *A Premature Solution: Legislative Reaction to the Debate Over Internet Service Provider Liability for Copyright Infringement*, Dickinson Law Review, (1998), Vol 103:1, 199, p. 208.

<sup>27</sup> NII Hearings, Heaton.

<sup>28</sup> Julià-Barceló, R., *Liability for on-line intermediaries* (1998) EIPR, 453, p. 455.

### **3.4 No Liability of the ISPs**

If no liability were imposed upon ISPs, it is clear that the copyright-holders would suffer, as they would only be able to claim damages or seek injunction from the actual infringers who are often difficult to identify and/or have limited resources. Hence, it is likely that they would be more reluctant to put their work on the Internet.<sup>29</sup>

However, this regime would entail the actual infringers having to take the responsibility for their acts more often than if the ISPs could be sued. That fact could indicate that this regime would decrease the number and scope of infringements. However, it cannot be asserted that this regime would cause further hampering of infringements than the regimes of strict or with-fault liability of the ISPs, as in the latter the blocking of material by the ISPs will also reduce the incentives for infringers to put infringing material on the Internet.

The direct consequences for ISPs and the Internet would be decrease in cost and increase in material on the Internet, as the ISPs would not have to block any material that possibly was in breach of copyright. However, if the incentive for copyright-holders to publish works is not enough, it is arguable that this regime would cause restricted distribution of works via the Internet, which could lead to decrease in use of the Internet and consequently decrease in the ISPs' revenue. Thus, this regime could entail restrictions in the number of ISPs and rise in the price they decide.

### **3.5 Conclusion**

In light of the above, it can be asserted that both imposing no liability on the ISPs and imposing strict liability upon them can lead to an increase in the cost of using the Internet and restrictions on its usage. In order to promote the future use of the Internet to the benefit of all stake holders, it can therefore be assumed that a system which provides for limited liability of ISPs would be the most suitable. Thus, it seems rational to make some kind of knowledge of ISPs a prerequisite for their liability, since it does not impose as much burden on the ISPs as an obligation to monitor, while it also protects the interests of the copyright-holders.

## **4 Rationale behind the Rules on Liability of Intermediaries in the Directive and the DMCA**

The liability of intermediaries has been addressed in the USA and within the EC forum. The approach is similar: no liability is imposed upon the intermediaries except where they know about the infringing material (criminal liability) or are aware of facts or circumstances from which the illegal activity is apparent (civil liability). The criteria behind the approach will be analysed in this chapter, in order to provide a basis for further scrutiny and comparison in Chapter Three.

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<sup>29</sup> Ibid, 462.

The preparatory documents for the DMCA reveal that the legislators in the United States were concerned that the DMCA would stipulate unambiguously what liability ISPs could face and that their risk of liability would not be too high.<sup>30</sup> Likewise, in the first hearing in the European Parliament, it was emphasised that the Directive should not be overly burdensome to ISPs.<sup>31</sup>

Also, it was often mentioned in the debates on the DMCA and on the Directive that they should promote the interests of the copyright-holders, so that they would not be prevented from asserting their “legitimate rights”.<sup>32</sup>

Both at the EC forum and in the USA it was declared that the aim of the regime was to balance the “need for rapid response to potential infringement” with freedom of expression.<sup>33</sup> It was stressed in both forums that the regimes should give the ISPs neither an incentive nor an excuse to censor.<sup>34</sup> However, it was also stipulated in the USA and the EU that the legislation was not intended to discourage the ISPs from monitoring its service for infringing material.<sup>35</sup>

Great emphasis has been placed in the EC institutions on the necessity to harmonise the principles of intermediaries’ liability. Divergent principles in member states in this field are seen as a possible source of obstacles for the cross border provision of the services on the Internet, for example if a member state decides to block access to information stored on the server of an ISP established in another member state, where the applicable liability regime would be deemed to be unsatisfactory. But has the EC reached its goal of harmonisation?

