Modernizing Liability Rules to Promote Internet Trade

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Executive Summary

Commerce enabled by the Internet represents a large and growing sector of the global economy. Internet companies have flourished in markets where policymakers and courts have created rules that promote innovation in Internet business. However, businesses continue to face challenges when engaging in international, Internet-enabled trade of goods and services. Due to a failure to modernize liability rules in a variety of jurisdictions, courts are frequently imposing substantial penalties on Internet companies for conduct that is lawful in other countries. These penalties deter direct investment and market entry by multinational Internet companies, and as a consequence deny local small and medium-sized enterprises Internet-enabled access to the global marketplace; they similarly discourage domestic startups. International trade policy should promote the adoption of intermediary liability and intellectual property rules that will encourage the export of value-added services related to the Internet.

International trade policy should promote liability rules that encourage the export of value-added Internet services.

Such trade policy will benefit developed and emerging markets alike. From the perspective of developed markets, including the United States, predicability in international liability rules is increasingly important as domestic Internet markets are relatively saturated compared to international markets. Future growth depends on the ability to access and export to international markets. Several major Internet companies already make more than 50% of their revenue from markets outside their home markets.

Modernizing intellectual property and liability rules is equally important from the perspective of emerging businesses that aim to compete in the global marketplace. Internet-enabled commerce enables globalized markets with few of the costs traditionally associated with the globalization critique. Online commerce platforms empower Internet-connected entrepreneurs to sell products and services into the global market without building their own multinational supply chains. For local entrepreneurs to leverage the power of the Internet in this manner, however, the international trade framework needs to ensure predictable liability limitations for the platforms being utilized.

I. Modernizing Markets for Internet Businesses and Internet-Enabled Trade

Prominent obstacles to Internet-enabled trade include 20th century policies aimed at protecting existing revenue streams of domestic industries, as well as liability rules not reasonably tailored for the Internet era of cross-border commerce. These policies, intentionally or not, tend to produce litigation against

Internet businesses by plaintiffs in local courts, which impede market entry and deter local investment in a digitally enabled marketplace.

The economic stakes are enormous: In a five-year span, the Internet accounted for 21% of the GDP growth in mature economies, with 75% of the benefits captured by companies in more traditional industries.[1] In particular, small and medium-sized enterprises (SMEs) are well-positioned to take advantage of Internet opportunities: SMEs who heavily utilized the Internet exported twice as much as those that did not and those with high Internet usage increased productivity by 10%.[2] The total gross value across the global economy of the search market alone was $780 billion in 2009.[3] The Web has spawned a thriving market for small business transactions, including used goods; eBay alone had revenues of $14.1 billion in 2012, and expects "to enable $300 billion of global commerce" by 2015.[4] A survey of 30 countries with a collective 2010 GDP of $19 trillion found Internet penetration to be growing at 25% per year over five years, and contributing an average of 1.9% to GDP—a $366 billion impact.[5] This directly affects trade—estimates have linked a 10% increase in Internet connectivity with a 1% increase in exports.[6]

U.S. Internet companies have led the world in this sector, dominating audience metrics throughout industrialized nations.[7] This is no accident. The United States Congress's calculated efforts to craft laws that encourage rapid innovation and an entrepreneurial spirit online permitted Internet businesses to flourish more readily in the U.S. than elsewhere. The crafting of a mostly favorable regulatory regime in the European Union has also led to the development of a vibrant Internet economy in several northern European markets, with Sweden, the UK, Finland and Luxembourg all making the top 5 nations for "e-intensity," according to the Boston Consulting Group.[8] While at times some may perceive Internet businesses as representing solely U.S. interests,[9] the value of the Internet accrues substantially to other economies.[10] Expanding the Internet economy provides a unique opportunity for small businesses in rising economies to access the global economy by leveraging developed-market innovation. Until international trade rules improve and harmonize Internet liability rules to promote the cross-border trade in services, however, outdated domestic regulations will continue to impede Internet businesses from entering markets – be they homegrown or multinational.

[1] Matthieu Pélissié du Rausas *et al.*, McKinsey Global Institute, *Internet Matters: The Net's Sweeping Impact on Growth, Jobs and Prosperity* (2011), *available at* http://www.mckinsey.com/insights/high_tech_telecoms_internet/internet_matters.

[2] *Id. See also* Andreas Lendle et al., The World Bank Poverty Reduction and Economic Management Network International Trade Department, *There Goes Gravity: How eBay Reduces Trade Costs* (2012) (demonstrating that small retailers using the Internet are trading at unprecedented levels), *available at* http://elibrary.worldbank.org/content/workingpaper/10.1596/1813-9450-6253.

[3] Jacques Bughin *et al.*, McKinsey Global Institute, *The impact of Internet technologies: Search* (2011), *available at* http://www.mckinsey.com/insights/marketing_sales/measuring_the_value_of_search.

[4] EBay, Inc., *EBay Inc. Expects to Enable $300 Billion Of Global Commerce by 2015*, Mar. 28, 2013, *available at* http://blog.ebay.com/ebay-inc-expects-to-enable-300-billion-of-global-commerce-by-2015.

[5] Olivia Nottebohm *et al.*, McKinsey & Co., *Online and Upcoming: The Internet's Impact on Aspiring Countries* (2012), *available at* http://www.mckinsey.com/client_service/high_tech/latest_thinking/impact_of_the_internet_on_aspiring_countries.

[6] Caroline Freund & Diana Weinhold, *On The Effect of the Internet on International Trade* (2000), *available at* http://www.federalreserve.gov/pubs/ifdp/2000/693/ifdp693.pdf.

[7] See Nielsen, http://www.nielsen-netratings.com/resources.jsp?section=pr_netv&nav=1.

