Liability Limits of Service Providers for Copyright Infringement

Farooq Ahmad
Department of Law, University of Kashmir, Hazaratbal, Srinagar 190 006

(Received 13 November 2002)

One of the contentious issues associated with the online industry is the liability of service providers for transmitting content created by others. Explaining the role of service providers in making copyrighted work available to end users, the paper describes the basis of liability, judicial trends in resolving the issues of liability, and treatment of liability issues in WIPO Internet treaties. As a model law, the Online Copyright Infringement Liability Limitation Act (OCILLA) is discussed in detail. Indian scenario is also discussed briefly. Points out the need for a clear and well-defined liability standards for service providers.

Advent of Internet has raised many unprecedented issues that do not find express solution in the existing legal regime. 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. The chief threat to copyright holders presented by the Internet’s facilitation of information distribution is online piracy. The scope of this problem is hard to define in concrete terms. Though the damage of online piracy is hard to quantify in dollars, a driving motivation to protect copyright holder remains. The wide spread and open copyright abuse, it is feared, will establish a systematic cultural disregard for author’s intellectual property rights.

Who is an Internet Service Provider (ISP)?

One of the most salient and contentious issues associated with the fast developing online industry is the liability of service providers for transmitting content created by others. These service providers are gateways to the world of cyberspace. They provide online access to individuals, educational institutions, corporations and government agencies. These entities include online service providers, those who provide content through proprietary networks in addition to Internet access, which is provided through the same networks and Internet service providers who provide direct access to the Internet and usually have content provided in a central location.

These service providers are commercial and non-commercial entities
that connect users to the Internet, provided the user has access to the necessary hardware for this interface, namely telephone line, modem and a personal computer6.

The liability of the service provider for copyright infringement can be fixed only when his position, powers and limitations are clearly understood. For this purpose, the questions to be answered are: are service providers only passive carriers of information without any control over the transmission of information? Are they publishers of information and have primary responsibility for copyright infringement to the copyright holder? Are they themselves owners of the copyright of the work made available to the user? Are they responsible to the copyright holder for copyright infringement committed by the third party using their services?

Before addressing above issues, one has to understand the role of service providers in making copyrighted work available to end users. Any person interested in making available his work on Internet will have to upload web pages onto his web site which is physically located on the host’s server, i.e., a very large hard disk that is directly accessible from the network7. The uploaded work becomes available to all those connected to Internet. However, access to Internet is provided by an access provider. The uploaded work is transmitted from host to end user by the infrastructure of a network provider who apart from providing the physical facilities to transport a signal, will also transmit and route it to the designated recipient8. The service providers thus include originator of the information from whom information flows, access provider, who makes access to the information possible, network provider who transports information and the end user. These service providers join together to make information available with or without any pre-existing relationship with each other9.

There is no problem in fixing responsibility of originator of information. His position is not changed merely by the fact that he is making information available on the Internet. However, problem lies in identifying or locating the originator because it is possible to publish anonymously an information on a web page. This may further create the problem of jurisdiction and choice of law.

Basis of Liability

The liability for copyright infringement rests on three theories — direct, vicarious and contributory. Direct infringement occurs when a person violates any exclusive right of a copyright owner. Vicarious liability arises when a person fails to prevent infringement when he can and has a right to do so and is directly benefited by such infringement. These two theories are based on strict liability principle and a person will be liable without any regard to his mental state. Contributory liability arises when a person participates in the act of direct infringement and has knowledge of infringing activity.

The question arises as to which standard should be applied in order to fix the responsibility of service providers.
This issue has set in an academic debate which precipitated different opinions.

One extreme view is that the service providers should be subject to the strict liability standard because they facilitate transmission of infringing messages. The other view is that the strict liability standard would turn service providers into inspectors or supervisors of the online information flow who may become centralized control centres to enforce copyright law. Yet another view is that the service provider shall be held liable only when it is proved that he has actual knowledge of copyright violations. The actual knowledge requirement will make service provider liable only for his negligence. This would ensure freedom of online communications because service providers have no incentive to monitor transmission of their users for potentially infringing content. The service provider shall be held liable only when he receives complaint from a copyright holder but does not remove an illegal message.

