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Computer & Communications Industry Association

ANALYSIS

Internet Protectionism? How Foreign Courts Have Applied Domestic Law to the Disadvantage of U.S. Internet and E-commerce Companies

EXECUTIVE SUMMARY

E-commerce is a vital component of the U.S. and global economies, providing a unique opportunity to leverage American innovation in the global marketplace. According to the U.S. Census, e-commerce accounted for more than ten percent of the U.S. economy in 2006, and grew at more than twice the rate of the economy on the whole.ⁱ U.S. Internet companies lead the world, dominating audience metrics throughout industrialized nations.ⁱⁱ

It is no accident that in the United States Internet and e-commerce businesses flourish more readily than elsewhere. Congress has carefully crafted laws to encourage the rapid innovation and entrepreneurial spirit that is critical to Internet companies. As the industry expands into overseas markets, however, American companies find their progress stymied by foreign law. Foreign states presently apply domestic laws such that they function in a protectionist manner, obstructing U.S. Internet businesses' access to markets.

Until the U.S. government encourages our trading partners to harmonize their Internet laws with our own, foreign states will continue to interpret domestic laws to impose unfair liability on U.S. Internet businesses operating in these overseas markets. To achieve a minimum level of parity, U.S. trading partners must provide service provider safe harbors for user-generated content, permit the use of online materials in relation to providing search functionality, and allow *de minimis*, nominative uses of trademarks.

Foreign courts have already imposed penalties on American companies for engaging in these activities on the World Wide Web, despite their legality under U.S. law. Moreover, foreign laws discourage Internet companies from affirmatively improving the safety and security of their websites, penalizing those that strive to be good corporate citizens. Without prompt action, these legal disparities could dissolve the early lead that U.S. companies have established in online trade and cause irrevocable harm to U.S. trade interests.

The U.S. government has failed to respond to these threats. Instead of responding to recent protectionist decisions in Europe – particularly France – the Office of the U.S. Trade Representative (USTR) has courted Europe with a trade agreement on intellectual property (IP) issues, rewarding these governments even as their courts punish U.S. businesses. USTR should instead advocate for common sense Internet laws overseas and focus on protecting the interests of U.S. Internet and e-commerce industries from foreign protectionism.

HOW TO OPEN OVERSEAS MARKETS

The global success of American Internet companies has caused knee-jerk reactions from foreign politicians intent on protecting domestic industries from Internet competition. 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.”ⁱⁱⁱ French President 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.^{iv} European states have found ample room within existing legal frameworks to impair U.S. Internet business interests.

In order to guard against these threats to U.S. companies, the United States Trade Representative should aggressively encourage trading partners to adopt analogs to those aspects of U.S. laws that are most critical for free trade and innovative business practices online. The most important of these are:

1) *Safe Harbors for User-Generated Content*

Since the early days of the Internet, Congress has recognized that holding Internet and e-commerce businesses liable for the wrongful conduct of their users would jeopardize the growth of this vital industry and place unreasonable burdens on these companies. Many Internet businesses thrive by helping users connect to 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 sales, 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 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. Worse still, legal regimes may impose liability upon companies that make good faith efforts to prevent illegal conduct but which are not always 100% successful.

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 provided categorical immunity from non-intellectual property-related liability for user wrongdoing, thus allowing Internet companies to combat undesirable or potentially

illegal activity without fear of additional liability. This “preserve[s] the vibrant and competitive free market that presently exists for the Internet and other interactive computer services.”^v Second, § 512 of the 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.

2) *Fair Use in Internet Search*

In order for search engines to effectively sift through the contents of the World Wide Web, they must make copies of these websites’ code for indexing purposes. Additionally, in order to make the results intelligible 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, American law holds this practice to be non-infringing “fair use.”^{vi} U.S. courts have reasoned 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.^{vii} 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.

3) *Nominative Fair Use of Trademark*

U.S. law permits the use a trademark without the mark-holder’s authorization when it is necessary to describe the goods, or for comparative advertising. Thus, a person reselling a legitimate “Louis Vuitton” handbag may legally describe it as such, even if the

French bag maker would prefer to prevent that sale in order to drive up demand for its new products. This policy exists to prevent anti-competitive use of trademark, which could otherwise be used to prevent the advertising and sale of used goods.

Internet companies have need of this protection because the Web has spawned a thriving market for used goods. EBay alone estimates \$8.8 to \$9 billion in revenue this year.^{viii} Without this exception, Internet companies are vulnerable to attacks by rights-holders who wish to use trademark to obtain complete control over all sales of their goods.