[8] David Dean *et al.*, *Adapt and Adopt: Governments' Role in Internet Policy*, Boston Consulting Group (2012), *available at* https://www.bcgperspectives.com/content/articles/digital_economy_public_sector_adapt_adopt_government_role_internet_policy.

[9] In May 2013, France's industry minister Arnaud Montebourg blocked Yahoo's plan to buy a stake inFrench video website Dailymotion because he was concerned "Yahoo wants to devour Dailymotion." John Irish & Leila Abboud, *French minister says Yahoo wanted to "devour" website*, May 1, 2013, *available at* http://www.reuters.com/article/2013/05/01/net-us-yahoo-dailymotion-idUSBRE94000R20130501. In a similar vein, the head of the French National Library once publicly attacked a Google project as being a "confirmation of the risk of crushing American domination in the way future generations conceive the world." Scott Lamb, *Culture Wars in Cyber Space: What Does France Have Against Google?*, Der Spiegel, Mar. 25, 2005, *available at* http://www.spiegel.de/international/culture-wars-in-cyber-space-what-does-france-have-against-google-a-348040.html. Nicolas Sarkozy opened his nation's presidency of the European Union by stating that Europe "must not be afraid of the word protection" and promised to protect Europeans from globalization. Elitsa Vucheva, *Sarkozy Offers More Protectionist Europe as French EU Presidency Opens*, Ezilon Infobase, July 1, 2008, *available at* http://www.ezilon.com/information/article_19578.shtml; *see also* Ian Traynor, *Sarkozy Pledges to Restore Trust in EU as France Takes Over Presidency*, The Guardian, July 1, 2008, *available at* http://www.guardian.co.uk/world/2008/jul/01/eupresidency.france2.

[10] *There Goes Gravity, supra* note 2; *see also* David Dean *et al.*, Boston Consulting Group, *The Internet Economy in the G-20: The $4.2 Trillion Growth Opportunity* (2012), available at https://www.bcgperspectives.com/content/articles/media_entertainment_strategic_planning_4_2_trillion_opportunity_internet_economy_g20.

Specifically, international trade rules should address policies such as providing safe harbors to limit services' liability for user conduct and content, permitting the use of online materials in relation to providing search functionality, adhering to "exhaustion" rules that facilitate the cross-border movement of goods, and allowing *de minimis*, nominative uses of trademarks. Changes of this nature would create greater certainty for Internet commerce.

Safe Harbors for Online Intermediaries

Since the early days of the Internet, U.S. policymakers have recognized that holding Internet businesses liable for the conduct of their users would jeopardize the growth of this vital industry and place unreasonable burdens on companies. Many Internet businesses thrive by serving as a platform for users to connect with each other. For some, facilitating this form of networking is the company's sole purpose. Such networking may be achieved by creating a forum for users to post information or offer products, such as eBay or Craigslist, by creating search tools to find or gather information, such as Google or Wikipedia, or by acting merely as an information conduit, such as an Information Service Provider (ISP). Because these businesses connect users to each other, they grow quickly but lack the control that brick-and-mortar businesses have over individual content, due to the extraordinary volume of communications that they make possible. These businesses are, therefore, unusually vulnerable to laws that impose upon them strict liability for the misdeeds of any users. Where legal regimes may impose liability upon companies that make good faith efforts to prevent unlawful conduct but are not always 100% successful, services will be deterred from undertaking any prevention efforts at all.

Congress responded to this problem with two statutes designed to limit Internet businesses' liability for the wrongdoing of others. First, § 230 of the Communications Decency Act of 1996 provided categorical immunity from non-IP-related liability for user wrongdoing, thus allowing Internet companies to combat undesirable or potentially illegal activity without fear of additional liability. This was passed in order to "preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services."[11] Section 230 has provided a foundation for today's highly successful Internet services and applications by establishing a robust limitation on potential liability. Under this law, ISPs are not treated "as the publisher or speaker of any information" provided by another.

Second, § 512 of the 1998 Digital Millennium Copyright Act provided limitations on remedies available against online intermediaries whose users are implicated in copyright infringement, provided that the service provider complies with a notice-and-takedown regime specified by statute.[12]

An entity that meets § 512's definition of "service provider" and its other eligibility requirements can benefit from "safe harbors" that limit remedies against service providers for copyright infringement based on the following specified categories: transitory digital network communications, system caching, storage of material on a network at the direction of a user, and providing of information location tools. If a service provider is engaged in an activity covered by a safe harbor and meets the conditions, then § 512 shields them from monetary liability for infringement based on that activity and restricts the availability of injunctive relief. These safe harbors have proven essential for companies choosing to enter this market; a majority of angel investors and venture capitalists interviewed for a recent Booz & Company study said that "changing regulations to remove the [§ 512] safe harbor protections currently afforded intermediaries would have a negative impact on investment."[13]

[11] 47 U.S.C. § 230(b)(2).

[12] 17 U.S.C. § 512.

[13] Matthew Le Merle *et al.*, *The Impact of U.S. Internet Copyright Regulations on Early-Stage Investment: A Quantitative Study* (Booz & Company 2011), *available at* http://www.booz.com/media/file/BoozCo-Impact-US-Internet-Copyright-Regulations-Early-StageInvestment.pdf.

