

## **ADDITIONAL DEVELOPMENTS— COPYRIGHT**

### ***N.Y. MERCANTILE EXCHANGE, INC. v. INTERCONTINENTALEXCHANGE, INC.***

**497 F.3d 109 (2d Cir. 2007)**

The United States Court of Appeals for the Second Circuit held that the New York Mercantile Exchange's ("NYMEX") settlement prices were not copyrightable subject matter pursuant to the merger doctrine.

NYMEX and IntercontinentalExchange ("ICE") are competitors in the futures exchange business for oil and natural gas. At the end of every trading day, NYMEX determines settlement prices for futures contracts. ICE copies these prices and uses them in their trading operations.

NYMEX brought suit against ICE in 2002, alleging that ICE's use of the prices constituted copyright infringement. The United States District Court for the Southern District of New York granted ICE's motion for summary judgment, finding the prices non-copyrightable because they were facts, words or short phrases, and applied the merger doctrine since the only way to express the idea of a settlement price is a single number. The Second Circuit affirmed, relying on the merger doctrine, while declining to resolve whether the prices were indeed non-copyrightable facts.

Copyright protection extends only to expression, not to ideas. Under the merger doctrine, when there is only one or a few similar ways of expressing an idea, courts hold that the idea and its expression are so intermingled that they merge, such that the expression is not copyrightable.

The Second Circuit identified the "idea" as the fair market value for each NYMEX contract, which is expressed as a settlement price. In determining whether or not the merger doctrine applied, the court considered whether all possible expressions of settlement prices are so similar that granting the copyright would bar others from expressing the underlying idea. The doctrine applied because "all possible expression takes the same form, a number." Since NYMEX did not demonstrate a range of possible variations of what the settlement prices would be, the court declined to grant copyright protection to its settlement prices.

Instead of relying on the merger doctrine, the court could have resolved the copyright issue by determining whether NYMEX's settlement prices were non-copyrightable facts. While the court discussed, in dicta, the "strong argument" that NYMEX was not the author of the prices, which were insufficiently creative, the court declined to make such a determination on summary judgment, as there were factual questions unresolved. In a concurrence, Judge Hall criticized the court for this dicta, arguing that it contemplated heightening the minimal creativity requirement.

**LIVE NATION MOTOR SPORTS, INC. v. DAVIS***81 U.S.P.Q.2d (BNA) 1826 (N.D. Tex. Jan. 9, 2007)*

The United States District Court for the Northern District of Texas found that defendant Davis's links to live streaming webcasts on the website of SFX Motor Sports ("SFX") infringed SFX's public performance, display, and digital transmission rights under 17 U.S.C. § 106(4), (5), and (6).

SFX produced motorcycle racing events and broadcast them live on the Internet. Davis provided links to SFX's live streaming media broadcasts on his website. SFX claimed that Davis's action constituted copyright infringement. Having granted SFX's motion for a preliminary injunction in an earlier proceeding, the court granted SFX's motion for summary judgment in its copyright action.

The court decided that Davis's links to SFX's live stream webcasts on his website qualified as a copied displays or performances of SFX's copyrightable material.

In ruling on the copyright protection of live internet webcasts, the court analogized to a case involving copyright protection for live television broadcasts. In the *National Football League v. PrimeTime 24 Joint Venture*, 211 F.3d 10 (2d Cir. 2000), the Second Circuit found that the defendant's unauthorized satellite transmissions of live football broadcasts were a public display or performance of the plaintiff's copyrighted material, and thus constituted copyright infringement.

Working from Second Circuits statement that "a public performance or display includes each step in the process by which a protected work wends its way to its audience," the court found that Davis's unauthorized link constituted a copied display or performance of copyrighted material. The fact that another entity distributed the link to the webcasts free of charge was not an affirmative defense. Moreover, the court found that Davis's link was not a fair use of the copyrightable material, citing a lack of evidence presented by Davis, a *pro se* litigant who failed to file a response to the motion for summary judgment. In its very brief fair use analysis, the court, treating a separate motion filed by Davis as his response, rejected Davis' characterization of his actions, in earlier proceedings, as "commentary" (which Davis made as part of a different motion). The court noted both that Davis appeared to have an admitted commercial purpose rather than a purpose of "criticism, comment or news reporting, and that Davis linked to the "whole" webcast rather than excerpts of it.

***UNITED STATES V. AMERICAN SOCIETY OF COMPOSERS, AUTHORS & PUBLISHERS***

*485 F. Supp. 2d 439 (S.D.N.Y. 2007)*

The United States District Court for the Southern District of New York held that downloading of a digital music file does not constitute a public performance within the meaning of 17 U.S.C. § 101.

