On-line Service Provider Liability Limitations

The recent suits filed by the Recording Industry Association of America and certain rock bands highlight the importance for universities of a clear understanding of the provisions of the 1998 Digital Millenium Copyright Act (DMCA) governing on-line service provider liability limitations. The following memorandum concerning service provider liability protection has been prepared by Bruce Joseph of Wiley, Rein and Fielding. Bruce has been retained as outside counsel by AAU, ACE, and NASULGC to provide advice on issues relating to copyright legislation and regulations. He was actively involved in the development of the DMCA’s service provider liability provisions.

This memo is not intended to address certain issues of importance to universities such as academic freedom or potential student liability for reproducing and redistributing music or other copyrighted material. The memo does, however, provide clear guidance on actions institutions can take to avail themselves of the DMCA’s limitations on service provider liability.
Universities and Napster—Essential Steps for Liability Protection Under the Digital Millennium Copyright Act

The Internet service provider liability limitations included in the 1998 Digital Millennium Copyright Act (17 U.S.C. § 512) were intended to provide significant protection against liability to universities whose students, faculty or employees use the institution’s computer systems to engage in copyright infringement. The recent cases brought by the recording industry and rock bands involving the Napster service highlight the importance of complying with the conditions of the Act applicable to the liability protection.

The Act precludes monetary liability and limits the availability and scope of injunctive relief if a university is found liable as a copyright infringer due to online conduct by students, faculty or employees. In order to qualify for protection under the Act, an institution must:

- Adopt, reasonably implement, and inform network users of, a policy that provides for the termination, in appropriate circumstances, of the accounts of users who are repeat infringers.
  - The Act leaves a university with broad discretion over the content of such a policy.
  - The preliminary decision in the first Napster case suggests that the termination policy should include blocking IP addresses of infringing users. We believe this ruling is inconsistent with the intent and language of the Act, but the court’s concern with the effectiveness of termination should be considered to the extent practicable.

- Accommodate and not interfere with “standard technical measures” used by copyright owners to protect copyrighted works. No such measures yet exist.

- With respect to the protection for material stored on the university’s system or network (and possibly with respect to the protection for information location tools), designate an agent for receipt of notice, by making a filing with the U.S. Copyright Office and by identifying the agent on the university web site. Copyright Office interim regulations may be found at 37 C.F.R. § 201.38 (1999).

- Promptly remove material stored on the system or network if: the university has actual knowledge that the material is infringing or is “aware of facts or circumstances from which the infringing nature of the activity is apparent,” or if the copyright owner provides proper notice of infringement.

The Act is detailed and implementation may require consideration of subtle policy issues. The attached memorandum provides more information. You should consult your institution’s General Counsel for more information or if you need advice about this legislation.
The recent cases brought by the Recording Industry Association of America and bands such as Metallica against Napster and, in the latter case, certain universities, represent the first tests of the service provider liability provisions of 1998’s Digital Millennium Copyright Act. The Act included a new section of the Copyright Act, section 512, 17 U.S.C. 512 that limits the copyright infringement liability of any entity (“service provider”) that provides third parties with Internet access, online services, or facilities or services related to Internet access or access to other computer networks.

Universities, colleges and other nonprofit educational institutions are among the clearly identified beneficiaries of the Act. The Act reduces the risk of copyright infringement liability for any institution that (i) offers its faculty, students or employees Internet access, (ii) permits faculty, students or employees to use its facilities to make material available on the Internet (e.g., through the establishment of web sites), or (iii) operates an Internet web site with links to sites operated by third parties.

The Act was the result of two years of intensive negotiations and often heated legislative activity that culminated in an inter-industry agreement between two teams of five negotiators—one representing the interests of copyright owners and the other representing the interests of online service providers. After the initial agreement was made, representatives of the education community obtained inclusion of a further provision that increases the protection available for nonprofit educational institutions. This memorandum provides a summary of the substantive provisions of the Act.

The requirements of the Act may also raise issues of academic freedom and broader policy questions that your institution may want to consider. We do not, in this memo, provide guidance on those issues.