The Directive does not contain a provision on how the intermediary is to acquire the knowledge, which is prerequisite for his liability. The DMCA however establishes that if a copyright-holder or his/her agent sends a notice to the ISP, including specific information that inter alia will help the ISP to identify the infringing material, the ISP is regarded to have sufficient knowledge.<sup>36</sup>

Also, an ISP can acquire knowledge by other indications from which infringing activity is apparent, according to the DMCA.<sup>37</sup> Also, contra the DMCA, it is not stipulated in detail in the Directive how the intermediary is supposed to react if it gains knowledge of infringing material on the Internet in order to escape liability.<sup>38</sup>

However, in Article 14 (3) of the Directive, it is stipulated that Article 14 does not affect the possibility for member states of “establishing procedures governing the removal or disabling of access to information”. Also, Article 16

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<sup>30</sup> House Conference Report No. 105-796, (“HCR No. 105-796”).

<sup>31</sup> Debates of the European Parliament, Sitting of Thursday, 6 May 1999 (“Parliament”), Barzanti.

<sup>32</sup> Senate, Thursday, May 14, 1998; Report on the proposal for a European Parliament and Council Directive on certain legal aspects of electronic commerce in the internal market by the Committee on Legal Affairs and Citizens’ Rights (“Report by CLACR”), p. 74.

<sup>33</sup> Parliament, Oddy and Senate Report no. 105-190.

<sup>34</sup> House of Representatives, Tuesday, August 4, 1998; Parliament, Lulling.

<sup>35</sup> HCR No. 105-796; recital 40 of the Directive.

<sup>36</sup> DMCA Section 512(c)(3).

<sup>37</sup> House report no. 105-551 (II) (“HR. no. 105-551”); DMCA Section 512 (c)(1)(A).

<sup>38</sup> DMCA Section 512(g). Turner, M., Traynor, M. & Smith, H., *Ignorance is Bliss*, Computer Law and Security Report 2003 p. 117.

establishes that member states and the Commission shall encourage the drawing up of codes of conduct in this respect at Community level. Thus, the Directive includes two possible ways to implement a notice and take-down regime, one of which is national law, which can vary between member states. Dissimilar legal rules in this field would mean that the liability of the ISPs would in fact differ between jurisdictions within the EEA, which would lead to different market conditions for the ISPs and harmonisation not being achieved.<sup>39</sup>

Also, the Directive does not contain a provision on the liability of the ISPs as regards claims for damages that arise due to unjustified blocking of material by ISPs. In contrast, the DMCA stipulates that ISPs are not liable to any person, if they follow the notice and take down regime, set down by the act. In Europe, the responsibilities of the ISPs will be subject to national law or contracts in this regard. It is therefore obvious that this lack of provision can bring about divergence between the legal frameworks of member states within which the ISPs run their business.<sup>40</sup>

Article 14 (3) and recital 45 establish that Article 14 of the Directive shall not affect the possibilities of imposing injunctions against the ISPs. Since the conditions for obtaining an injunction against an ISP are thus in no way harmonised between the member states and since injunction is an important remedy in case of copyright infringement in continental Europe, where monetary compensation is rarely substantial,<sup>41</sup> the harmonisation of the liability of intermediaries is not achieved in this respect.

The liability rules in Article 14 are supposed to serve as a filter; only if a provider fails to qualify for the limitations on liability may he be held liable on the basis of member states' legislation.<sup>42</sup> Clearly, this arrangement opens up the possibility of discrepancy between the legal frameworks of member states, as they are free to decide upon different underlying regimes.

With regard to the above, it can be concluded that the special aim at the EC-level of harmonisation has not been fully reached. The common rationales behind the legislation in the USA and the EC are the following: to place clear and reasonable liability upon the ISPs, protect the interests of the authors, and strike a balance between the interests at stake. In addition, while both pieces of legislation are not intended to preclude monitoring, they are not to imply

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<sup>39</sup> Julià-Barceló, R & Koelman, K., *Intermediary Liability in the E-commerce Directive: So far so good, but it's not enough*, Computer and Security Report, 2000, p. 237.

<sup>40</sup> Julià-Barceló, R., *On-Line Intermediary Liability Issue: Comparing EU and U.S. Legal Frameworks*, ECLIP 1999, p. 16.