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The European E-Commerce Directive similarly establishes in articles 12-15 that online services are not to be held liable for substantively unmodified information transmitted from one party to another, of that party's choosing.[14] "The EU's liability regime relies on a simple, yet powerful principle: it is the person or entity responsible for posting content or goods for sale that has legal responsibility for the content or goods in question, not the intermediary hosting the content or the platform on which the good is traded or the information is exchanged."[15] With the E-Commerce Directive, "it was the intention of the EU legislature to legally treat online intermediaries as unengaged middlemen who are not responsible for the actual content they transmit (similar to the traditional role of postal services and telephone operators)."[16] However, it has not been applied consistently. As one scholar put it in 2011:

> Even though Section 4 of the eCommerce Directive reflects the idea that online intermediaries should not be held to police their users' content, the variability in court decisions illustrates that courts have often decided otherwise. The "passive-reactive" scheme founded on the notice-and-take-down procedure, is therefore gradually being replaced by ex ante monitoring of users.[17]

Despite these problems caused by inconsistent implementation and interpretation of the E-Commerce Directive across the EU's Member States, it is generally considered that the intermediary liability provisions of the Directive have struck the right balance between the various interests. This was confirmed by the outcome of a public consultation on the functioning of the E-Commerce Directive conducted by the European Commission on the occasion of the Directive's ten-year anniversary. A majority of stakeholders disfavored reopening these parts of the Directive. However, many identified the lack of harmonized notice-and-takedown procedures as the cause of legal uncertainty and inconsistencies across the EU. The European Commission completed a legislative proposal on 'notice-and-action' procedures in 2013 but due to political reasons the proposal has remained unpublished and awaits a final, political decision expected this autumn.

Fair Use/Fair Dealing in Internet Search

In order for search engines to effectively sift through the contents of the World Wide Web, they must make copies of websites' code for indexing purposes. Additionally, in order to make the results intelligible and helpful to a human user, they need to show the user something representative of the page so that the user can judge its relevance. Most search engines give a sample sentence for text searches, and a thumbnail version of a picture for image searches. If the user thinks the link is relevant, he can follow the link to the original webpage.

If rights-holders' entitlements were interpreted too broadly, the copying described above might be construed to violate copyright. Thus, U.S. law holds this practice to be non-infringing "fair use,"[18] and courts in other jurisdictions have agreed.[19]

[14] *See* E-Commerce Directive, 2000/31/EC of the European Parliament and of the Council of 8 June 2000, arts. 12-15.

[15] Martin H. Thelle & Svend T. Jespersen, *Online Intermediaries: Assessing the Economic Impact of the EU's Online Liability Regime*, at 7 (2012), *available at* http://www.europeandigitalmedia.org/uploads/Press/documents/ Copenhagen%20Economics-Online%20Intermediaries-201201.pdf.

[16] Patrick Van Eecke, *Online service providers and liability: A plea for a balanced approach*, 48 Common Mkt. L. Rev. 1455, 1459-60 (2011).

[17] *Id.* at 1460.

[18] *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007); *Field v. Google Inc.*, 412 F. Supp. 2d 1106, 1123 (D. Nev. 2006).

[19] In 2008, the Court of Paris applied U.S. law and found the Google search engine's reproduction and display of thumbnails to be fair use, as it is in the U.S. Tribunal de grande instance [T.G.I.] Paris, May 20, 2008, *SAIF v. Google*, *available at* http://www.loeb.com/files/Publication/08669faf-99dc-44af-8476-98a6b87f5d1f/Presentation/PublicationAttachment/f3ccda87-bd2b-4bd4-afb0-9a5140f65381/SAIF%20v%20Google%20France%20May%202008.pdf. The Court of Appeal applied French law instead, but still found for the defendant, under a French statute. Cour d'Appel [C.A.] Paris, Jan. 26, 2011, *SAIF v. Google*. See Kate Spelman and Brent Caslin, *La Société des Auteurs des arts visuels et de l'Image Fixe (SAIF) v. Google: A Parisian Story of the Berne Convention and Online Infringement Claims*, Cal. Int'l L.J., Spring 2011, at 5, *available at* http://jenner.com/system/assets/publications/63/original/La_Soci%C3%A9t%C3%A9_des_Auteurs.pdf.

Courts generally reason that this practice does not damage the market for a work and is of significant social utility. This development is critical for the search engine business, as clearing the rights to the tens of billions of webpages on the Internet would be an impossible task.[20] Moreover, because copyright is a strict liability offense, the lack of a fair use determination would mean search engines would be liable simply for indexing the website of an infringer, even if they had no way to know of the infringement.

Exhaustion in Internet Economy Sales

The Internet enables businesses of all sizes to sell physical goods around the world. In this modern global economy, Internet retailers need to be assured that when they acquire a legitimate copyrighted product, they are able to resell the product without needing to seek authorization from the rights-owner. In *Kirtsaeng v. Wiley*, 133 S. Ct. 1351 (2013), the U.S. Supreme Court held that regardless of where a copyrighted product is manufactured, as soon as it is sold, the copyright is exhausted upon the first sale. This rule ensures that physical goods can flow through the Internet economy as freely as data, and is also known as international exhaustion. Some countries subscribe to a narrower rule for exhaustion that draws territorial lines around the country's borders, which prevents international businesses using the Internet to trade in legitimate products from moving their products across borders.

II. International Liability Concerns for the Internet

Numerous cases demonstrate that Internet companies are prone to liability risks when entering new markets, even involving activities lawful in many other markets. In fact, online businesses, both thriving giants and small startups, have found themselves sued in certain jurisdictions regarding practices encouraged in others. The global nature of the Internet means that these companies may face liability not only for a 'local' website crafted for a particular market, but for all websites that the company maintains. Consequently, Internet companies are being forced to choose between forsaking foreign markets completely, thereby denying local users the benefits of Internet services and Internet-enabled commerce; or abandoning legal, innovative, and profitable practices due to pervasive legal uncertainty.