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1 Copyright 2000, Wiley, Rein & Fielding. Bruce Joseph, a partner in the firm, was one of the principal negotiators on behalf of service provider interests during negotiations that gave rise to the Act. Before that, he participated in the 1996-97 legislative negotiations and attended the World Intellectual Property Organization Diplomatic Conference in Geneva that addressed online copyright issues and adopted two new treaties.
I. Overview

The Act precludes monetary liability and greatly limits the availability and scope of injunctive relief if a university is found liable as a copyright infringer as a result of one of four types of activity. Three of the four activities involve the provision of services or facilities to students, faculty and employees, including the transmission and routing of communications (often referred to as “conduit” activities), temporary storage of requested material to facilitate subsequent access (“caching”), and other storage at the request of users (e.g., hosting web pages). The fourth relates to the provider’s own provision of information location tools, such as directories, search engines and hypertext links, that may link to infringing material.

Two of the liability limitations, those applicable to conduit activities and caching, are largely free from conditions relating to the university’s knowledge, whether the university receives financial benefit, or whether the university takes action to remove the infringing material once it is called to its attention (although there is a provision for the removal of cached material upon notice after the original site is removed from the Internet). The other two limitations, which protect storage and location tools, are conditioned on lack of knowledge (under a newly defined, narrow standard), a lack of direct financial benefit coupled with control (under a clarified and narrowed standard), and the university’s assistance in removing or disabling access to (“taking down”) infringing material on its system or network if it receives a specific type of notice from the copyright owner. The Act also provides broad protection to universities that remove material from their systems when the material is suspected of being infringing.

II. Who is a “Service Provider” Eligible for Protection?

The Act includes a broad definition of “service provider” that is applicable not only to traditional Internet access providers and proprietary online service providers (such as America Online), but also to universities and other educational institutions that offer network access to their students and faculty. It is also likely to be construed to extend to businesses, including educational institutions, that offer network access to their employees when an employee’s conduct is not attributable to the employer under traditional agency rules (i.e., when the employee is acting outside of the scope of his or her employment).

Specifically, two definitions of “service provider” are found in subsection (k) of the new section 512. The first, which governs the availability of the protection for conduit activities, defines a service provider as an “entity offering the transmission, routing, or providing connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received.” The second, which applies to the other provisions of section 512, defines a service provider as “a provider of online services or network access, or the operator of facilities therefor.” Each of these definitions should be broad enough to cover any entity offering online access to users. They may also cover the placing of material online.
III. **Conditions of Eligibility for the Protections of the Act**

In order to qualify for protection under the Act, a service provider must:

- adopt and reasonably implement a policy that provides for the termination, in appropriate circumstances, of subscribers and account holders who are repeat infringers;
- inform subscribers and account holders of that policy;
- accommodate and not interfere with “standard technical measures” used by copyright owners to protect copyrighted works; and
- with respect to the protection for material stored on the provider’s system or network (and possibly with respect to the protection for information location tools), designate an agent for receipt of notice, by making a filing with the U.S. Copyright Office and by identifying the agent on the provider’s web site.

The Act leaves the provider with broad discretion for determining the appropriate circumstances under which to terminate a subscriber. It is, however, essential that a policy be adopted and disseminated.

The first Napster case, *A&M Records Inc. v. Napster Inc.*, 54 USPQ2d 1746 (N.D. Cal. May 12, 2000), faulted Napster for not having a policy to terminate or block the IP addresses of terminated users. We believe the court was wrong in its belief that the Act’s requirement of a reasonable policy contemplated blocking IP addresses. Service providers who participated in the negotiation steadfastly resisted blocking obligations as ineffective and unreasonably burdensome to the provider, to the provider’s system and, accordingly, to legitimate conduct occurring on the system. Indeed, in the provisions governing injunctions where liability is found for a service provider acting in a conduit role, the only provision for blocking apply to infringing sites found overseas, where other forms of relief are not available. Similarly, there should be no requirement in the Act that a provider determine and block the IP addresses of terminated users. However, the Napster decision highlights likely judicial concern over the effectiveness of a termination policy. Procedures that would enhance the effectiveness of a termination policy should be considered to the extent reasonable, and reasons for rejecting impractical procedures should be documented.

At the present time there is no protection measure meeting the definition of “standard technical measure.” It is, however, expected that standards development activities will begin in the near future.