**Judicial Trends**

The ticklish issue of standard of liability of service providers could not be resolved by the courts with one voice. The courts laid down different standards to determine liability of service providers.

In *Playboy Enterprises v. Frena* the court was called to determine liability of electronic Bulletin Board System operator (BBS) for the acts of users who had uploaded and downloaded the plaintiff’s copyrighted photographs. The court found *Frena* liable as a direct infringer for violating the plaintiff’s right to publicity distribute and display copies of its work. The contention of the defendant was that he never uploaded the photographs. In fact, he removed the photographs from the BBS when he received the complaint and had since that time monitored the BBS to prevent additional photographs from playboy being uploaded. The court ruled in favour of the plaintiff on the ground that intent or knowledge is not an element of infringement and thus even an innocent is held liable for infringement.

This ruling made the position of service providers precarious and was criticized by the service providers’ community on the ground that imposition of strict liability would compel them to monitor private transmission of their users in an effort to detect potential copyright violations. This decision has been criticized by the court in *Playboy v. Hardenbeugh* as overboard with the result that *Frena* decision has not been followed by the courts later on.

In *Sega Enterprises v. Maphia* the court did not approve *Frena* court’s findings but tried to find service provider liable under vicarious and contributory liability theories. The defendant, a BBS, solicited subscribers to upload files containing copyrighted materials to the BBS in order to make them available for downloading by the other BBS subscribers for consideration. The court held that the defendant’s knowledge of the infringing activities, encouragement, direction and provision of the facilities through his operation of the BBS constituted contributory infringement, even though the defendant did not know exactly when files were uploaded or...
Although the opinion came in favour of the plaintiff, the court was not quite clear about the liability standard. Because the court also observed that Sega has established a *prima facie* case of direct copyright infringement under 17 U.S.C. § 501 and has also established that unauthorized copies of its games are made, when such games are uploaded to the Maphia bulletin boards, with the knowledge of defendant Scherman.

The clarification to Maphia ratio came late on from the same district in *Religious Tech. CTR. v. Netcom Online Commun. Servs*. It was held that the Sega courts’ reference to the “knowledge of the Defendant”, “as knowledge is not an element of direct infringement. It was further explained that the Sega courts’ reference to direct infringement related to the direct liability of the unknown users, a necessary finding as there can be no finding of contributory infringement. It was also made clear 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.

The Netcom court rejected the argument of the defendant that it was in essence a common carrier entitled to the exemption to strict liability codified in Section III of the Copyright Act and held that service providers are not natural monopolies bound to carry all the traffic that passes through them like a normal passive carrier. However, the court did not go too far to hold service provider liable for direct infringement because that would, in the opinion of the court, result in liability for every single Usenet server in worldwide link of computers transmitting Erlich’s message to every other computer. The court ruled that 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 the third party.

The court laid down that the notice of infringing activity to the service provider will implicate him for contributory negligence because failure to stop an infringing copy from being distributed worldwide would constitute substantial participation. 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.

The argument of the plaintiff to hold Netcom vicariously liable was rejected by the court on the ground that Netcom did not directly gain from the infringing activity as there is no evidence to show that any of the infringing uses by Netcom subscribers enhanced the value of Netcom’s services.

The lead taken by Netcom court was maintained by the courts that followed it. In *Marobi F. L. Inc. v. National Association of Equipment Distributors*, the court did not hold service provider liable for direct infringement because it, as laid down by Netcom court, only provided the means to copy, distribute, or
display plaintiff’s works and equated service provider with a public copying machine used by a third party to copy protected material. But in *Playboy Enterprises, Inc. v Hardenbaugh* the defendant himself offered services to his subscribers of downloading of adult photographs in exchange for uploading different photographs. The defendant’s employees were screening photos in upload file and then shift them to the master file for users. The court came to the conclusion that the defendant BBS is not a passive provider of space in which infringing activities happened to occur but his activity involved in the process of copyright infringement. The court on the basis of Netcom ratio held defendant liable for direct infringement because of his direct participation in the infringement activity. Similarly, the court in *Playboy Enterprises, Inc. v Webb World, Inc.* held the defendant liable for direct infringement because he himself was selling the infringing material.

