Order Code RS20361
October 19, 1999

CRS Report for Congress

Congressional Research Service • The Library of Congress

Noncreative Database Bills in the House

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Summary

Two House bills from the 106th Congress which would establish sui generis protection for noncreative databases have been reported favorably from their respective committees. H.R. 354, the "Collections of Information Antipiracy Act," would create civil and criminal causes of action against those who unlawfully misappropriate computer databases. H.R. 1858, the "Consumer and Investor Access to Information Act of 1999," would direct the Federal Trade Commission to police unlawful duplication of computer database information.

This report summarizes the bills and notes distinctions between them. It will be updated as legislative developments warrant.

Background. Database producers are seeking new federal protection against piracy of collections of information that result from the investment of substantial amounts of money, time, or other resources. Copyright protection is not available for databases unless they exhibit at least a modest amount of original or creative expression.[1]

In response to the concerns of database producers, two bills, H.R. 354 and H.R. 1858, have been introduced in the 106th Congress to create a federal misappropriation right under the Commerce Clause against the unlawful copying of databases. To qualify for protection, the database producer must have expended industrious effort and created the database through a substantial investment in money, time, or other resources.

Hearings on H.R. 354 were held before the House Judiciary Subcommittee on Courts and Intellectual Property on March 18, 1999. The bill was reported, with amendments, by the House Judiciary Committee on May 26, 1999.[2]

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[1] For more detail on the background of the legislation, including the applicability of copyright law to noncreative databases and the U.S. Supreme Court's decision in *Feist Publications v. Rural Telephone Service Co.*, 499 U.S. 340 (1991), *see* CRS Report 98-902, "Intellectual Property Protection for Noncreative Databases," by Dorothy Schrader and Robin Jeweler, Sept. 15, 1999.

[2] *See* H.Rept. 106-349, 1st Sess. (1999).

H.R. 1858 was introduced on May 19, 1999 and was referred to the House Commerce Committee. A hearing on Title I of the bill was held before the Subcomm. on Telecommunications, Trade, and Consumer Protection on June 15, 1999. Title II, which would amend the Securities Exchange Act of 1934, 15 U.S.C. § 78k-1, to prohibit misappropriation of real-time market information, was the subject of a hearing before the H. Subcomm. on Finance and Hazardous Materials on June 14, 1999. The full committee ordered the bill to be reported in the nature of a substitute on August 5, 1999.[3]

H.R. 1858 is similar to H.R. 354 in that it creates a Commerce Clause-based right against prohibited duplication and commercial distribution of a noncreative database. It is unlike H.R. 354 in several respects, for example: 1) the bill provides only civil, not criminal penalties for violation; 2) enforcement is vested solely in the Federal Trade Commission; no private right of action is created; 3) it does not have a fixed 15-year term of protection; and, 4) it applies only to databases created after enactment.

At this time, legislation has not yet been introduced in the Senate.

H.R. 354, the "Collections of Information Antipiracy Act," 106th Cong., lst Sess. (1999).

Basic right. This newly-created misappropriation right would be enacted as a new chapter 14 of title 17 of the U.S. Code, which deals generally with copyright law, but under the authority of the Commerce Clause rather than the Patent-Copyright Clause of the Constitution.

The prohibition against copying would apply generally to all or a substantial part of a collection of information that results from the investment of a substantial amount of money or other resources, provided the copying causes actual or potential harm to the market for the database.

Exclusions from protection. The bill would exclude the following from subject matter protection: 1) collections of information developed by Federal, state, or local governments, including the efforts of government employees within the scope of their employment; 2) computer programs used to operate or maintain the collection of information; and 3) collections of information included in products or services that transmit, store, or provide access to digital online communications.

The government collection exclusion would not apply, however, to information required to be collected by the Securities Exchange Act of 1934 and by the Commodity Exchange Act.

The computer program exclusion would not apply to a collection of information that is "incorporated in a computer program that is otherwise subject to protection" under the bill.

H.R. 354 excludes from protection information gathered, organized, or maintained in order to route, transmit, or store digital online communications or provide access to connections for digital online communications. This exclusion is intended to address

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[3] *See* H.Rept. 106-350, 1st Sess. (1999).

concerns about interference with the operations of the Internet, by prohibiting application of the new database rights to the data used to control the operations of the Internet.

Limitations on the right. Exceptions or limitations to the new database right would be established by the bill in the form of permitted activities. The following would be permitted activities in relation to use of a protected collection:

- "individual use or extraction" for teaching, research, or explanation under a reasonableness standard;
- use for nonprofit educational, scientific, or research purposes, provided the use does not materially harm the primary market for the collection;
- extraction of individual items and other insubstantial parts from a collection;
- gathering or use of information obtained from independent efforts;
- use of a collection for the sole purpose of verifying information gathered independently, provided the use does not harm the actual or potential market for the original collection;
- use of the collection for purposes of news reporting, unless the extracted information is time-sensitive and has been gathered by another news-reporting entity and the extraction shows a pattern of use in direct competition with the rights holder;
- the owner of a lawfully made copy of the collection could sell or otherwise dispose of the copy;
- use or extraction of genealogical information for nonprofit, religious purposes; and
- use of information as part of lawfully authorized investigative, protective or intelligence activities.