The Copyright Office has issued interim regulations governing the designation of an agent for the purpose of receiving notices that certain material is infringing. These regulations may be found in the *Federal Register*, at 63 Fed. Reg. 59233 (November 3, 1998) and at 37 C.F.R. § 201.38 (1999). The Office is expected to conduct a formal, notice and comment rule making proceeding in the near future. Further information on filing, and a list of designated
IV. The Specific Protected Actions

A. Conduit Activities (Subsection 512(a)). The Act limits a service provider’s liability for transmitting, routing or providing connections for the communications of others – in other words, for communications moving through the provider’s system. The protected activities include intermediate and transient storage of the material in the course of providing the conduit activity. Protected conduit activities include:

- receipt by a user (e.g., a student or faculty member) of an e-mail message over the provider’s system;
- sending, by a user, of an e-mail message from the provider’s system;
- receipt by a user of material from an incoming web site;
- the communication of material by users to and from chat rooms and bulletin boards; and
- the provision of transmission facilities, routers, transmission and routing services, connections, and Internet backbone services.

An interesting question presented by the Napster cases is whether a service provider is acting in a conduit role (or is hosting content) when the content resides on users’ hard drives, rather than system servers, and is exchanged directly between users through FTP or similar protocols. Although the issue is not clear and there are no clear decisions on point, the better result under the Act is that the service provider is not hosting in that circumstance, but is acting as a conduit for material moving from off the provider’s network to other locations off the provider’s network. The Napster decision’s conclusion that the Napster software residing on the users’ computers is not part of Napster’s “system or network” does support the conclusion that the users’ computers are not part of the provider’s “system or network.”

In order to be protected with respect to conduit activities,

- the transmission must have been initiated by, or at the direction of, someone other than the service provider;
- the conduit activity must be carried out by an automatic technical process, without selection of the material by the service provider;
- the recipients of the material must have been selected by someone other than the service provider;
- the material must be transmitted without modification to its content; and
• the material must not be stored on the service provider’s system in a manner that is accessible to anyone other than the anticipated recipients for longer than is reasonably necessary for the transmission or routing function.

As a general rule of common law, the conduct of an employee acting within the scope of his or her employment is considered the conduct of the employer. Under that rule, conduct by an employee of a service provider acting within the scope of his or her employment would not qualify for protection under the Act, because the conduct would not be conduct of “someone other than the service provider.” However, the Act contains a special rule for faculty members and graduate students of nonprofit educational institutions when they engage in teaching or research functions. If certain specified conditions are met, their conduct will not be attributed to the institution. This special non-attribution rule is discussed in Part V, below.

B. System Caching (Subsection 512(b)). The Act also ensures that a provider may use its servers to store material requested by a user from an off-system web site for the purpose of facilitating later access to that material. The form of caching to which protection applies is specifically defined in the Act, and is subject to several conditions:

• The material to be cached must have been placed online by a person other than the service provider. A special non-attribution rule provides added protection for nonprofit educational institutions for certain conduct of graduate students and faculty members (see Part V, below).

• The material must be transmitted by the provider’s system to a user other than the person who made the material available online.

• The storage must be automatic and for the purpose of making the same material available to users of the provider’s system who later request it.

• The material must be communicated by the provider without modification to its content.

• The service provider must comply with generally accepted industry standard data communications protocols regarding the refreshing or updating of the cached material.

• The service provider must not interfere with technology used by the originating person that returns certain information back to that person (except in certain circumstances).

• If the material was made available by its originator on a conditional basis (i.e., upon payment of a fee or use of a password), access to the cache must be subject to the same conditions.

• If the material was originally made available without the authorization of the copyright owner, the service provider must delete the cache if it receives a notice that
the material was infringing, and the material has been removed from the originating site.

C. Material Stored on the Service Provider’s System (Subsection 512(c)). The Act provides protection for a service provider when material is stored by a user on its system or network. This protection applies to such user activities as posting materials on personal web pages hosted on servers operated by the provider. It also is likely to apply to services such as the operation of a bulletin board.

The Act provides protection if the service provider:

- does not have actual knowledge that the material, or activity using the material, on the system or network is infringing;

- in the absence of actual knowledge, is not aware of facts or circumstances from which the infringing nature of the activity is apparent (the so-called “red flag”); or

- upon obtaining such knowledge or awareness, acts expeditiously to remove or disable access to the infringing material.

The Act provides that the knowledge of a graduate student or faculty member engaging in research or teaching functions is not to be attributed to his or her institution under certain conditions (see Part V, below).