The courts have not granted any general immunity to the service providers. But the trend of the decisions shows that courts are willing to impose liability on service providers that depends upon the degree of control and knowledge of infringing activity.

### Legislative Measures

WIPO Copyright Treaty and WIPO Performances and Phonograms Treaty did not specifically address the liability issues of ISP for copyright violations of their users. Article 8 of the WIPO Copyright Treaty, in a very broad terms, lays down that mere provision of physical facilities for enabling or making a communication does not in itself amount to communication within the meaning of this treaty or the Berne Convention. Thus WIPO, without prescribing own standards, allows countries to establish their own national standards for ISP’s liability under copyright law.

America is the first country to have express provisions prescribing the limits of the liability of service providers for copyright infringement that in fact gave effect to WIPO Treaty. Congress passed the Online Copyright Infringement Liability Limitation Act (OCILLA) as Title 11 of the Digital Millennium Copyright Act (DMCA) signed into law, along with DMCA, by President Clinton on 28 October, 1998. OCILLA amended Chapter 5 of the DMCA by adding a new section titled “Limitations on Liability relating to Material Online”. Before OCILLA was passed, a white paper on intellectual property and the National Information Infrastructure was issued by the task force appointed to review copyright laws in the light of the challenges posed by digital technology. The white paper suggested that service providers should be considered at par with other distributors under the copyright law and should be strictly held liable for copyright infringement of their users. However, it did not suggest any express provision for liability of service providers on the ground that existing copyright law is inflexible enough to cover their activities.

While a bill, on the basis of white paper, was introduced, it received stiff opposition from ISPs for not addressing
the issue of ISP liability. They argued that existing strict liability provisions would expose them to liability for infringing material transmitted by the users over their network. Their representatives argued that imposition of strict liability would force them to monitor all transmissions in an attempt to detect infringing content which would not only be to ask for impossible but would violate First Amendment rights and invade the piracy of Internet users. They should be either absolved from all responsibility or fix responsibility only when they have actual knowledge of these violations. The copyright owner may be required to inform an ISP about the copyright violation taking place on its network and if ISP then fails to take appropriate measures only then they should be held responsible.

The copyright owners took a diametrically opposite stand that general grant of immunity would encourage ISPs to turn a blind eye to online violations and would hardly feel any obligation to cooperate with copyright owners in detecting infringing conduct.

As a compromise to competing interests, it was finally decided to codify the court’s decision in RTC v. Netcom into law which would overrule the court’s findings in Playboy Enterprises v. Frena. OCILLA applies to ISPs and non-profit institutions of higher education in their capacity as service providers. A new Section 512 was incorporated by OCILLA that provides “safe harbours” for ISPs from monetary damages. This section creates four categories for which an ISP’s infringement may be limited. Transitory communication, system catching, storage of information on systems at the direction of its users and information location tools.

These “safe harbours” protect service providers from all the monetary liability for direct, contributory and vicarious liability and also limited injunctive relief against qualifying service providers. In addition to these defences, ISP can avail all those defences that are available to defendants generally such as fair use.

Service provider has to satisfy two conditions before it is entitled to claim limitations on liability. First, the service providers shall designate an agent to receive notifications of copyright violations on their networks and shall implement a policy for the termination of services to subscribers who repeatedly engage in infringing activity online. Second, service providers should not interfere with any standard technical measures designed to protect or identify copyrighted works.

OCILLA equates service providers, who are a mere conduits for information transmission, with passive carries, entitled to exemption provided under the Copyright Act. OCILLA prescribes a new knowledge standard for liability of service providers.
It provides that service providers shall not be liable for third party copyright violations if he does not have actual knowledge that the material or activity on their networks is infringing, or, in the absence of such knowledge, are not aware of facts or circumstances from which infringing activity is apparent. This newly created knowledge requirement differs from existing law, under which a defendant may be liable for contributory infringement if he knows or should have known that material was infringing.

