

WHY H.R. 1858 IS SUPERIOR TO H.R. 354

Both H.R. 354, introduced by Mr. Coble and passed by the Judiciary Committee, and H.R. 1858, introduced by Mr. Bliley and passed by the Commerce Committee, prohibit wholesale misappropriation of databases. They both prevent parasitical copying and free riding.

Where they differ is in their treatment of value added databases -- where a person extracts some information from an existing database and combines it with additional material to make a new database. Under H.R. 1858, such value added, transformative uses are clearly permitted. Under H.R. 354, by contrast, the permissibility of transformative uses must be determined on a case by case basis, and the courts in the future may ultimately decide to permit virtually no transformative uses.

H.R. 1858 provides more certainty because it starts out with a narrow prohibition. H.R. 354, on the other hand, starts out with a very broad prohibition, and then carves out exceptions. Some of these exceptions are extremely vague, and require judicial intervention. This problem is magnified by the fact that in many markets, there is only one source of the information.

1. Transformative Uses. The problem with respect to value added, or transformative, uses has several components flowing directly from the structure of H.R. 354's basic prohibition. H.R. 354 prohibits the making available to others of a substantial part of a database so as to cause material harm to a primary or related market of the original database. Additionally, H.R. 354 prohibits the extraction, for internal use, of a substantial part of a database so as to cause material harm to the primary (but not related) market of the original database. There is a reasonable use exception, with five factors a court must consider in determining whether the use was reasonable under the circumstances.

This approach contains the following difficulties:

- It is unclear how much of a database is a "substantial part." It conceivably could be just an undefined *qualitatively* substantial part.
- It is unclear how much harm -- how many lost sales -- constitutes "material" harm.
- A related market is a market as to which the database publisher has taken "demonstrable steps to offer ... within a short period of time products or services incorporating" the database. Thus, if the second publisher develops a new market for a value-added product, the first publisher can take "demonstrable steps" to enter that market, and then prohibit the second publisher from selling to that market.
- A related market could also be any market in which products or services "similar" to the protected database are offered. The second publisher would not know which products would be considered "similar" for purposes of defining the market.
- It is unclear how a court will apply the five reasonable use factors. Many of them contain vague terms.

Taken together, these uncertainties would prevent the second publisher from investing the often substantial resources necessary to develop a value-added product. He would have no way of knowing how much information he could extract before incurring liability.

Moreover, in many markets, there is only one source of the information; the information cannot be gathered independently in an economically feasible manner. For these markets, H.R. 354 grants a monopoly over the use of the information. The only relief H.R. 354 provides for this sole source problem is the antitrust laws, which are too slow, expensive, and uncertain.

In contrast, the Bliley bill, H.R. 1858, tries to draw clearer lines about permitted transformative uses. Title I prohibits the sale or distribution of a database which is a duplicate of a database collected and organized by another person.

- The legislation carefully defines a duplicate of a database as a database which is “substantially the same” as the first database. Significantly, the database need not be identical to be a duplicate. Thus, minor changes will not allow a pirate to escape liability.
- Further, a discrete section of a database, like a chapter in a restaurant directory, may itself qualify as a database.
- The duplicator incurs liability only if the duplicate competes against the original database, and H.R. 1858 provides a definition for this, too.

In short, H.R. 1858 prevents the distribution of a pirated database which could threaten the investment in database creation, but it does not prevent reuse of information for purposes of creating a new, innovative database.

2. The perpetual protection problem. H.R. 354 appears to create a fifteen year term of protection for databases. However, with an online database, the second publisher has no way of knowing what parts of the database are more than fifteen years old and thus part of the public domain. The only relief provided by H.R. 354 is disallowing damages if there is no clear indication of the “age” of the information. The first publisher, however, can still enjoin the second publisher from publishing its directory.

Under the Bliley bill, the perpetual protection problem evaporates because there is no prohibition at all against transformative uses. And for uses which do not involve any transformation, protection only extends until the original compiler has had the opportunity to recover his investment. It is hard to determine when that occurs, but we are not interested in promoting uses which do not involve transformation.

3. Online Service Provider Liability. H.R. 354 provides a narrow exemption for entities performing “mere conduit” services -- the transmission, routing, or provision of connections for digital online communications. However, H.R. 354 does not exempt the “hosting” of unlawful databases uploaded by third parties, or the linking to sites containing unlawful databases.

The Bliley bill, in contrast, contains a complete exemption for online service providers, provided they did not initially place the duplicate databases on their systems.

4. Retroactive Application. H.R. 354 would apply to databases that were created up to fifteen years ago -- that is, databases that were created without the additional incentive provided by H.R. 354. For the publishers of these databases, H.R. 354 provides an unexpected, and undeserved, windfall. Conversely, H.R. 1858 would apply only to databases created after the effective date of the legislation. The Bliley bill recognizes that there is no need to give an incentive to create something that already exists.