Further, the provider will not be protected if, upon receipt of a notice of infringement complying with the requirements of the Act, the provider does not act expeditiously to remove or disable access to the allegedly infringing material. Finally the service provider will not be protected if it receives a financial benefit directly attributable to the infringing activity, where the provider has the right and ability to control such activity.

The knowledge standard deserves some further amplification. The first part of the two-part test is self-explanatory. “Actual knowledge of infringement” has its ordinary meaning – actual subjective knowledge that the material or activity is infringing. Thus, it requires consideration and evidence of the service provider’s state of mind. The second part of the test, a key element of the legislative compromise, has both an objective and a subjective component. The awareness of facts and circumstances is a subjective standard. The plaintiff must prove that the service provider had actual, subjective awareness of the facts and circumstances on which plaintiff relies. However, the question of whether infringement is “apparent” is an objective standard evaluated on the basis of a reasonable person. The word is used in its ordinary sense of “readily seen” or “obvious.” The legislative history uses the words “obvious” and “clearly” as synonyms of “apparent” to describe the infringement.

2 Consideration of this “red flag” test must be coupled with subsection (m), which provides that the protection of subsections (a) through (d) in no way depends on a service provider monitoring its service or seeking out infringing material or activity. Thus, the protection of the subsection is not lost if the provider becomes aware of facts or circumstances that suggest

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The knowledge standard is supplemented with a “notice and take down” procedure, that lies at the heart of the compromise reflected in the Act. By sending a notice seeking a “take down,” a copyright owner can obtain the important relief of stopping infringement faster and more easily than by seeking judicial intervention for the issuance of an injunction. The Act sets forth the requirements for compliant notice, which must be delivered to the service provider’s designated agent. The Act contains specific provisions governing the effect of a non-compliant notice.

A “put back” procedure is included in the Act to protect users (including students and faculty members) whose material is erroneously removed from the provider’s system. As long as the provider notifies the person whose material is “taken down” and complies with the “put back” procedure, the Act gives the provider broad protection from liability to the person whose material is “taken down.”

The “financial benefit and control” standard under which a provider may lose protection is based upon a narrow construction of existing principles of vicarious copyright liability. A provider will not be disqualified from protection because it receives a direct financial benefit in the form of payments from the infringer. Rather, the benefit must be directly attributable to the infringing character of the infringer’s activity. The key, in most cases, is whether the direct financial benefit differs in kind from the benefits received on account of providing services to legitimate, non-infringing users. Second, even if a provider is receiving a financial benefit directly attributable to the infringing activity, the provider will not lose the protection of subsection (c) unless the provider has the right and the ability to control the infringing activity. In this regard, the provider’s practical ability to control and police its service, in addition to its theoretical “right,” is an important factor.

D. Hyperlinks, Directories, and Other Information Location Tools (Subsection 512(d)). The Act protects service providers against liability for material contained on Internet sites to which the provider offers links, or which the provider identifies in a directory or search engine. This protection is subject to essentially the same substantive rules as the protection afforded to material stored on the provider’s system. Specifically, to be protected, the provider:

- must not have actual knowledge that the linked material is infringing, be aware of facts and circumstances from which infringement is apparent, or fail to remove the reference to the linked material upon receipt of such knowledge or awareness;

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infringement, or could be construed to raise a “yellow flag.” Such awareness creates no duty of further investigation.
must not receive a financial benefit directly attributable to the infringing character of the linked material, where the provider has the right and ability to control the infringing activity; and

must remove or disable access to the link to the infringing material upon receipt of a compliant notice.

Although the Act is unclear about whether a designated agent is required for the receipt of notice, it is advisable to designate an agent to remove any controversy and to provide a central location for the receipt of notice. Again, nonprofit educational institutions may benefit from a special rule of non-attribution governing the knowledge of graduate students and faculty members engaged in teaching or research functions (see Part V, below).

V. The Non-Attribution Rule for Nonprofit Educational Institutions

Subsection (e) of the Act provides that, under certain conditions, the conduct or knowledge of a graduate student or faculty member of a nonprofit educational institution will not be attributed to the institution. Non-attribution applies to conduct in the course of teaching or research functions for the purpose of subsections (a) and (b). It applies to knowledge of the graduate student or faculty member’s own infringing activities in the course of teaching or research for the purpose of subsections (c) and (d).