The House Committee on Commerce in its report on DMCA called this knowledge standard as “red flag” test which requires an inquiry “whether infringing activity would have been apparent to a reasonable person operating under the same or similar circumstances.” The Committee also explained that this “red flag” test includes objective and subjective elements. The objective standard should be invoked in deciding whether facts or circumstances constitute “red flag” and subjective test should be applied to know whether service provider was aware of a “red flag.”

OCILLA, however, lays down different standard of knowledge for non-profit educational institutions in their capacity as service providers. When a faculty member or graduate student performs a teaching or research function, such faculty or students knowledge of infringing activities generally shall not be imputed to an institution except when infringing materials were officially required or recommended for a class taught at an institution for the preceding three years and when the institution received more than two notifications of copyright violations within three years but failed to act on them.

OCILLA provides that copyright owners may notify an ISP of alleged copyright violations on the ISP’s network who may in turn take down or disable access to the allegedly infringing material. There is a provision for counter notification as well. A user whose material has been taken off-line at the request of a copyright owner may take a statement under the penalty of the perjury that the material was removed as a result of mistake or misidentification. Upon receipt of a counter notification, a service provider shall restore access to the allegedly infringing material within 10 to 14 business days unless a copyright owner files an action seeking a restraining court order.

The Singapore Copyright (Amendment) Act, 1999 has adopted OCILLA, with some modifications, to determine the liability of service providers.

Indian Scenario

The liability of service providers for copyright infringement is not covered expressly by the Indian Copyright Act and courts have not yet found opportunity to delineate the liability standard. However, Section 79 of the Information Technology Act, 2000 expressly provides that no person providing any service as a network service provider shall be liable under this Act, rules or regulations made thereunder for any third party information or data made available by him if he
proves that the offence or contravention was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such offence or contravention. One may argue that Section 79 absolves, under certain circumstances, service providers from any liability only under the Information Technology Act, rules and regulations there under and not under any other Act including Copyright Act. Thus, service providers in India will be liable under direct, vicarious or contributory theories depending upon the extent of control and knowledge of infringement in the same way as are other infringers held liable without any general immunity. However, this interpretation is not in tune with the provisions and case law prescribing liability limits in other jurisdictions. Thus, there is a need to delete the words “under this Act, rules or regulations made thereunder” which unnecessarily constrict the scope of the provision. However, this would not suffice because existing provision, even after the above suggested modification, do not clearly prescribe liability limits of the service providers. For instance, if a person makes representation to a service provider claiming copyright on the material available on the network; will the service provider be liable if he fails within a reasonable time to take steps to remove the material from the network or to prevent access to the material? If the service provider fails to prevent infringement of copyright in the above circumstances, is plea of not having knowledge of infringement still available to him? If the service provider removes the material from the network in pursuance to the representation made by a person which later on proves false, will he be liable to the person whose material has been removed or access blocked. If so, will he be alone or jointly responsible with the person who has made false representation? Thus, there is a need to prescribe expressly a provision either under the Information Technology Act or Indian Copyright Act for liability of service provider for copyright infringement which may be on the line of OCILLA of America.

**Conclusion**

Before fixing liability standards for service providers, it is to be borne in mind that there is a need to maintain a fine balance between the interest of copyright owners on the one hand and the ability of service providers to thrive on the other. Service providers have to handle enormous volume of information that is transmitted with a great speed. There are not currently, nor on the horizon, economically feasible methods for service providers to monitor their content for infringing uses.

Service providers would like to have their liability standards clear and well defined and should not be so stringent as to scuttle their legitimate business interest. Section 79 of the IT Act apparently gives immunity to the service providers from liability provided they satisfy certain requirements contained under section 79 itself. However, deeper analysis of this section makes it amply clear that it is not comprehensive enough and is bound to raise many controversies.
in the near future. In order to lay down well-defined liability limits of service provider for copyright infringement, there are various model laws available throughout the globe. One such model is contained in OCILLA. This law has provided a comprehensive code for liability limits of service providers, which has proved a viable model law. This model can be adopted, with necessary changes, in India also.

