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The Database Protection Debate in the United States

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Two database protection bills are now pending before the U.S. House of Representatives: H.R. 354, introduced by Howard Coble, and H.R. 1858, introduced by Tom Bliley. These bills differ significantly in approach and scope. This paper summarizes the background to the debate, compares the two bills, and discusses the possible global ramifications of legislation in this area.

1.0 BACKGROUND.

1.1 The Status Quo.

Historically, America's basic information policy has been that facts reside in the public domain. This allows a second-generation publisher to extract facts from an existing compilation for re-use in its own compilation. Facts are viewed as the building blocks of knowledge that everyone is free to use and reuse.

Nonetheless, a database publisher has several ways of protecting his investment in collecting facts. First, the publisher can rely on copyright. Copyright protects the original selection, coordination, and arrangement of the facts in a compilation, but not the facts themselves. Thus, copyright usually prevents the wholesale copying of a database -- which typically contains at least a minimal amount of original expression -- but not the extraction and reuse of individual facts.

Second, the publisher can rely on contracts. Many databases, particularly online databases, are distributed subject to license agreements under which the licensee -- the user -- agrees not to re-disseminate the information.

Third, the publisher can rely on state common law misappropriation. Under this doctrine, the collector can prevent competitors from copying "hot news" or other time sensitive information. *See NBA v. Motorola*, 105 F.3d 841 (2d Cir. 1997).

Fourth, the publisher can rely on technological measures. These measures are particularly effective with respect to online databases, where the publisher can limit the user's access to relatively small amounts of information at any one time. These limitations impede the copying of the database as a whole. Technological measures now receive legal protection under the recently enacted Digital Millennium Copyright Act

(DMCA). The DMCA created a new chapter 12 to the Copyright Act, which prohibits the manufacture and sale of devices that are designed to circumvent technological protection measures.

1.2 The *Feist* Decision.

Until 1991, the collector could rely on yet another legal doctrine: “sweat of the brow.” In a few circuits, courts interpreted the Copyright Act as preventing the copying of facts in a compilation in which there were no original elements in selection or arrangement. Courts in these jurisdictions thought it was unfair and unwise to afford no protection to the efforts of people who assembled plain vanilla directories. It is important to note that sweat of the brow was largely a stop-gap measure; courts typically applied it to compilations which lacked any expression and which were copied in their entirety.

In 1991, however, the Supreme Court in *Feist v. Rural Telephone*, 499 U.S. 340 (1991), found the sweat of the brow doctrine unconstitutional. A unanimous court held that under the copyright clause of the Constitution, copyright protection could extend only to expressive elements in compilations, and that effort without creativity could not convert facts into expression. Notwithstanding the of the sweat of the brow doctrine, the database industry in the U.S. has continued to grow, largely because of the protection afforded by copyright, contract, state common law, and technology, as discussed above. Nonetheless, some database publishers have sought to restore the protection afforded by the sweat of the brow doctrine.

1.3 EU Database Directive.

This effort gained significant momentum in 1996, when the European Union adopted its Database Directive. Under this regime, a second-generation publisher could not extract or reuse a qualitatively or quantitatively substantial part of a first generation database, even if the second publisher did not extract or reuse any protectable expression. The Database Directive’s *sui generis* protection is available only on a reciprocity basis. That means a non-EU publisher can receive the heightened level of protection only if the publisher’s country of origin afforded an equivalent level of protection. In other words, if the U.S. does not enact database legislation on par with the Database Directive, then U.S. publishers can not receive this added protection in Europe.

There is, however, a loophole in this reciprocity requirement. If a non-EU publisher has a subsidiary operating in the EU, then databases distributed by the subsidiary would be able to receive the heightened protection.

In response to the EU Directive, Congressman Carlos Moorhead introduced H.R. 3531 in the 104th Congress . H.R. 3531 would have established a *sui generis* database protection regime even more stringent than that of the Directive’s; H.R. 3531 had a 25 year term of protection, while the Directive established at 15 year term of protection. H.R. 3531 died with the end of the 104th Congress without further discussion.