Furthermore, it could be argued that as long as copyright has not been harmonized in the EC, including the condition for originality, the liability rules of ISPs will not be fully harmonized. Different copyright law in member states can lead to the fact that a particular use of a work in one member state is not an infringement, and therefore the ISPs can not be liable, while the same use can be regarded as an infringement in another member state, making it possible that ISPs will be liable for the infringement (see Julià-Barceló, R., *Liability for on-line intermediaries* (1998) EIPR, 453, 459).

<sup>41</sup> Koelman, K. & Hugenholtz, B. *Online service provider liability for copyright infringement*, WIPO, 1999, p. 32.

<sup>42</sup> Proposal for a European Parliament and council directive on certain legal aspects of electronic commerce in the internal market, COM (1998) 586 final ("Proposal"), p. 27.

ensorship. Further examination of whether those goals have been reached will be carried out in Chapter Three.

## **5 Article 14 of the Directive**

Article 14 of the Directive provides for exemption from civil and criminal liability in the case of hosting of illegal material on the Internet. Its approach is horizontal, i. e. it covers liability in case of all illegal material, including that which is defamatory and that which infringes copyright. Although the ISP has either constructive or actual knowledge of the infringing activity or information, it may still avoid liability by acting expeditiously to remove or disable access to the information.

### **5.1 Information Society Service**

Article 14 applies in the case when an “information society service is provided that consists of the storage of information”. The term “information society service” is explained in recital 17 and 18 of the Directive where it is stipulated that it covers “any service normally provided for remuneration, at a distance, by means of electronic equipment for the processing (including digital compression) and storage of data, and at the individual request of a recipient of a service”. Some examples of the activities that are covered by the idiom are listed in recital 18, including services consisting of “hosting information provided by a recipient of the service”. Thus the general definition of “information society service” explains further what is meant by the term “storage of information” in Article 14. As the term “service provider” is defined as “any natural or legal person providing an Information Society service”, that term does not narrow the scope of the provision in the Directive. Consequently, the scope of Article 14 seems to be broad, covering inter alia the hosting of the ISPs of information which is provided by the recipient of the service.

### **5.2 Recipient of the Service**

Article 2 and recital 20 reveal what is meant by “recipient of the service”. Article 2 (d) defines the term as “any natural or legal person who, for professional ends or otherwise, uses an Information Society service, in particular for the purposes of seeking information or making it accessible”. Article 14 thus encompasses storage of information, which is provided by either individuals or entities for both consumer and professional aims.

### **5.3 Hosting**

Neither the provisions in the Directive nor the recitals provide for a definition of hosting or storage of information. However, the explanatory memorandum to

the proposal, dated 18 November 1998, stipulates that the word “information” should be interpreted broadly.<sup>43</sup> Also, a working paper from the Council, dated 21 May 1999, reveals that hosting encompasses the storage of third party information on a server at the request of a user. Examples of such storage include providing server space for a personal Web site or for the Web site of a company, for a chat-room or a newsgroup.<sup>44</sup>

#### **5.4 Activity or Information**

As the definition of activity is not provided in the preparatory documents at the EC forum, and as it is also used in the DMCA, it is interesting to see how it is defined in the USA. According to a House Report, dated July 22, 1998, “the term activity is intended to mean activity using the material on the system or network.”<sup>45</sup> The term thus seems not only to cover infringing material which resides on a server in a permanent copy, but also activities that entail only transient copies, such as web-casting.

As referred to above, the word “information” was added to Article 14 by the Council and is now a part of the Directive. The word “information” is not a part of DMCA but is used in subparagraph 1 of Article 14 of the Directive. As the word “activity” refers to some action, it is possible that the word information has been added to include infringing material, which is only stored on a passive website, i. e. material which is not intended for downloading and subsequent saving. That would also lead to conformity in the meaning of the word within the article.

#### **5.5 Liability**

Article 14 covers both criminal and civil liability of ISPs. An ISP will neither be granted an exemption for civil nor criminal liability if it has actual knowledge of the infringing material, but it will only face civil liability if it has constructive knowledge of the infringing material.<sup>46</sup>

#### **5.6 Knowledge**

Article 14 (1) (a) stipulates that the exemption of liability of intermediaries is conditional upon the fact that “the provider does not have actual knowledge of illegal activity or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent”. It is therefore important to analyse how to evaluate the knowledge of a service provider.