Applicants AOL, Yahoo!, and RealNetworks applied to the American Society of Composers, Authors and Publishers (“ASCAP”) for a license to publicly perform various musical works over the Internet. After the parties were unable to agree on a licensing fee, ASCAP applied to the court for a determination of a reasonable fee for the use of its media in Applicants’ online services. The court granted the Applicants’ partial summary judgment on the issue of whether downloading a digital music file in and of itself does constitute a “public performance” of that song within the meaning of 17 U.S.C. §101.

As the parties did not dispute the facts, the court faced the issue of the meaning of “performance” within the Copyright Act as a matter of statutory construction. The Copyright Act states that to perform a work “means to recite, render, play, dance, or act it, either directly or by means of any device or process . . . .” The court looked to dictionary definitions of the non-statutorily defined words “recite, render and play,” and found that all three required contemporaneous perceptibility. Although the court acknowledged that the term “perform” should be broadly construed, the court could not conceive of a construction of the term “perform” that would extend to the copying of a digital file from one computer to another in the absence of any perceptible rendition. Rather, it held, the act of downloading a music file is a method of reproducing—not performing—it, making it an exclusive reproduction right under § 106(1) rather than performance right under § 106(4).

The court then looked to case law, applicable legislative history, and administrative sources and found its construction of “perform” to be consistent with these sources. The court explained: “to the extent that [] a download can be considered a public performance,” e.g. if the user plays the music contemporaneously with downloading it, “the performance is merely a technical by-product of the transmission process that no value separate from the download.”

***SCO GROUP, INC. v. NOVELL, INC.***

*2007 U.S. Dist. LEXIS 58854 (D. Utah Aug. 10, 2007)*

The United States District Court for the District of Utah ruled that Novell owns the copyrights to UNIX, and that SCO Group must drop its claims against IBM and Sequent for breaching their UNIX licensing agreements.

UNIX is a computer operating system developed by AT&T in 1969. Since its introduction, several UNIX-like operating systems have been developed, including Linux, a free, open source operating system.

Ownership of UNIX changed several times in the mid 1990s. AT&T transferred all its UNIX rights to Novell in 1993. Novell later tried to sell its UNIX assets to Santa Cruz Operations, but Santa Cruz Operations could not afford UNIX. Thus, Novell structured a special purchase agreement that allowed Santa Cruz Operations to further develop and license UNIX, but required Santa Cruz Operations to remit most royalties to Novell. Santa Cruz Operations sold its UNIX assets to Caldera, which then changed its name to SCO.

In 2003, SCO launched an initiative to obtain license fees from Linux users for using its UNIX intellectual property. As part of this strategy, SCO sued IBM and its subsidiary, Sequent, alleging that IBM violated its UNIX license by disclosing UNIX-derivative source code in the form of Linux. While the open source community reacted with outrage to SCO's claim that the use of Linux required a UNIX license, Novell publicly stated that it still owned the UNIX copyrights which SCO was attempting to enforce. SCO responded by suing Novell for slander of title.

The initial purchase agreement between SCO's predecessor, Santa Cruz Operations, and Novell covered Novell's UNIX assets, including the trademarks, but excluded all patents and copyrights. The parties later amended the purchase contract to include the copyrights and trademarks "required for SCO to exercise its rights with respect to the acquisition of [UNIX technologies]". However, the amended purchase agreement specifically listed the trademarks as assets to be purchased, but never listed any copyrights as assets to be purchased. Thus, the court concluded that this amendment only conveyed a license to the copyrights and that Novell retained ownership of the copyrights to UNIX.

After holding that Novell owned the UNIX copyrights, the court ruled on several license disputes. First, the court held that all licenses related to UNIX products were subject to the amended purchase agreement. Thus, SCO was directed to waive its claims against IBM and Sequent because Novell exercised its waiver right under the purchase agreement. Second, the court ruled that SCO must give Novell the appropriate portion of revenues from its licensing agreements with Sun and Microsoft because UNIX technology was included in those agreements. The appropriate portion was to be determined at a later date because it involved questions of fact. However, this trial was postponed because SCO filed for bankruptcy.