Additionally, the EU and the U.S. Patent and Trademark Office suggested that a database treaty modeled on the EU Database Directive be placed on the agenda of the 1996 World Intellectual Property Organization (WIPO) Diplomatic Conference. At the beginning of the conference, however, discussion of a database treaty was deferred because too many other items relating to the Copyright Treaty and the Performances and Phonograms Treaty needed to be resolved. Moreover, representatives from other regions contended that discussion of a database treaty was premature.

1.4 H.R. 2652.

In the 105th Congress, database protection reappeared in the form of H.R. 2652, introduced by Howard Coble, Chairman of the House Subcommittee on Courts and Intellectual Property. Although the legislation was styled as a misappropriation bill based on a tort, rather than an intellectual property right, theory, the substantive tests were almost identical to those of H.R. 3531. H.R. 2652 received support only from a limited number of large database publishers such as Reed Elsevier (the Anglo-Dutch owner of Lexis-Nexis) and Thomson (the Canadian owner of West).

Value added publishers and the science, education, and library communities, argued that H.R. 2652 was unnecessary -- that copyright, contract, common law misappropriation, and technology provided databases with adequate protection. Moreover, these opponents contended that the database industry was healthy and that there was no market failure which required legislative correction.

Nonetheless, H.R. 2652 passed the House twice -- once as a stand-alone bill, and the second time as part of the House's version of the Digital Millennium Copyright Act. At this point, the Department of Commerce, the Department of Justice, and the Federal Trade Commission all registered serious concerns with the bill. In the House-Senate conference on the DMCA in the closing days of the 105th Congress in October 1998, the database portion was dropped.

2.0 THE DATABASE BILLS PENDING IN THE CURRENT(106TH) CONGRESS.

2.1 H.R. 354 -- The Collections of Information Antipiracy Act.

On January 19, 1999, Chairman Coble introduced H.R. 354, which is very similar to H.R. 2652. Under H.R. 354, a person can not (i) make available to others (ii) a substantial part (iii) of a collection of information gathered or maintained by another person through the investment of substantial resources (iv) so as to cause material harm to the primary or related market for a product or service containing that collection of information. Additionally, one cannot extract a substantial part of a collection of information so as to cause material harm to the primary market for the collection of information. The goal of the legislation is to protect the investment in databases by restoring the sweat of the brow doctrine and ensuring protection for U.S. publishers under the EU Database Directive through the establishment of a comparable regime here.

Many of the specific problems identified by the critics of H.R. 2652 exist in H.R. 354 as well. According to these critics, H.R. 354 goes far beyond preventing database piracy, and prevents legitimate reuse of information for socially valuable purposes. Specifically, given the ambiguity of the term “substantial part,” the second generation publisher is at risk whenever he extracts any information from an existing database; he has no way of knowing what the first publisher, or a court, will consider “substantial.”

Further, most, if not all, value-added databases will harm a “related market” for a product containing the first collection of information. Indeed, the market for a value added database almost by definition is a related market for a product containing the collection of information. H.R. 354 contains a “reasonable use” provision not found in H.R. 2652, but its terms are so vague as to provide little comfort to most value added publishers.

Another concern identified by opponents of H.R. 354 is sole source databases. For many database markets, there is no feasible way for another person to collect the information independently. This may be because the information is historical, and thus can be found only in an existing database; or because the publisher has a special relationship with the producer of the information. The protection afforded by H.R. 354 guarantees these publishers monopoly prices.

A final major concern is that notwithstanding the 15-year term limit, H.R. 354 as a practical matter confers perpetual protection for databases. This is particularly the case with dynamic online databases, where the second publisher has no way of knowing for which portions of the database has protection expired.

For these reasons, the opponents of H.R. 354 believe it will inflict serious harm on many sectors of the economy which rely heavily on access to information. Financial publishers such as Bloomberg and Dun & Bradstreet have concluded that it will increase the cost of the information they incorporate in their products. Similarly, scientists feel that H.R. 354 will destroy the culture of sharing information which is so integral to scientific progress and has maintained U.S. scientific competitiveness for many decades.