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<sup>43</sup> Ibid, p. 27.

<sup>44</sup> Ibid, p. 29.

<sup>45</sup> HR no. 105-551(II).

<sup>46</sup> Proposal, p. 29.

The actual knowledge criterion does not generate much ambiguity, as it is a well established principle within the member states that actual knowledge means that the defendant actually knew about the infringing material.

The constructive knowledge criterion includes a two step test, which both generate questions. First, there is a question of how to interpret “is not aware of facts or circumstances”, i. e. whether that is a subjective or objective test. Secondly, the question arises to whom is the illegal activity supposed to be “apparent”? The defendant, a reasonable man or a lawyer? None of the preparatory documents nor the recitals provide a clear answer to this question. In light of the fact that the Directive was supposed to clarify the responsibility of ISP and that this sentence is fundamental in that regard, this ambiguity is subject to criticism.

The wording of the article itself gives a guideline for the first question. The article establishes that the “*provider ... is not aware of facts and circumstances*”. Thus, it indicates that it is the provider himself that is to be aware of certain facts. The preparatory documents reveal that the Committee on Legal Affairs and Citizens’ Rights and the European Parliament suggested the following change in the wording: “the provider does not know, or *was not in a position to know*, that the activity is illegal”.<sup>47</sup> This idea was rejected by the Commission as it would “upset the balance of interests” which had been achieved in the original proposal.<sup>48</sup> The above indicates that the first step is a subjective test, i. e. the provider himself must be aware of facts and circumstances that fulfil certain conditions in order to trigger its potential liability.<sup>49</sup>

It is interesting to compare the above conclusion to the legal regime in the UK. As stated above, a possession in the course of a business “an article which is, and which he [the infringer] knows or has reason to believe is an infringing copy of the work” is a civil wrong.<sup>50</sup> The wording of the sections indicates that a subjective test should be conducted here, as with the Directive, and so does the obiter of the Court of Appeal in *LA Gear Inc. v. Hi-Tech Sports plc*.<sup>51</sup>

It is not clear to whom the illegal activity or information is supposed to be apparent: whether to the defendant, a reasonable man or to a lawyer. The preparatory documents of the Directive provide no guideline in this respect. However, as the DMCA has almost the same wording, commentators have maintained that the DMCA and the Directive should be interpreted in the same manner.<sup>52</sup> Thus, the comments in the House Report, dated July 22, 1998 are interesting: “the “red flag” test has both a subjective and an objective element.

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<sup>47</sup> Report by CLACR, amendment 48 and Minutes from the European Parliament of 6 May 1999, amendment 48.

<sup>48</sup> Amended proposal for a European Parliament and council directive on certain legal aspects of electronic commerce in the Internal Market, COM (1999) 427 final, p. 7; Parliament, Mr. Likkanen.

<sup>49</sup> See also Pleisner, Mathiasen, J., *E-handelslovens regulering af formidleransvaret*, NIR 2004 p. 145.

<sup>50</sup> CDPA Section 23.

<sup>51</sup> [1992] FSR 121, at 139.

<sup>52</sup> Koelman, K. & Hugenholtz, B. *Online service provider liability for copyright infringement*, WIPO, 1999, p. 26.

In determining whether the service provider was aware of a “red flag”, the subjective awareness of the service provider of the facts or circumstances in question must be determined. However, in deciding whether those facts or circumstances constitute a “red flag” – in other words, whether infringing activity would have been apparent to a reasonable person operating under the same or similar circumstances - an objective standard should be used.”<sup>53</sup> Hence, it seems that a “reasonable man” test is used in the USA and will probably be adopted within the EEA.

Going back to the situation within the UK, it seems clear that the position according to the *LA Gear* case, is that the “reasonable man” test is applied just as in the USA. Also, similar to the situation in the Directive and in the USA, it is stipulated in the case that facts “from which a reasonable man might suspect the relevant conclusion cannot be enough”, they must be clear enough so that a reasonable man would arrive at the relevant belief. However, UK law seems to require that the alleged infringer must have had a reasonable period of time to enable him to evaluate those facts so as to convert the facts into a reasonable belief,<sup>54</sup> which does not seem to be a factor in evaluating the knowledge criterion according to the Directive or the DMCA.