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Belgium

In Belgium, local news interests have initiated litigation in order to restrict online news aggregation for news-related search. Providing short excerpts from indexed websites along with search results in order to help users determine which results are relevant is an established fair use in the United States, and is widely practiced around the world, but was found to be infringement under Belgian copyright law. Copiepresse, a Belgian rights management organization, sued Google for quoting from articles in its news search engine. Despite the fact that users had to access rights-owners' websites in order to read the entire story, the court found in 2007 that news search infringed copyright.[21] The Belgian Court of Appeals upheld this ruling in May 2011, which ordered the removal of all Belgian publishers' articles and photographs from Google sites.[22] Within days, newspapers complained about being inaccessible, leading to a subsequent agreement that reinstated

[20] As early as 2005, researchers estimated that the indexable web exceeded 11.5 billion pages. *See* A.Gulli & A. Signoriri, *The Indexable Web is More than 11.5 Billion Pages*; Univ. di Pisa, Informatica/Univ. of Iowa, Comp. Sci., ***available at*** http://www.cs.uiowa.edu/~asignori/web-size/size-indexable-web.pdf. Today that figure is far larger.

[21] *Copiepresse et al. v. Google, Inc.*, Court of First Instance in Brussels, Feb. 15, 2007, Ref. no. 7964.

[22] Uhro van der Pluijm, *Google Busted for Copyright Violation in Belgium*, WebWereld-Netherlands, May 7, 2011, ***available at*** http://www.pcworld.com/article/227379/google_busted_for_copyright_violation_in_belgium.html.

linking. This five-year litigation could have been avoided by websites opting out of indexing via established Internet industry practices (*i.e.*, use of a properly configured robots.txt file).[23] The result of this litigation has been to signal in Belgium and across Europe that courts may prove hostile to established Internet practices.

Denmark

The doctrine of exhaustion has also been used in a manner that restricts trade from non-European companies. Laserdisken, a Denmark business, had been selling movies to customers out of its sales outlets. Some of these movies were imported from outside the European Union, and some were not otherwise available in the EU. When Denmark implemented a new EU Copyright Directive, it amended its laws such that Laserdisken could not lawfully continue importing products from outside Europe. In response, Laserdisken sued the Danish Ministry of Culture claiming that the amendments to its copyright law and the relevant provisions of the Directive were invalid. The EU Court of Justice disagreed. It held that Article 4(2) of Directive 2001/29 required a good to first be placed on the market within the European community by the rightsholder before it would be subject to the doctrine of exhaustion, and that Laserdisken was therefore liable for copyright infringement because the movies it sold in Denmark were unauthorized imports.[24] The result is that the doctrine of community exhaustion as practiced in the EU restricts non-European Internet businesses from selling copyrighted products in Europe without first obtaining permission from the copyright owner, which often prohibits them from entering that market.

France

The phenomenon of international Internet companies confronting contradictory domestic policy goals abroad is not a wholly recent one. As early as 2000, advocacy groups brought suit against Yahoo! in France because auctions of Nazi memorabilia occurring in the United States could be accessed in France. Despite obvious jurisdictional and technological impediments, a French judge ordered Yahoo! to prevent French users from accessing such content on Yahoo!'s U.S. site. In addition, it fined Yahoo! nearly $13,000 for each day the content remained available in France.[25] In 2001, a U.S. federal court refused to enforce the judgment, noting a direct conflict with the First Amendment.[26] Although many U.S. Internet companies now restrict content of this nature as a matter of voluntary corporate policy, the international policy conflict remains largely unresolved.

French courts have repeatedly imposed heavy notice burdens on Internet companies. In 2011, the Paris Court of Appeal held that once a hosting provider was put on notice of infringing content or activity, they had the duty to implement all possible means to take down such content and avoid its future dissemination, and explicitly noted that it was irrelevant if content was posted by a different user.[27] In another 2011 case, this court held that even if it were eligible under the hosting exemption, Google was still obligated to implement all possible means to avoid further dissemination of infringing material.[28] Earlier that year, the same court imposed liability in the form of a nearly $600,000 judgment for infringement of rights-holders' works that could be found via Google's search engine, or on Google Video,[29] contrary to both the European

[23] The Robot Exclusion Standard, also known as the Robots Exclusion Protocol or robots.txt protocol, is used "to prevent cooperating web crawlers and other web robots from accessing all or part of a website which is otherwise publicly viewable." *See* http://en.wikipedia.org/wiki/Robots.txt. *See also* http://www.robotstxt.org/robotstxt.html.

[24] Case C-479/04, *Laserdisken ApS v Kulturministeriet*, 2006 ECR I-8089, *available at* http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62004J0479:EN:HTML.

[25] *Ruling on Nazi Memorabilia Sparks Legal Debate*, N.Y. Times, Nov. 24, 2000, *available at* http://www.nytimes.com/2000/11/24/technology/24CYBERLAW.html?pagewanted=all.

[26] Lisa Guernsey, *Court Says France Can't Censor Yahoo Site*, N.Y. Times, Nov. 9, 2001, *available at* http://www.nytimes.com/2001/11/09/technology/09YAHO.html.

[27] Cour d'appel [C.A.] Paris, Feb. 4, 2011, *André Rau v. Google and Aufeminin.com*.

[28] Cour d'appel [C.A.] Paris, Jan. 14, 2011, *Google Inc. v. Bac Films, The Factory et al*.

[29] Robert Andrews, *Google Fined In French Court For Not Stopping Video Copyright Abuse*, paid content, Mar. 9, 2011, *available at* http://paidcontent.org/2011/03/09/419-google-fined-in-french-court-for-not-stopping-video-copyright-abuse.