In March 1999, the Intellectual Property Subcommittee held a hearing on H.R. 354. The Subcommittee “marked-up” the bill in May, 1999, and a few days later the full Judiciary Committee adopted it with no substantive debate.

2.2 H.R. 1858 -- The Consumer and Investor Access to Information Act.

On May 19, 1999, Tom Bliley, Chairman of the House Commerce Committee, Ranking member John Dingell, and the chairmen and ranking members of the Telecommunications and Finance Subcommittees, jointly introduced H.R. 1858, the Consumer and Investor Access to Information Act. H.R. 1858 targets the parasitical copying of databases, without prohibiting reuse of information to create new kinds of databases. Specifically, this bill prohibits a person from distributing a duplicate of someone else’s database in head-to-head competition with the first database.

By establishing a narrower prohibition than H.R. 354, H.R. 1858 does not prevent reuse of information in innovative databases. It deals with the sole source database problem by prohibiting misuse of the new protection. It eliminates the chilling effect of frivolous litigation by vesting enforcement authority in the Federal Trade Commission rather than private parties. H.R. 1858 also has a more comprehensive exemption for online service providers than H.R. 354.

This narrow approach has widespread support among financial publishers, the science, education and research communities, Internet companies, and large corporate users of information. They believe that this bill successfully balances concerns about database piracy with the need to use previously gathered information as a foundation for new products.

The Telecommunications and Finance Subcommittees held hearings on H.R. 1858 during June, 1999. Those hearings highlighted the difference between the two bills, and emphasized that the Judiciary Committee and the Commerce Committee view the issue of database protection from different perspectives. The Judiciary Committee is more concerned with protecting the publishers' investment, while the Commerce Committee is more concerned with ensuring the availability of information necessary for commercial activity.

H.R. 1858 was marked up in the Telecommunications and Finance Subcommittees in July, 1999. It was considered and passed by the full Commerce Committee in early August, 1999. It is now up to the Rules Committee and the House Republican Leadership to decide how to proceed with these two competing bills.

2.3 Senate Action.

On January 19, 1999, Orrin Hatch, Chairman of the Senate Judiciary Committee, placed a statement concerning database protection in the *Congressional Record*. He attached to his statement, for discussion purposes, three alternative bills: an early draft of H.R. 354; an early draft of H.R. 1858; and a draft his staff had produced during the 105th Congress based on H.R. 2652. To date, none of these bills has been formally introduced in the Senate.

Further, John McCain, Chairman of the Senate Commerce Committee, introduced S. 95, also on January 19, 1999. While the other bills discussed above *increase* protection for databases, the McCain bill heads in the other direction. It prohibits any limitation on "the dissemination by any medium of mass communication" of stock trading information.

The stock exchanges, particularly the New York Stock Exchange and NASDAQ, have signaled support for H.R. 354. Financial publishers such as Bloomberg, as well as stock brokerages such as Charles Schwab & Co., fear that the exchanges will use broad database protection like H.R. 354 to increase the price of the live feeds of stock quotes, and otherwise restrict the downstream use of this information. S. 95 resolves this dispute by making stock information even more available than it is currently. (Although S. 95

targets only stock trading information, Senator McCain has indicated that he is interested in the broader database issue.)

2.4 Administration Position.

The Clinton Administration has concluded that there is a gap in existing protection for databases which needs to be filled. It has raised specific concerns with the language of both H.R. 354 and H.R. 1858. With respect to H.R. 354, the Administration believes that its scope is too broad. It believes that only acts of commercial distribution should be prohibited, and not acts of extraction without further dissemination to the public. It has continuing concerns regarding perpetual protection and sole source databases. It also believes the definitions of terms such as “related markets” need to be tightened. The Administration stressed that these concerns needed to be addressed in part to ensure that the legislation did not run afoul of the First Amendment of the Constitution. The Department of Justice in particular fears that restrictions on the use of information could violate the fundamental right of free speech.

