



BACKGROUND MEMORANDUM

An Alternative to S. 2291/HR 2652 -- A True Federal Misappropriation Approach

RATIONALE FOR AN ALTERNATIVE APPROACH

In recent months, advocates of a misappropriation-based form of protection for compilations of information have marshaled anecdotal evidence and speculation to indicate the kinds of harm which flow from "database piracy." Foremost among these is the harm which occurred in the case of *Warren Publishing v. Microdos*, where copyright law was so interpreted that it failed to offer the proprietor of a valuable compilation effective protection against predatory competition in the primary market for that proprietor's information products. Also of note is the harm anticipated by organizations like the American Medical Association, which fear that third parties may present information derived from proprietary compilations without proper updating or attribution, thus putting both the consumer's well-being and the original compiler's reputation at risk.

Significantly, there has been no suggestion that creators of "value-added" databases today engage in unfair competitive practices, or that they are expected to do so in the future. Likewise, telecommunications and Internet access providers have not been identified as a threat to database proprietors. Nor has it been claimed that these proprietors suffer because teachers, pupils, libraries, scientists, or academic researchers use the contents of their information products without paying (or paying enough) for the privilege of doing so. But whatever the effect of S. 2291/H.R. 2652 (as currently drafted) on "pirates" might be, enactment of the legislation would have profound negative consequences for the practices of all of these important participants in the building of the information society.

In order to avoid such unintended consequences, it is desirable that the Congress should legislate narrowly to address the problems already identified.

Congress frequently resolves questions in difficult and controversial areas of intellectual property law by modeling its legislative approaches on decisional law. Recent examples include the defining of a "work made for hire" in Sec. 101 of the Copyright Act of 1976, and the enumeration of "fair use" factors in Sec. 107.

It is therefore consistent with established congressional policy to consider codifying good case law as an acceptable approach to resolving the current database protection dispute. The 2nd Circuit's decision in *NBA v. Motorola* is an excellent illustration of how one state's misappropriation doctrine can be applied to compiled facts. The judge's approach is derived directly from the Supreme Court's landmark 1918 decision in *Associated Press v. International News Service*.

The suggested alternative to S. 2291/HR 2652 is based closely on the key factors enumerated by Judge Winter in *NBA v. Motorola*. While most of the organizations that have reviewed this alternative remain convinced that the existing protections found in contract, copyright, and unfair trade law -- together with

the present and emerging technological protections -- provide adequate safeguards to database "providers," this approach attempts to:

- Meet the legitimate needs of the commercial database providing industry.
- Maintain essential protections for non-commercial/non-profit uses.
- Prevent establishing any anti-competitive, economically damaging property rights in data.
- Fine tune and raise to a Federal level, well-reasoned state misappropriation laws in the digital environment.

ELEMENTS OF THE SUBSTITUTE

This legislative approach will:

- Provide uniformity, through Federal treatment of misappropriation;
- Provide marketplace certainty for database producers without disrupting existing balances among the parties to commercial transactions;
- Preserve the ability of academic institutions to derive maximum research and educational value from databases they generate and choose to use commercially;
- Maintain assurances of commercial value for generators of hot news; and
- Discourage infringing misappropriation, by requiring source disclosure by database producers.

This alternative is only directed at commercial users of databases and will not:

- Adversely affect or impact scholarship, education or scientific research, and keep intact their current ability to access, obtain and use databases for non-commercial purposes.
- Prevent non-profit institutions from exercising control over the databases they generate and exploit commercially. Although the proposal contains language that would limit state, as well as Federal, agencies from invoking its provisions, it also provides an exception for state universities which generate income by licensing data generated as part of their academic programs.
- Prevent small publishers from creating new value-added databases after the original publisher has had the opportunity to recover its investment.

HISTORICAL UNDERPINNINGS

The value Americans have historically attached to the concept of "public domain" -- and our corresponding suspicion of monopolies in information -- are closely tied to our fundamental belief in the value of free competition, both in the economic marketplace and its essential role in the First Amendment-laden "marketplace of ideas."

Professor McCarthy expressed this idea as follows --

"From the policy of free economic competition has evolved the principle of free competition in business ideas and intellectual creations. That is, the principle of free copying --meaning that anyone's business ideas, inventions, writings and symbols, once disclosed to the public, are in the public domain and may be freely copied... Public domain is the rule: intellectual property is the exception."

America's students, teachers, researchers and value-added data base providers are not thieves, and the *Feist* decision was no aberration. It stands at the convergence of our mainstream intellectual property and competition law traditions: Our intellectual property laws reward creators while "encourag[ing] others to build freely on the ideas and information conveyed by a work." By contrast, the "sweat of the brow" cases overruled by *Feist*, which was never the dominant line of authority on fact protection, did represent a serious deviation from the fundamental principles of American information law jurisprudence.

S. 2291/H.R. 2652 revives the "sweat of the brow" approach, protecting compiled information against a wide range of unauthorized uses -- whether noncompetitive or competitive, whether fair or unfair. While this "backdoor" approach to overturning *Feist* may well fail as a constitutional matter -- constitutionality aside -- such legislation is simply bad information policy. If passed into law, it will artificially chill the search for knowledge and impede the development of valuable new information products by providing a remedy to parties who have no right.

Misappropriation protection for compilations of information should bar only unfair competitive practices, rather than burdening all competition and providing preferential treatment to one class of information producers over others. "[F]ree exploitation of ideas will be the rule, to which [legal] protection ... is the exception." (*Bonito Boats*) Like other branches of the law of unfair competition, the tort of "misappropriation" is subject to this limitation -- and under state misappropriation laws the inquiry looks to whether, on the facts, harm did actually result from particular unfair competitive practices in which the defendant actually engaged. **Any Federal enactment in this area should do no more -- and no less.**

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