E-Commerce Directive, and also a 2004 French law indicating that there is no general obligation for an online service to monitor all communications of users.[30]

In another case, the Paris Tribunal de Grande Instance (TGI) held in 2007 that despite being a host and despite compliance with takedown notices, Google was liable for a new posting of infringing video since it had failed to implement all technical means to avoid its further dissemination, and was fined 30,000 Euros for failure to employ "targeted and temporary surveillance."[31] Additionally, French courts have ruled various online service providers to be ineligible for the hosting safe harbor of the E-Commerce Directive, and thus liable for users' activities, such as Myspace in 2007,[32] eBay in 2010,[33] and Google in 2011.[34]

There have also been several French cases about search "autocompletion," a feature where a search engine either recommends completing a user's query, or offers suggested search results in real-time, as the user composes the query. In 2009, the Paris Court of Appeal held that ordinary users of search engines are unaware that suggestions made by "Google Suggest" are due to an algorithm and could interpret them as Google's opinion, and ordered Google to take all necessary measures to eliminate infringing search results.[35] Similarly in 2010 and 2011, Paris courts again imposed obligations to monitor and filter algorithmic suggestions.[36]

French courts have been equally unfriendly towards Internet companies with regards to trademark liability. EBay was subjected to litigation in 2008 brought by Hermes, and had to pay a large fine for the sale of counterfeit bags on its site.[37] Later that year, in the *Louis Vuitton Moët Hennessy (LVMH) v. eBay* case, eBay was found liable under French law for the actions of all counterfeiters who use its service.[38] The court concluded that it had jurisdiction over all sales through eBay, even those taking place in other countries, because the plaintiff was a French company and all of eBay's websites are visible by the French public. In finding against eBay, the court broadly prohibited any reference to certain trademarks on eBay websites, even for purposes of comparative advertising. Worse still, despite the immunity provisions in the E-Commerce Directive, the French court imposed liability on eBay for sales of legitimate goods sold without the approval of the mark-holder, and fined the company over $60 million, holding eBay liable for this conduct even when it occurred entirely within the United States.[39] The fine was reduced to over $10 million by the appeal court in 2010, the decision having been criticized as an especially protectionist use of French law.[40] In 2012, a second appeal concluded that while the trial court reasonably exercised jurisdiction over eBay's French and U.K. sites, it lacked jurisdiction over eBay's American site.[41]

[30] *Id.*

[31] Tribunal de grande instance [T.G.I.] Paris, Oct. 19 2007, *Zadig Production v. Google Inc.* (Fr.).

[32] Tribunal de grande instance [T.G.I.] Paris, June 22, 2007, *Jean-Yves Lafesse v. Myspace* (reversed on procedural grounds, C.A. Paris, Oct. 29, 2008).

[33] *See, e.g.*, Cour d'appel [C.A.] Paris, Sept. 3, 2010, *LVMH v. eBay*, (aff'g Commercial Court Paris June 30, 2008); Cour d'appel [C.A.] Reims, July 20, 2010, *Hermes v. eBay*, (aff'g T.G.I. Troyes June 4, 2008).

[34] *See, e,g.*, Tribunal de grande instance [T.G.I.] Paris Nov. 14, 2011, *Olivier Martinez v. Google and Prisma Presse*.

[35] Paris Court of Appeal, Dec. 9 2009, *Google Inc v. Direct Energie*, *available at* http://www.legalis.net/spip.php?page=jurisprudence-decision&id_article=2804.

[36] Paris Tribunal de Grande Instance, Sept. 8 2010, *MX v. Google Inc., Eric S, Google France, available at* http://www.legalis.net/spip.php?page=jurisprudence-decision&id_article=2985. In 2011, the Paris Court of Appeal found that it was possible for Google to avoid obvious infringements of personality, and thereby reasonable to impose such an affirmative obligation. *See* Paris Court of Appeal, Dec. 14 2011, (aff'g Paris Tribunal de Grande Instance, May 18, 2011, *available at* http://www.legalis.net/spip.php?page=jurisprudence-decision&id_article=3169), *Lyonnaise de Garantie v. Google France, Google Inc.*, Eric S., *available at* http://www.legalis.net/spip.php?page=jurisprudence-decision&id_article=3303.

[37] Pinsent Masons, *EBay to pay out Millions over French Counterfeit Sales*, Out-Law, July 1, 2008, *available at* http://www.out-law.com/page-9225.

[38] Tribunal De Commerce De Paris, June 30, 2008, *Louis Vuitton Moët Hennessy (LVMH) v. eBay*.

[39] *Id.*

[40] *See, e.g.*, Therese Poletti, *EBay Ruling in France Reeks of Protectionism*, Market Watch, July 1, 2008, *available at* http://www.marketwatch.com/story/ebay-ruling-in-france-smells-of-protectionism.

[41] Nadya Masidlover, *French Court Partly Overturns Ruling in eBay-LVMH Spat*, Wall St. J., May 3, 2012, *available at* http://online.wsj.com/article/SB10001424052702304743704577382204111836554.html.

To contrast, under the nominative fair use doctrine, U.S. law permits the use of a trademark without the mark-holder's authorization when it is necessary to describe the goods, or for comparative advertising. These sales are essential to online commerce platforms dealing substantially in secondary markets. Without this exception, Internet companies are vulnerable to attacks by rights-holders who wish to use trademark anti-competitively to obtain complete control over all sales of their goods, and prevent advertising and sale of used goods. Additionally, this harms legitimate competitors who use the Internet to sell their goods.

While cases against larger Internet companies receive the most attention, small Internet businesses are not immune from these dangers. The threat of extraterritorial litigation places a disproportionate burden on startups, which may find themselves subject to suit in foreign jurisdictions under laws with which they are unfamiliar; this has proved to be a particular disincentive to European startups wishing to expand in what should theoretically be a single market.