The Clinton Administration also voiced concerns with respect to H.R. 1858. It felt that some terms were too broadly defined, and could result in over-protection. At the same time, it felt the absence of a private cause of action would result in under protection. It strongly applauded H.R. 1858’s focus on commercial misappropriation.

To date, the Clinton Administration has not signaled its preference of one bill over the other. This is not surprising given that the debate between the two bills has evolved in some measure into a political battle between two very powerful Congressional committees.

2.5 Federal Trade Commission Position.

On July 1, 1999, the Federal Trade Commission (FTC) issued testimony concerning H.R.1858. The testimony stated that H.R. 1858 successfully addressed many of the concerns the FTC had raised in 1998 with respect to H.R. 2652, the predecessor to H.R. 354. The FTC testimony identified a few areas where the language of H.R.1858 was ambiguous, particularly in the misuse section. The FTC also questioned whether it had sufficient resources to enforce H.R.1858’s prohibitions.

3.0 INTERNATIONAL DIMENSIONS.

3.1 Reciprocity Under the EU Database Directive.

Proponents of H.R. 354 argue that H.R. 1858 does not offer comparable protection to the EU Database Directive and therefore will not lead to reciprocal protection under the Directive. The Administration publicly has stated that the U.S. should decide for itself what level of protection is appropriate for databases, and not worry about comparability with the Directive. Underlying this position is the realization that reciprocal protection is the outcome of a *political* process involving negotiations

between the U.S. and the EU. In other words, the substantive merits of comparability are a minor, if not insignificant, factor in this political process.

3.2 WIPO Deliberations.

As noted above, the WIPO in 1996 decided not to consider a database treaty at the Diplomatic Conference. Since 1998, the WIPO has held two sessions of the Standing Committee on Copyright and Related Rights to study the subject, and database protection was on the agenda of regional meetings co-sponsored by the WIPO during the summer of 1999. While currently there seems to be no significant momentum to deliberate the database protection issue in the WIPO, it is likely that WIPO will pursue a database treaty after the U.S. enacts the legislation. This is because the U.S. at that time probably will join together with the EU in placing great pressure on the WIPO to consider a database treaty very seriously. A database treaty will prove controversial because the developing world will view it as yet another stratagem by the developed world to impede the developing world's progress.

4.0 CONCLUSION

The database bills pending in Congress will head the database industry, and arguably the economy as a whole, in dramatically different directions. While H.R. 354 will grant first generation publishers a new weapon against piracy, it will also provide them with unprecedented control over downstream competition. At the other end of the spectrum, S. 95 indicates that the database debate imposes risk on first generation publishers. Congress may very well decide to deprive them of some of the protections they now have. As noted above, many database publishers are *de facto* monopolists, and Congress is appropriately suspicious of monopolies in the Information Age. In between these two extremes, the H.R. 1858 provides an incremental increase of protection to first generation publishers against pirates, without constraining legitimate activities by second-generation publishers.

Balance in this area is critical. Information is the oxygen of the new economy; drastic changes to information policy will hinder the expansion of the Internet, impede research, and stifle entrepreneurship and innovation. As Chairman Hatch recently stated, the U.S. Congress will consider the database issue within the context of the "national Internet policy."

The EU adopted the Database Directive with relatively little public participation. The database debate in the U.S., by contrast, involves all stakeholders, including database publishers, Internet companies, commercial users, libraries, universities, science organizations, and a range of financial institutions. Accordingly, the discussion of this issue is far more robust in the U.S., and far more likely to produce a balanced result. Therefore, we encourage you to closely monitor U.S. developments if there is no such discussion in your country.

As the debate proceeds in the U.S. and abroad, certain threshold questions must be kept in mind:

- Is additional protection truly needed?
- If so, what is the harm which needs to be addressed?
- Is the legislation designed to cure this harm drafted narrowly enough so as not to have unintended negative consequences?

Furthermore, discussion of the database protection issue should reflect other fundamental domestic policies such as future development of the economy and technology.