The difficulty caused by the application of the “reasonable man” tests in the USA and the UK as applied to intermediaries is the fact that a reasonable man does not necessarily have the sufficient experience nor knowledge to be able to assess the facts which he knows of, and evaluate whether they indicate that the material in question infringes copyright. Thus, the situation can arise in which a reasonable man has to seek lawyer’s advice in this respect. In the *Sillitoe* case,<sup>55</sup> the leading UK authority in this field, the defendant did not escape liability although he had sought legal advice which indicated that there was no infringement of copyright, as it was established that he knew all the relevant facts. If the same approach would be adopted in respect of Article 14 of the Directive, it would lead to further incentive for the ISPs to block access to all material that raises legal doubts on the infringement issue. Article 15 of the Directive establishes that no general obligation should be imposed on providers monitoring third party content. Thus, an ISP, which is faced by an allegation that it was aware of infringing material without having received a notice, can always defend itself by claiming that it did not monitor the sites, since it had no obligation to do so, and thus it did not have actual or constructive knowledge of the infringing material. This defence seems to be valid irrespective of how obvious it is that infringing material is hosted on an ISP’s server.<sup>56</sup> Hence Article 15 has a great impact upon ISPs as it significantly diminishes the potential scope of their liability. Article 15 and the limited liability of ISPs according to Article 14 has the result that ISPs have little incentive to independently investigate whether there is infringing material hosted on their facilities. The question arises of how ISPs can obtain the requisite knowledge;

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<sup>53</sup> HR No. 105-551 (II).

<sup>54</sup> [1992] FSR 121, at 139.

<sup>55</sup> [1983] FSR 545.

<sup>56</sup> Julià-Barceló, R., *On-Line Intermediary Liability Issue: Comparing EU and U.S. Legal Frameworks*, ECLIP 1999, p. 14.

whether that is only by a notice from a right-holders or whether it can also be obtained by other means. As the preparatory documents do not provide any help in this regard, it is interesting to compare the Directive and the DMCA. The DMCA establishes a detailed notice and take-down regime, which includes the stipulation that neither actual nor constructive knowledge may be imputed to a service provider based on information from a copyright owner or its agent that does not comply substantially with the notification provisions.<sup>57</sup> However, as the Directive has no provisions on the notice and take-down regime, a vague notice could be regarded as a red flag, imposing an obligation upon an ISP to investigate further whether the notice in fact reveals infringing material.

Certainly, the above-described interpretation of the constructive knowledge criteria has an effect on how to evaluate the notices, making it possible to ignore very vague notices. However, the lack of detailed notice and take-down regime and the consequent uncertainty when a notice contains sufficient information will probably lead to the fact that the ISPs will respond to the majority of notices by blocking material and include a provision in their subscription agreements, which make that possible without recourse. Consequently, it will become less feasible to host material with European ISPs than with those established in the USA, as the danger of being subject to blocking will be greater in the EEA than in the USA and the scope of the freedom of expression will be narrowed.<sup>58</sup>

Thus, this regime imposes upon the ISPs some cost due to investigation, which would have been possible to avoid, if a detailed notice and take-down regime had been established as in the USA. The interests of the ISPs could thus have been better protected.

## 5.7 Burden of Proof

Neither the Directive nor the preparatory documents mention who is to bear the burden of proof, i. e. whether the ISP must establish that he was not aware of particular circumstances or whether the plaintiff must prove that the ISP had sufficient knowledge to fall within the ambit of Article 14. The general principle of *in dubio pro reo* will probably be followed in case of criminal liability, causing the burden of proof to be on the plaintiff, but the question remains in case of civil liability. This matter is of great importance as it is clear that the one who has the burden of proof is more likely not to be successful in his case.<sup>59</sup> Thus, the onus of proof has much effect on the scope of the liability of the intermediaries and the economic implications of the provision. This ambiguity is therefore subject to criticism.