***IN RE MECHANICAL & DIGITAL PHONORECORD  
DELIVERY RATE ADJUSTMENT PROCEEDING***

*71 Fed. Reg. 64303 (2006)*

The Register of Copyrights issued a memorandum opinion stating (1) that ringtones qualify as digital phonorecord deliveries (“DPDs”) under 17 U.S.C. § 115, and (2) that, therefore, depending on whether they exhibit sufficient creativity to qualify as derivative works under the Copyright Act, ringtones may fall within the scope of § 115’s compulsory licensing scheme. In so doing, the Register agreed on every major issue with the Recording Industry Association of America (“RIAA”), which had requested guidance on and heavily briefed the issue to the Register. The National Music Publishers Association, Inc., the Songwriters Guild of America, and the Nashville Songwriters Association International (collectively, “Copyright Owners”) had opposed the RIAA’s referral motion and argued that ringtones should not qualify for compulsory licensing.

17 U.S.C. §115 provides a “compulsory license to make and distribute phonorecords” of any nondramatic musical work previously recorded once a phonorecord of that work has been “distributed to the public in the United States under authority of the copyright owner.” The compulsory license allows the licensee to distribute (or authorize the distribution of) a phonorecord of such a work via a digital transmission which constitutes a digital phonorecord delivery. The copyright statute defines a DPD as “each individual delivery of a phonorecord by digital transmission of a sound recording which results in a specifically identifiable reproduction by or for any transmission recipient of a phonorecord of that sound recording.”

The Register found that ringtones fall under the § 115 licensing scheme because they are sound recordings fixed in a phonorecord (“the phonorecord here is the actual sound recording file stored as a ‘download’ on either the cell phone’s hard drive or removable memory storage disk”) and because the delivery of such by wire or wireless technology meets the definition set forth in the Copyright Act.

Although the Register acknowledged that statutory licenses are to be construed narrowly, the Register found, on the basis of the Act’s language and legislative history, that certain ringtones appear to fit comfortably within the definition of DPDs. Relying on principles of statutory interpretation expounded in the RIAA’s briefs, the Register reasoned that § 115 applies to whole musical works as well as portions of musical works like ringtones.

Thus, the Register held, whether a particular ringtone falls under § 115’s statutory licensing scheme depends on whether it could be considered a mere “portion of a work” to which § 115 applies, or an original derivative work, to which it does not. Under that rule, ringtones that are merely excerpts of a preexisting sound recording—whether looped or not, and whether monophonic, polyphonic, or mastertones—fall squarely within the scope of the statutory license. Ringtones made up of excerpts with additional material, on the other hand, may exhibit sufficient originality to qualify as derivative works and therefore fall outside the §115 compulsory license. The Register determined that there is a broad spectrum of ringtones, and whether one could be considered a derivative work or not depends on the nature of the ringtone, an issue for courts to determine on a case-by-case basis.

## **GOWERS REPORT: U.K. KEEPS COPYRIGHT TERM AT 50 YEARS**

Following an independent review of its intellectual property laws, the United Kingdom decided to maintain the term of copyright in sound recordings and performers' rights at the current 50 years. The decision was one of several recommendations made by Andrew Gowers, former Editor of the Financial Times. The governments' refusal to extend copyright protection outraged the U.K. music industry, which had campaigned for the extension.

In December 2005, the Chancellor of the Exchequer commissioned Mr. Gowers to review the UK's intellectual property framework. The Gowers Review of Intellectual Property ("the Review") was published on December 6, 2006. The project's purpose was to recommend policies that would ensure that the UK's IP rights are balanced, coherent, flexible, and suited for a digital and globalized age. The principal recommendations included: tackling IP crime and ensuring that rights are properly enforced, reducing the system's costs and complexity, and reforming copyright law to allow individuals and institutions to use content in ways consistent with the digital age.

The Review also sets out several concrete recommendations, including the controversial recommendation that the European Commission should retain the length of protection on sound recordings and performers' rights at 50 years. The Review consulted a wide range of industrial, academic, and public sector stakeholders. The Review concluded that extending the term would harm the UK's trade balance while providing little practical benefit to artists and causing great harm to creativity and consumers. The music industry argued that performers and producers were unfairly discriminated against, as their rights only extend for 50 years, whereas composers are entitled to the life of the author plus 70 years. Proponents of the government's decision argued that extending the term would only help a small number of already highly successful artists, while damaging future artists and the general public's access to their cultural heritage.

## AUSTRALIAN COPYRIGHT AMENDMENT ACT OF 2006

Australia amended its copyright law to implement a number of key changes, as it had agreed to under the Australia-United States Free Trade Agreement. The Copyright Amendment Act of 2006 codifies (1) new fair dealing defenses, (2) new copyright infringement offenses, (3) new exceptions to copyright infringement, and (4) new anti-circumvention provisions regarding technological protection measures.