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To take one example, Viewfinder, a small U.S.-based Internet fashion magazine, operated a fashion news website that lawfully displayed photographs from fashion shows all over the world. Several French fashion houses sued Viewfinder in France for "parasitism" and copyright infringement, alleging that simply by revealing the look of upcoming fashions, the site's photos were infringing. U.S. law provides no copyright protection for the designs in question, however,[42] and routinely considers news reporting to be fair use. When Viewfinder failed to appear in France to defend the suit, the French court entered a judgment of 500,000 francs per plaintiff and ordered Viewfinder to remove the photographs from its servers in New York or face penalties of 50,000 francs per day.[43] The case appears to have settled later, after the Southern District of New York, on remand from the Second Circuit, directed parties "to meet and confer" about the next steps, and report back to the Court.[44]

Germany

German copyright law has also imposed burdens on foreign defendants. In October 2008, Google lost two copyright cases filed by German rights-holders—Michael Bernhard, a photographer, and Thomas Horn, who owned the rights to several comics[45]—who sued over their works showing up as thumbnail previews in Google image search results. In ruling for Bernhard, the Hamburg Regional Court imposed liability because regardless of the reduction in size and resolution, "no new work is created." In the Horn case, the Hamburg Regional Court explicitly departed from U.S. law, claiming that the economic significance of the works constituted "important grounds, which do not easily take second place to the interest of the public in access to the pictures located on the internet[.]"[46]

In April 2012, YouTube was subjected to litigation[47] in Germany from GEMA, a large German collecting society, who filed suit after royalty negotiations fell through. A Hamburg court required the platform to do more to detect and remove allegedly infringing music videos if alerted by a rights-holder, and add a word filtering service to help detect videos, deeming its $60 million ContentID application, which allows searches for audio content, insufficient. These burdens were imposed notwithstanding the court's

[42] *Jane Galiano & Gianna Inc. v. Harrah's Operating Co., Inc.*, 416 F.3d 411 (5th Cir. 2005).

[43] *Sarl Louis Feraud Int'l v. Viewfinder Inc.*, 489 F.3d 474 (2d Cir. 2007).

[44] *Sarl Louis Feraud Int'l v. Viewfinder Inc.*, 627 F. Supp. 2d 123, 137 (S.D.N.Y. 2008).

[45] Karin Matussek, *Google Loses German Copyright Cases Over Image-Search Previews*, Bloomberg, Oct. 13, 2008, *available at* http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a_C1wVkCvPww.

[46] Hamburg Regional Court, Sept. 26, 2008, *Horn v. Google*, Partial Verdict, Ref. No. 308 O 42/06.

[47] LG Hamburg, Apr. 20, 2012, *GEMA v. YouTube*, Ref. No. 310 O 461/10.

acknowledgement that "YouTube isn't the perpetrator here, it's those people who illegally upload songs. That's why YouTube doesn't have to search all videos uploaded in the past. It only has to help detect videos from the moment it is alerted about possible violations."[48] This obligation to affirmatively monitor and filter all works belonging to a copyright owner once given notice of a single infringement nevertheless imposes the functional equivalent of real-time monitoring, and runs counter to safe harbors in the E-Commerce Directive.

The obligation to affirmatively monitor and filter once given notice of a single infringement imposes the functional equivalent of real-time monitoring, and runs counter to the E-Commerce Directive.

In August 2013, the Supreme Court in Germany imposed heavy burdens on Swiss company RapidShare to police external sites, in addition to its own.[49] Affirming the High Court of Germany, the court found that although "RapidShare has no obligation to proactively monitor files that are uploaded by its users," they are "required to monitor external sites that link to copyrighted files on RapidShare, and ensure these files become inaccessible to the public. In addition, the ruling noted that when these measures prove not to be effective enough, the file-hosting site should restrict the opportunity for people to use the site anonymously."[50] As of publication of this paper, the full decision was not yet available.

Additionally, German legislators have recently taken cues from Belgium, targeting online news aggregation to favor local new publishers. In August 2013, Germany's new ancillary copyright law (*Leistungsschutzrecht*) went into effect, such that a copyright-like right now prohibits previously unregulated news aggregation. This neighboring right may function as a quotation tax,[51] thereby violating international obligations that require free quotation.[52] Whether the law will ultimately have this effect remains unclear, due to fundamental ambiguities in its language regarding what size of excerpts are regulated. Regardless, the new *Leistungsschutzrecht* is likely to increase legal and compliance costs for existing market participants, as well as impede market entry by new businesses. Although the law was aimed at news aggregation specifically,[53] it poses significant challenges for the broader digital economy by indicating that nations can flout existing international obligations to disadvantage innovative challengers in the industry.

Italy

Italian courts have repeatedly imposed liability on international Internet companies in cases involving domestic plaintiffs. In 2010, the three leading search engines, Bing, Google, and Yahoo!, were sued for infringement in Italy for having indexed websites that permitted streaming, downloading, or P2P of a particular movie without the rights-holder's consent. Before filing, the rights-holder told an Italian newspaper of his plans to sue the companies, and his "intention to proceed with a request for substantial compensation for the losses deriving from 'parasitical competition.'"[54] Due to procedural defects, suits against Bing and Google were dropped, but in 2011, the Court of Rome ordered Yahoo! to remove any links

[48] Karin Matussek, *Google's YouTube Must Help Detect Illegal Uploads, Court Says*, Bloomberg News, Apr. 20, 2012, *available at* http://www.businessweek.com/news/2012-04-20/google-s-youtube-must-help-detect-illegal-uploads-court-says.

[49] Ernesto, *Supreme Court Orders RapidShare to Police the Internet*, TorrentFreak, Aug. 19, 2013, *available at* http://torrentfreak.com/supreme-court-orders-rapidshare-to-police-the-internet-130819.

[50] *Id.*

[51] Matt Schruers, *Germany Looks to Prop Up News Publishers With Snippet Subsidy, But Is a Quotation Tax Legal?*, Disruptive Competition Project, Nov. 14, 2012, *available at* http://www.project-disco.org/intellectual-property/111412-germany-looks-to-prop-up-news-publishers-with-snippet-subsidy-but-is-a-quotation-tax-legal.

[52] *See generally* Comments of Computer & Communications Industry Association, *In re 2013 Special 301 Review: Identification of Countries Under Section 182 of the Trade Act of 1974*, Dkt. No. USTR-2012-0022, Feb. 8, 2013, *available at* http://www.ccianet.org/CCIA/files/ccLibraryFiles/Filename/000000000759/CCIA%20Comments%20on%20Special%20301%20[2013].pdf.