The same wording in the DMCA seems to indicate that the defendant is to prove that the exemption applies to him.<sup>60</sup> Clearly, it is not easy to prove that

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<sup>57</sup> Section 512 (c)(3)(B), HR No. 105-551 (II).

<sup>58</sup> Julià-Barceló, R., *On-Line Intermediary Liability Issue: Comparing EU and U.S. Legal Frameworks*, ECLIP 1999, p. 15.

<sup>59</sup> Koelman, K. & Hugenholtz, B. *Online service provider liability for copyright infringement*, WIPO, 1999, p. 32.

<sup>60</sup> HR no. 105-551 (I).

something did not happen. Thus, if the ISP is to prove that he did not know of some material in order to escape liability, it would lead to a much greater risk of liability than if the burden of proof were on the plaintiff, with the economic consequences that have been analysed above

## **6 Conclusion**

One of the aims of EC legislators in this area is harmonisation. This has not been fully realised for the various reasons: the notice and take-down regime can be decided by different national laws; the liability of the ISPs concerning claims for damages that arise due to unjustified blocking of material is subject to potentially dissimilar national law; conditions for obtaining injunctions are not harmonised and since the liability rules only serve as a filter, member states are free to decide upon different basic regimes.

The Directive's approach of making the ISPs' knowledge a prerequisite for their liability is sensible to reach its aims. The way that the knowledge criteria is interpreted in Article 14 of the Directive lowers the risk of the ISPs as it includes both a subjective test and a "reasonable man" test. Also, as the burden of proof is with the plaintiff in the case of criminal liability, it can be concluded that the risk of facing this type of liability is relatively low. On the other hand, if the burden of proof is to rest with the ISP in the case of claims for compensation for storing infringing material, it increases the risk considerably, as it is difficult for the ISP to prove that he was not aware of certain facts. Also, if there is no legitimate defence in the fact that an ISP has relied on legal advice, it is likely that they will remove material which may be infringing. Lastly, the ambiguity in establishing when a notice contains sufficient information has the same effect of increasing the risk of the ISP being found liable.

In light of the above, it can be concluded that the risk of facing monetary liability due to the knowledge criteria are relatively high according to Article 14. Consequently, the ISPs have a great incentive to, firstly, keep a sophisticated filing system in order to try to prove that they did not receive a particular notice and, secondly, to "act expeditiously" to evaluate the notices whenever they receive them. As the knowledge criteria are rather high, they can discount the more vague notices. On the other hand, because of the ambiguity of interpreting the knowledge criteria and because of lack of a detailed notice and take-down system, it is likely that they will take down any material that raises likelihood of being contrary to copyright law. Also, it is probable that they will include a provision in their subscription agreements so that they will be able to block material, without fearing claim from their subscribers. This regime will therefore lead to the scope of freedom of expression becoming narrower.

As regards the ISPs it can be concluded that their interests have been adequately protected in the EEA, although their expenses could have been limited even further by establishing a clear notice and take-down regime. They do not have a duty to monitor. Also, they can avoid their liability by blocking material, which raises a minimum likelihood of triggering liability and by including a non-indemnification clause in their subscription agreements.

Copyright-holders' rights are protected by the ease with which they can get co-operation from ISPs in blocking infringing material before it can be disseminated further. It is more likely that they will become victims of the blocking of non-infringing material, hosted on the European ISPs, than on ISPs in the USA. Therefore, the Directive does not seem to reach its aim of protecting the interests of copyright-holders and balancing their rights and those of the ISPs.

Furthermore, the fundamental aim of the Directive is to exploit the opportunity to "create economic growth" and "competitive European industry".<sup>61</sup> It is therefore strange that a detailed notice and take-down regime was not included in the Directive, as its absence makes EEA ISPs less attractive to copyright-holders than those in the USA.

It would have been advisable for the Directive to establish a detailed notice and take-down regime like that established by the DMCA. This would have avoided certain ambiguity in the Directive, and the consequential cost to ISPs in taking safeguard measures. It would also have ensured that freedom of expression would be adequately respected within the EEA.

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<sup>61</sup> Proposal, p. 6.

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