References and Notes
2 Id, 221
3 Siver K, Good Samaritans in cyberspace, Rutgers Computer and Technology Law Journal, 23, 1997, 1
4 Dimtriera Irine Y, I know it when I see it: should Internet providers recognize the copyright violations when they see it? Computer and High Technology Law Journal, 2000, 233
5 Internet service providers have been defined as the entity offering the transmission, routing, or providing of connections for digital online communications, between and among points specified by a user, of material of users choosing, without modification to the content of the material as sent or received 17 U.S.C. 512(K)(1)(A) (Sup. IV 1998)
7 Verma S K, Liability of Internet service providers (ISPs), paper presented at the National Seminar on Challenges of Internet/Cyber Law and Enforcement of Copyright Law, organized by the Indian Law Institute, 3-4 March 2001
8 Id
9 Id
12 Samuelson Pamela, The copyright grab, Wired Magazine, Issue No 4.01, 190
13 Shulman Mary Ann, Internet copyright infringement liability: is an online access provider more like a landlord or a dance hall operator? Golden Gate University Law Review, 27, 1997, 555, 599; see also Giorgio Bevenzi, Liabilities of system operators on the Internet, Il Berkeley Technology Law Journal, 1996, 93, 141; Wendy Melone, Note, Contributory liability for access providers: solving the conundrum digitalization has placed on copyright laws, Federal Communications Law Journal, 49, 1997, 491, 506
14 839 F. Supp. 1552 (M.D. Fla. 1993)
15 BBS is a computer bulletin board that offers computer users the ability to obtain information from a central source accessed through a telephone modem. See Playboy Enterprises v. Russ Hardenbaugh, Inc. 982 F. Supp. 503, 505 (N.D. Otio 1997). Users obtain access to the information held on the board by using a modem attached to their computers to dial up the modem attached to the board, thus making a telephonic connection between the two computers. Software running on the bulletin board computer controls the user’s access to and deposit of information. This software deals automatically with all the operational functions of the board, and thus allows it to run unattended. See Chris Reed and La Walden, Legal problems of electronic bulletin board operators, International Journal of Law and Information Technology, 2 (1) 1994, 287
16 H.R. Rep No. 105-551 Pt 1, 26 (1998)
17 982 F. Supp 503, 513 noting that the opinion in Frena will make BB operators liable for direct infringement by mere creation of BBS where copyrighted material appeared on the system
18 857, F. Supp. 679 (N.D. Cal. 1994)
19 Id, 683
20 Id, 686
Transitory communications covers the process of moving packets of information across digital online network such as forwarding e-mail traffic or routing messages to a mailing list agent (Listserv). Committee on the Judiciary House of Representatives, 105th Cong., 2d Sess. Section-by-section Analysis of H.R. 2281 of the House Comm. on Commerce, Report 105-551, pt. 2 105th cong. 2nd Sess, at 63 (1998) 26 (Comm. Print Serial No. 6 1998), Sec. 17 U.S.C. 512(a)

System Caching is a technique employed by ISP’s to speed up public access to popular web sites. When a user requests access to a certain website, a local Internet Server automatically makes a temporary copy of the requested file. This is done in case other users from the same area would want to visit this particular site. In this case, they will access it from the local server instead of recalling the site from possibly thousands of miles away. Available at <http://www.ircache.net/cache/FAQ. See 17 U.S.C. 512(b)(2)(e)

Storage of information covers facilities like providing server space for a user’s web page, for a chat room, or forums in which material may be posted at the direction of users. See Comm. on the Judiciary House of Representatives, 105th Cong. 2nd Sess. Section-by-section Analysis of H.R. 2281. See 17 USC 512 (c) (4)

The OCILLA defines information location tools for the purposes of the Act 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, pointer, reference or hypertext link


Section 79 of the IT Act