In order to qualify for these non-attribution rules, an institution must provide to all users of its system or network informational materials that accurately describe and promote compliance with U.S. copyright law. Non-attribution does not apply when the conduct in question is the provision of online access to course-related instructional materials that are or were required or recommended within the preceding three year period. Further, non-attribution will not apply when the institution has received more than two notifications under subsection (c) that a particular faculty member or graduate student has stored infringing material or is engaging in infringing activity.

VI. Other Provisions of the Act

A. Prohibitions on Misrepresentations, Subsection 512(f). The Act expressly prohibits knowing material misrepresentations in the course of take down or put-back notices. One who makes such a misrepresentation is liable for any damages, including costs and attorneys’ fees incurred by any copyright owner, alleged infringer, or service provider who is injured as a result of the service provider’s reliance on the false notice.

B. Limitation of Liability for “Take Down” and the “Put Back” Procedure, Subsection 512(g). As discussed above, the Act provides broad protection for a service provider who removes material that is alleged to be, or is suspected of being, infringing. The Act

3 It is unlikely that the provider will have the right or the ability to control infringing conduct on a linked site operated by a third party.
conditions such protection on the service provider notifying the person whose material was removed, and complying with the put-back requirements. Paragraph 512(g)(3) details the required content of the put-back notice.

C. Identification of the Infringing User, Subsection 512(h). Subsection (h) provides a streamlined procedure that enables a copyright owner to obtain a subpoena ordering a service provider to identify an infringing user whose material has been the subject of a “take down” notice of infringement.

D. Limitation on Injunctive Relief, Subsection (j). The Act provides detailed limitations on the availability and scope of injunctive relief available against a service provider for protected conduct. A court may not issue an ex parte injunction, and must consider four specified factors before granting any injunction. The only type of injunctions that are permitted for non-conduit activity are:

- an order restraining the service provider from providing access to infringing material or activity residing at a particular online site on the provider’s system;
- an order obligating the service provider to terminate the account of a particular user; and
- such other order as the court finds necessary to restrain infringement of specified material at a particular online location, if such relief is the least burdensome to the service provider among other comparably effective forms of relief.

The injunctive remedies against conduit activities are even more limited, including only an order that the service provider terminate the account of a specified user who is engaging in infringing activity, and an order restraining the service provider from providing access to a specific, identified, foreign online location, by taking reasonable steps specified in the order to block such access.

It is important to note that these limitations on the scope of injunctive relief do not apply where a nonprofit educational institution is entitled to the Act’s limitation of liability only by virtue of the special non-attribution rules of subsection (e). While the scope of injunctive relief in such cases remains in the equitable discretion of the court, the mandatory factors must be considered and ex parte injunctions are prohibited.

E. Other Defenses Not Affected, Subsection (l). One of the key principles of the Act is that it does not attempt to define the circumstances under which a provider might be found to be an infringer under any of the three theories of copyright infringement liability—direct
liability, vicarious liability, or liability as a contributory infringer. Rather, the service provider is free to raise all available defenses and to argue that its activities are not infringing. It is only if the provider is found to be an infringer that the limitations of liability are triggered. The Act and the legislative history make clear that courts should not construe the Act as reflecting a Congressional understanding that conduct falling within the scope of the liability limitations would necessarily give rise to infringement liability under current law or as constituting a Congressional decision that conduct that fails to qualify for a liability limitation should necessarily lead to liability.

VII. A Checklist of Steps To Consider for Protection

In order to benefit most fully from the protections of the Act, an educational institution that qualifies as a service provider should consider the following:

• registering its designated agent with the Copyright Office;

• providing the information required under the Act to identify its designated agent on its website;

• establishing and implementing a policy for the termination of subscribers and account holders who are repeat infringers;

• informing users of its system or network of its termination policy;

• providing informational materials that describe and promote compliance with U.S. copyright law to all users of its system or network;

• monitoring the status of standards activities directed to developing “standard technical measures” to protect copyrighted works;

• accommodating and not interfering with such standard technical measures once they are in use;

• adopting a policy making clear when conduct by employees is outside of the scope of their employment;

• establishing an internal procedure for handling notices of infringement (“take down” notices); and

• complying with generally accepted caching protocols (if the institution is interested in caching).

If you have any further questions, please contact Bruce Joseph by phone or e-mail at the number or address listed on the first page of this summary.

4 The following list is not intended as legal advice applicable to any particular institution. Any institution interested in qualifying for protection under the Act should consult its attorney.