[53] Jakob Kucharczyk, *Ancillary Copyright in Germany: From Opt-out to Opt-in on Google News*, Disruptive Competition Project, July 1, 2013, *available at* http://www.project-disco.org/intellectual-property/070113-ancillary-copyright-in-germany-from-opt-out-to-opt-in-on-google-news.

[54] The Finocchiaro Law Firm, Y*ahoo! Announces its intention to appeal against the order of the Court of Rome*, April 13, 2011, *available at* http://www.blogstudiolegalefinocchiaro.com/wordpress/2011/04/yahoo-announces-its-intention-to-appeal-against-the-order-of-the-court-of-rome.

to unlawful copies of the work at issue.[55] The court order required removal of not only links to websites providing unlawful content, but also to other sites that link to potentially unlawful websites, without exception acknowledging that such sites may be used for lawful activities. This type of remedy has the potential to drastically hinder search engines and basic functions of the Internet, by requiring services to disappear content after a notice from an alleged rights-holder, without necessarily providing due process.[56]

The Court of Milan in 2011 denied Yahoo!'s Italian video platform, Yahoo! Italia S.r.l., safe harbor protection, finding the service liable for failing to prevent shows from being made available on its platform.[57] The court held Yahoo! to be an "active host," liable for infringing videos uploaded to its platform, because it included ads, suggested related videos, and provided a functionality for reporting copyright violations. One scholar noted that based on this decision, "most UGC [user-generated content] websites relying on an advertisement business models [sic] should be denied hosting protection."[58]

In the same year, the Milan Ordinary Tribunal found that Google had not implemented filters for its Google Suggest auto-complete service, and had not taken action to eliminate debatable search terms after being informed of allegedly infringing suggestions.[59] The tribunal considered the providers' privileges under Articles 12 to 15 of the EU E-Commerce Directive, and found them not to apply; on appeal, the court found Google to be a hosting provider and supported a notice and takedown obligation for Google under Article 14.[60]

Mere liability to rights-holders is not the limit of exposure for Internet companies, who face even greater dangers in certain markets. An Italian prosecutor recently announced that he is considering filing a criminal complaint against Facebook for its failure to remove content that may have led to an Italian teenager's suicide.[61] Individual employees also face the risk of being sued abroad. In 2010, following an incident in which Italian Internet users posted a video of themselves taunting a disabled student to the Italian YouTube site, Italian prosecutors criminally convicted three company executives.[62] Despite the fact that YouTube itself did not post the video, and deleted the video within hours of authorities reporting it to YouTube, Italy charged these executives merely "because they had position of authority over the operations involved."[63] Although the conviction was ultimately overturned, nearly three years had passed during which executives faced the prospect of criminal prosecution for third-party content.[64] The availability of criminal sanctions may deter direct investment and will cause both domestic and multinational enterprises to avoid deploying innovative new services.

The availability of criminal sanctions for third party content may deter direct investment and will cause both domestic and multinational enterprises to avoid deploying innovative new services.

[55]Giulio Coraggio, Y*ahoo! Liable for Searchable Contents!*, DLA Piper, IPT Italy, Apr. 3, 2011, *available at* http://blog.dlapiper.com/IPTitaly/entry/yahoo_liable_for_searchable_contents.

[56]Such proposals are similarly to remedies included in the controversial Stop Online Piracy Act (SOPA) and PROTECTIP Act (PIPA), which were ultimately rejected by the United States Congress in 2012.

[57]Court of Milan, Sept. 9, 2011, *Reti Televise Italiane S.p.A. (RTI) v. Yahoo! Italia S.r.l.*

[58]Béatrice Martinet Farano, *Internet Intermediaries' Liability for Copyright and Trademark Infringement: Reconciling the EU and U.S. Approaches* 134 (Stanford-Vienna Transatlantic Tech. Law Forum (TTLF) Working Paper No. 14, 2012), *available at* http://www.law.stanford.edu/sites/default/files/publication/300252/doc/slspublic/farano_wp14-4.pdf.

[59]Tribunale Ordinario di Milano, Mar. 24, 2011, 10847/2011, *available at* http://piana.eu/files/Ordinanza.pdf.

[60]Roland Mathys & Christoph Zogg, Wenger Plattner, *Court Denies Unlawful Infringement of Personality Through Google Suggest*, Info. Tech. (Int'l Law Office, London, U.K.), Aug. 21, 2012, *available at* http://www.internationallawoffice.com/newsletters/detail.aspx?g=0823b0fc-d75c-435e-8649-84dfd6b9fc56.

[61]Ben Wedeman, *Facebook may face prosecution over bullied teenager's suicide in Italy*, CNN, July 31, 2013, *available at* http://www.cnn.com/2013/07/31/world/europe/italy-facebook-suicide.

[62]Rachel Donadio, *Larger Threat Is Seen In Google Case*, N.Y. Times, Feb. 24, 2010, *available at* http://www.nytimes.com/2010/02/25/technology/companies/25google.html?pagewanted=all.

[63]Id.

[64]Eric Pfanner, *Italian Appeals Court Acquits 3 Google Executives in Privacy Case*, N.Y. Times, Dec. 21, 2012, *available at* http://nytimes.com/2012/12/22/business/global/italian-appeals-court-aqcuits-3-google-executives-in-privacy-case.xml.