Prior to the Act, Australian copyright law had only limited recognition for fair dealing—a defense to copyright that serves similar purposes to the U.S. doctrine of fair use. The defense of fair dealing explicitly applied only to use of copyrighted material for purposes of criticism, review, or news reporting. The Act amended Australia's fair dealing regime by codifying fair dealing for parody and satire. Copying protected material for purposes of parody or satire is not infringement. Australian legislators specifically chose not to introduce the broad fair use defense regime present in the United States.

The Act introduces four new exceptions to copyright infringement: (1) time-shifting, (2) format-shifting, (3) space-shifting, and (4) research and study. First, the time-shifting defense allows individuals to record a broadcast, including any work within the broadcast such as a film, for watching at another time. Time-shifting copies must be for private use, and may be borrowed by family members or household members. Second, the format-shifting defense allows owners of copies of copyrighted works—including books, newspapers, periodicals, photographs and films—to make a copy in a different format. If temporary copies are produced during the course of format-shifting, the temporary copies must be promptly destroyed. Third, the space-shifting defense allows owners of copies of copyrighted sound recordings to make copies for personal use. Unlike the format-shifting exception, the copy may be in the same format as the original copy. Thus, this defense would not permit recordings of copyrighted works during internet broadcasts. Fourth, the Act that a “reasonable portion,” usable for research and study without infringement liability, means ten percent of a work, or one chapter for published material.

The Act introduces four new criminal liability infringement offenses: (1) making, selling, distributing, or offering to sell an infringing copy of a copyrighted work; (2) displaying a copyrighted work in public or causing a copyrighted sound recording or film to be heard in public; (3) possession of an infringing work with the intent to sell the infringing work; and (4) making or possessing technology for making an infringing copy of a copyrighted work. Large scale commercial infringers face up to five years imprisonment. Negligent commercial infringers face up to two years of imprisonment. Individual, non-commercial infringers face strict liability on the spot fines for each infringement.

The Act introduces anti-circumvention measures comparable to those under the U.S. Digital Millennium Copyright Act. The Act establishes infringement liability for making or possessing technology used for infringing conduct, and introduces a comprehensive civil and criminal liability scheme making it illegal to manufacture, distribute, or use any device designed to circumvent a “Technology Protection Measure”—any technological device designed to prevent unauthorized copying of protected material.

The Act was greeted with mixed reactions. Educators and academics, for example, are encouraged by the clarified research and study exception. On the other hand, some argue that the amendments introduce unnecessary complexities and will ultimately hurt users of information who are not fully aware of the Act's new requirements.

## U.S.-SINO WTO DISPUTE OVER CHINESE INTELLECTUAL PROPERTY PROTECTION

In April 2007, the United States filed two requests for World Trade Organization (“WTO”) dispute settlement consultations with the People’s Republic of China. The first request pertained to China’s alleged inadequate protection and enforcement of copyrights and trademarks. The second request challenged China’s barriers to trade in books, music, videos and movies.

The first request contested Chinese law that provides a substantial “safe harbor” for wholesalers and retailers who distribute or sell pirated and counterfeit products in China. The United States contends that China’s quantitative thresholds for criminal prosecution of trademark counterfeiting or copyright piracy permitted large-scale piracy and counterfeiting. Further, the United States alleged that the Chinese practice of selling seized goods infringing IPRs after the removal of infringing features conflicted with WTO rules which dictate that such goods should be kept out of the marketplace altogether. Finally, the United States took issue with the Chinese copyright law’s apparent denial of copyright protection to foreign works of authorship, sound recordings, and performances while awaiting Chinese censorship approval, observing that copyright protection is available immediately to Chinese works. The United States’ request asserted that these Chinese practices conflicted with China’s obligations under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

The second request sought to eliminate China’s import and internal distribution barriers. Chinese law currently denies U.S. companies the right to import books, journals, movies, music, and videos directly; instead all imports must be channeled through authorized state-run or state-approved companies. The United States has alleged that Chinese rules impede the efficient distribution of publications and home entertainment video products within China. The United States contended that these barriers created opportunities for counterfeit and pirated goods by slowing the distribution of genuine products in China. The United States asserts that these laws are inconsistent with China’s obligations under its WTO Accession Protocol and under the WTO General Agreement on Trade in Services.

Consultations between the United States and China in June 2007 failed to resolve these issues. In August, the United States took the next step in the WTO dispute process by requesting that a WTO dispute-settlement panel examine several key issues stated in its consultation request, including the criminal threshold for acts of copyright piracy or trademark counterfeiting, the denial of copyright protection to creative works pending authorization for publication or distribution within China, and the sale of infringing goods by Chinese authorities.