CASES

Several recent cases have illustrated that U.S. Internet companies are vulnerable to protectionist enforcement of domestic law in foreign venues. Internet companies, both thriving giants and small start-ups, have found themselves sued in foreign jurisdictions regarding practices encouraged by U.S. law. Worse still, the global nature of the Internet means that these companies may face liability not only for the websites crafted for that foreign market, but for all websites that the company maintains. Consequently, U.S. companies are being forced to choose between forsaking foreign markets completely or abandoning legal, innovative, and profitable practices at home to satisfy the whims of foreign courts.

Google

Google operates an Internet search engine and web portal, and provides related services. In 2007, Google generated over \$16.5 billion in revenue and employed approximately 16,800 people.^{ix} Google has had tremendous success overseas and is the top Internet company in Australia, France, Germany, Italy, Spain, Switzerland, and the United Kingdom.^x

Like most search providers, Google provides short quotes from indexed websites along with its search results in order to help users determine which results are relevant. Recently, however, a Belgian court found this practice to infringe upon Belgian copyright law. A Belgian rights management company, Copiepresse, sued

Google, which was quoting excerpts from articles in its news search engine. Despite the fact that users had to access the owners' websites in order to read the entire story, the court found Google's use to infringe copyright.^{xi} This holding jeopardizes the ability of companies like Google to do business overseas, since automated indexing cannot verify that the person creating a webpage is in fact the rights-holder.

Mere liability to rights-holders is not the limit of exposure for U.S. Internet companies, who face even greater dangers from operating overseas. The Wall Street Journal reports that Italian prosecutors intend to file criminal charges against four Google executives over an incident in which Italian youths posted a video of themselves taunting a disabled student to Google Video.^{xii} Despite the fact that Google itself did not post the video, and deleted the video within hours of being alerted to its content, Italy has proceeded with charges against these executives merely "because they had position of authority over the operations involved."^{xiii} Even if these charges ultimately fail in court, the mere threat of criminal sanctions may be enough to cause American executives to abandon innovative practices.

eBay

eBay operates an online auction site. This site puts sellers in touch with buyers through the Internet. eBay is particularly iconic of the rapid growth and success of American Internet businesses. It has grown dramatically from its inception in 1995, and as of 2007, eBay generated \$7.67 billion in revenue and employed 15,500 people.^{xiv} It now maintains specialized sites for thirty-three foreign nations.

Unfortunately, this dramatic success has attracted some dishonest sellers as well as legitimate sellers. In response, eBay spends \$20 million annually to develop new tools to combat these harms, and one quarter of eBay's employees are dedicated to promoting trust and safety on its website. eBay's software automatically scans for and removes auctions listing facially counterfeit items. eBay's employees suspend any listing suspected of infringement, and eBay maintains a program for

rights-holders to report suspected infringing postings. Moreover, eBay reimburses consumers who are victims of counterfeiting on its website.^{xv}

Under these circumstances, U.S. law does not hold eBay responsible for the actions of those criminals it fails to stop.^{xvi} Because eBay does not assist these wrongdoers, and withdraws their listings once it is aware of suspected infringement, sound policy and common sense dictate that the criminals themselves should be held accountable. Indeed, one U.S. court has recognized that eBay itself is a victim of these activities, and that eBay has a strong interest in stopping those who would take advantage of its reputation.^{xvii}

French courts, however, has been far less reasonable. A French court has recently used French trademark law to find eBay liable for the actions of all counterfeiters who use its service.^{xviii} 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 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, 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.^{xix} U.S. trademark law does not recognize such a cause of action, as it would allow a mark holder to prevent the sale of used goods and thus hinder legitimate competition. These sales are essential to the operation of a site like eBay, which deals substantially in secondary markets. Yet eBay was held liable for this conduct even when it occurred entirely within the U.S. This has been criticized as an especially protectionist use of French law.^{xx}

Yahoo!

The phenomenon of targeting U.S. Internet companies to impose domestic policy goals on the Internet at large 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. In 2001, a U.S. federal court refused to enforce the judgment, noting the direct conflict with the First Amendment.

Smaller Companies

While the cases against larger Internet companies have received the most attention, small Internet businesses are not immune from these dangers. The threat of extraterritorial litigation places a disproportionate burden on small Internet startups, which may find themselves subject to suit in foreign jurisdictions under laws with which they are unfamiliar and which contravene U.S. policy.