The Pacific Rim and Asia

Internet companies have also been exposed to risks of broad civil and criminal liability throughout Pacific and Asian jurisdictions. Notwithstanding 2008 legislation refining Indian law to "correspond more closely to the DMCA/ECD model",[65] in 2012 Facebook and other prominent Internet services were threatened with criminal prosecution in India for hosting material that "seeks to create enmity, hatred and communal violence" and "will corrupt minds,"[66] and executives faced possible prison terms, in addition to financial penalties.[67] Liability for this type of censorship is difficult to reconcile with principles of free speech and civil liberties, in addition to secondary liability protections. These companies generally remove offending material after being notified, but in the Indian case, the aggrieved party's attorney took the position that "[o]nce the offense has been committed, it is immaterial what you do afterwards, whether you remove it."[68] This position advocates the functional equivalent of strict liability, which "weaken[s] private sector confidence," according to the OECD.[69]

YouTube has been blocked in Pakistan since September 2012, joining Facebook and Twitter, which had already been blocked in that country.[70] In June 2013, Pakistan's new minister for IT and telecommunications threatened to block the Google search engine as well, and declared that the YouTube would remain blocked until it employed a filter to "screen out blasphemous and pornographic content."[71]

A widely covered case in 2012 in Thailand involved a criminal conviction under Thailand's Computer Crimes Act of a webmaster whose only crime was "failing to quickly delete posts considered insulting to Thailand's royal family."[72] As the Wall Street Journal noted, this ruling "sets a concerning precedent for prosecuting website owners for what their users say online."[73]

Similarly, media accounts have noted a recent proposal from the Vietnamese government involved "banning people from copying and pasting news articles and other information on blogs—which could restrict the growth of informal news portals," noting that Vietnam's Communist rulers are subjected to criticism online. Government officials denied any intent to limit free speech, indicating that they aimed to "manage" growth and "protect intellectual property."[74]

Another case that may have international ramifications is the Australian *Roadshow Films Pty Ltd. & Ors v. iiNet Ltd.* case, which raises questions with regard to how ISPs handle repeat copyright infringers.[75] Entertainment studios and members of the Australian Federation Against Copyright Theft sued iiNet Ltd, Australia's second largest ISP, for allegedly allowing downloads of content through BitTorrent using its service. In 2011, iiNet won and was awarded trial costs, but partly won due to faulty notices from rights-holders. On appeal, the case was unanimously dismissed with costs in 2012, yet it may not be a complete victory for ISPs, as there was still uncertainty about the ability for ISPs to qualify under Australia's

[65] OECD, T*he Role of Internet Intermediaries in Advancing Public Policy Objectives* 79-80 (Sept. 2011), *available at* http://www.oecd.org/sti/ieconomy/theroleofinternetintermediariesinadvancingpublicpolicyobjectives.htm, at 79-80.

[66] Amol Sharma, *Facebook, Google to Stand Trial in India*, Wall St. J., Mar. 13, 2012, *available at* http://online.wsj.com/article/SB10001424052702304537904577277263704300998.html.

[67] Rebecca MacKinnon, *The War for India's Internet*, Foreign Policy, June 6, 2012, *available at* http://www.foreignpolicy.com/articles/2012/06/06/the_war_for_india_s_internet?page=0,0.

[68] Amol Sharma, *In Search of Justice at the Google, Facebook Trial*, India Real Time, Mar. 13, 2012, *available at* http://blogs.wsj.com/indiarealtime/2012/03/13/in-search-of-justice-at-the-google-facebook-trial.

[69] OECD, *supra* note 65, at 15.

[70] Rob Crilly, *Pakistan threatens to ban Google unless it cleans up YouTube*, The Telegraph, June 11, 2013, *available at* http://www.telegraph.co.uk/news/worldnews/asia/pakistan/10112655/Pakistan-threatens-to-ban-Google-unless-it-cleans-up-YouTube.html.

[71] *Id.*

[72] James Hookway, *Conviction in Thailand Worries Web Users*, Wall St. J., May 30, 2012, *available at* http://online.wsj.com/article/SB10001424052702303674004577435373324265632.html.

[73] *Id.*

[74] James Hookway, *Vietnam Rights Record Cools U.S. Ties*, Wall St. J., Aug. 8, 2013, *available at* http://online.wsj.com/article/SB10001424127887323838204579000160962041046.html.

[75] Tim Lohman, *iiNet Outcome of Global Significance: Budde Will Precipitate a Major Rethink Copyright law and Reiginite ISP-level Filtering Debate*, Computerworld, Feb 4, 2010, *available at* http://www.computerworld.com.au/article/335062/iinet_outcome_global_significance_budde.

§ 512-style safe harbor. iiNet contended in the lower court that, as an ISP, they are a "carriage service provider" under the 1997 Telecommunications Act, and thus eligible for the safe harbor that would limit relief against them, but that argument was unsuccessful. The High Court held that "iiNet did not rely on the 'safe harbour' provisions,"[76] and so the law remained unsettled. The court suggested the avenue of legislative change, saying "the Parliament is more responsive to pressures for change to accommodate new circumstances than in the past. Those pressures are best resolved by legislative processes rather than by any extreme exercise in statutory interpretation by judicial decisions."[77]

III. Promoting Trade Through Predictable Liability Rules

In certain jurisdictions, Internet businesses have thrived under carefully crafted legal frameworks, which promote innovative and aggressive competition. This success has enabled the growth of a myriad of startups and small businesses around the world to utilize the Internet for commerce.

International asymmetries in liability rules, however, often serve as barriers to market entry by penalizing multinational enterprises, at times in favor of domestic plaintiffs.

International asymmetries in liability rules, however, often serve as barriers to market entry by penalizing multinational enterprises, at times in favor of domestic plaintiffs. International trade policy must be more proactive in harmonizing liability rules to ensure open markets for Internet business. In the absence of changes to international trade policy that respond to cases such as those described above, liability risks will delay the growth of Internet commerce and imperil jobs.

[76] *Roadshow Films Pty Ltd. v. iiNet Ltd.*, (2012) HCA 16 (Austl.), *available at* http://www.austlii.edu.au/au/cases/cth/HCA/2012/16.html.

[77] *Id.*