Viewfinder, a small U.S.-based Internet fashion magazine operates 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,^{xxi} 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.^{xxii}

DISINCENTIVES TO SELF-POLICE

Internet companies find it in their best interests to prevent illegal activity on their services, regardless of whether they are required by law to do so. Policing one's own services and enforcing policies provides a company with a reputation for reliability and helps to shield users from malicious conduct. Google, for example, provides tools to warn users before they visit sites that have been compromised by viruses. EBay strives to prevent fraud and

counterfeiting on its website. eBay, Yahoo, and many other sites have implemented policies against hate speech.

U.S. law has recognized that this sort of self-regulation can be jeopardized by legal regimes that penalize acts of good corporate citizenship. Congress recognized in the Communications Decency Act that it would be bad policy if businesses that tried to protect their users were at greater risk of liability for those crimes they failed to stop. This policy is mirrored by the Federal Rules of Evidence, which prohibit admission of evidence of improved safety measures after an accident so as not to discourage businesses from taking steps to improve safety.

Certain U.S. trading partners do not share these policies, and good faith efforts by American businesses to improve website safety are being used against them by foreign courts. The French court explicitly held that eBay's improvements to its anti-fraud measures "show its past negligence... and, therefore, the awareness of its full responsibility." This shortsighted policy puts businesses in the intolerable position of choosing between improving safety and security and protecting themselves against liability in foreign courts.

This schism in international law particularly prejudices U.S. Internet companies, which generally view improving anti-fraud measures as good business. Yet, the French rule has turned this aggressive pre-consumer approach into a *disadvantage*, discouraging technological improvements and penalizing the competitive drive that has led American Internet businesses to dominate the global market.

NEED FOR ACTION

American Internet businesses have enjoyed great success due largely to a carefully crafted legal framework that promotes innovative and aggressive competition. Foreign Internet law, however, is serving a protectionist role by penalizing American companies for their innovative businesses. U.S. policymakers must be more proactive in ensuring open markets for U.S. Internet and e-commerce businesses. In the absence of a prompt response by USTR to cases such as those described above, this protectionist

trend will continue to harm U.S. businesses operating in foreign markets, widening the trade deficit and imperiling American jobs.

Presently, USTR is not effectively confronting laws that penalize U.S. Internet and e-commerce companies. Rather, it is rewarding the same European states noted above by engaging them in an effort to negotiate a free trade agreement on IP issues – the Anti-Counterfeiting Trade Agreement (ACTA). Instead of courting governments with trade agreements when their courts unfairly punish U.S. businesses, USTR should insist that negotiating partners commit to extending common sense protections to Internet companies as a pre-requisite to negotiations. The U.S. government should devote at least as much effort to protecting U.S. Internet and e-commerce industries as it does to other major industry sectors. Until this occurs, however, U.S. Internet and e-commerce companies can expect a hostile environment overseas.

SOURCES

ⁱ U.S. Census Bureau, 2006 E-Commerce Multi-Sector Report (2008).

ⁱⁱ See http://www.nielsen-netratings.com/resources.jsp?section=pr_netv&nav=1.

ⁱⁱⁱ Scott Lamb, *What Does France Have Against Google?* Der Spiegel, March 25, 2005.

^{iv} 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.

^v 47 U.S.C. § 230(b)(2).

^{vi} *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).

^{vii} As early as 2005, researchers estimated that the indexable web exceeded 11.5 billion pages. 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>.

^{viii} Associated Press Report, *EBay Profits Jump 22%*, July 16, 2008.

^{ix} Google SEC Form 10-K (for FY ending Dec. 31, 2007).

^x http://www.nielsen-netratings.com/resources.jsp?section=pr_netv&nav=1.

^{xi} Court of First Instance in Brussels, Feb. 15, 2007, Ref. no. 7964.

^{xii} Alessandra Galloni, *Italy is to File Charges Against Google Executives*, Wall St. J., July 25, 2008.

^{xiii} *Id.*

^{xiv} eBay SEC Form 10-K (for FY ending Dec. 31, 2007).

^{xv} *Id.*

^{xvi} *Id.*

^{xviii} Tribunal De Commerce De Paris, June 30, 2008, Geronimi.

^{xix} *Id.*

^{xx} See, e.g., Therese Poletti, *EBay Ruling in France Reeks of Protectionism*, Market Watch, July 1, 2008.

^{xxi} *Jane Galiano & Gianna Inc. v. Harrah's Operating Co., Inc.*, 416 F.3d 411 (5th Cir. 2005).

^{xxii} *Sarl Louis Feraud Int'l v. Viewfinder Inc.*, 489 F.3d 474 (2d Cir. 2007).