"Individual use or extraction" limitation. In determining whether or not the "individual use or extraction" limitation applies, H.R. 354 lists five factors to be weighed in evaluating the reasonableness of the use: 1) commercial or nonprofit purpose; 2) appropriateness for purpose; 3) good faith purpose; 4) incorporation of the copied material in an independent work or collection and the degree of differences between the protected collection and the subsequent work or collection; and 5) whether the protected collection was primarily developed for marketing to persons engaged in the same field or business as the database user.

H.R. 354 specifies that in no case can this limitation be applied to permit extraction or use for sale or in commerce, or where the use results in development of a product or service which is likely to serve as a substitute for the original database.

Relationship to other laws. The new database right has no effect on copyright, patent, and trademark laws; design protection; antitrust and contract laws; trade secrets; privacy rights; or access to public documents. Equivalent state law rights would be preempted. There would be no impact on the Communications Act for the purpose of publishing directories in any format.

Detailed provisions specify that there shall be no impact on the Securities Exchange Act and the Commodity Exchange Act, or on the jurisdiction or authority of the Securities and Exchange Commission or the Commodity Futures Trading Commission. The permitted acts or limitations of the bill would not apply to use of securities or commodities information except as that use shall be permitted by the Securities Exchange and Commodity Exchange Acts and the regulations issued thereunder. The right of the respective Commissions to regulate the availability, extraction, resale or other disposition of real-time market information under the Acts is not affected.

Civil remedies. The civil remedies for violation of the database right would include injunction, impoundment, actual damages plus defendant's profits from the violation not counted in damages, treble damages, and costs and attorney's fees to the prevailing party. If a nonprofit educational institution prevails as a defendant and the court finds the plaintiff brought the case in bad faith, attorney's fees shall be awarded to the defendant. The remedies of an injunction and impoundment are not available, however, against the United States Government.

The court shall reduce or remit money damages against a nonprofit educational, scientific, or research institution if the defendant proves it believed and had reason to believe its conduct was permissible.

Criminal penalties. Willful violations of the new database right for purposes of direct or indirect commercial advantage or financial gain, or willful violations that cause $100,000 or more in damages in one year, could be punished by criminal penalties. Employees or agents of nonprofit educational, scientific, or research institutions, libraries, or archives are exempt, however, from any criminal penalties for violations of the new database right, when acting within the scope of their employment.

The penalties include a fine in the maximum amount of $250,000 and/or 5 years in prison for first offenses. For second or subsequent offenses, the maximum fine and prison time are doubled.

Limitations on actions. A statute of limitations clause provides that no action can be brought against an extraction from a collection that occurs more than 15 years after the date of the investment that created the portion of the collection that has been extracted. This clause is intended effectively to limit the protection to a 15-year period by providing that protection is not available against an extraction or use that occurs more than 15 years after "the portion of the collection that is extracted or used was first offered for sale or otherwise in commerce" following the investment of resources that qualified that portion of the collection for protection.

H.R. 354 also sets a three-year statute of limitations on any civil or criminal action to enforce database rights. Criminal actions must be filed "within three years after the cause of action arises." Civil actions must be filed "within three years after the cause of action arises or claim accrues."

Effective date. The Collections of Information Antipiracy Act would take effect upon enactment. In general, there is no liability for acts prior to enactment, i.e., for the use of information lawfully extracted from a collection prior to the effective date, although it would apply to databases created prior to enactment.

H.R. 1858, the "Consumer and Investor Access to Information Act of 1999," 106th Cong., 1st Sess. (1999). Title I is entitled "Commerce in Duplicated Databases Prohibited." Title II is entitled, "Securities Market Information."

Title I: Basic right. The bill makes it unlawful for any person to duplicate, sell or distribute a database that is substantially the same as another database as a result of the extraction of information from the preexisting database. Sale or distribution to the public may unlawfully compete with a preexisting database if doing so displaces substantial sales or licenses, or significantly threatens the opportunity for the owners of the unlawfully duplicated database to recover a reasonable return on their investment. Protection for databases would not, however, extend to the sale or distribution of a duplicate of any individual idea, fact, procedure, system, method of operation, concept, principle, or discovery.

Permitted acts. Restrictions on unlawful duplication and sale do not apply to the sale and distribution of comparable information obtained by means other than extraction from a database organized by another person. Sale or distribution of a duplication of a services-provider database for the sole purpose of news or sports reporting is permissible unless the information is time sensitive and is part of a consistent pattern of direct commercial competition; likewise, material sold or duplicated for scientific, educational, or research uses is permissible unless there is a pattern of commercial competition. Finally, selling or distributing duplicative materials in connection with law enforcement and intelligence activities is expressly permitted.

Exclusions from protection. Federal (and foreign) government databases, including those maintained by a commercial entity under contract with the Federal Government, are excluded from the protections against unlawful duplication and sale. Certain Internet communications transactions and computer program functions are excluded, as are specified subscriber list information, legal materials, and securities market data.

Relationship to other laws. Unlike H.R. 354, H.R. 1858 would not be codified under Title 17 of the U.S. Code, which deals generally with copyright law. It expressly provides that it is not intended to affect rights or remedies under other laws, such as copyright, patent, trademark, design rights, or antitrust. The bill expressly preempts state laws inconsistent with it.

Limitations on the right. The defense of "misuse" is made available to potential defendants against claims of unlawful duplication and sale. Among the factors a court is to consider in determining whether a database-owner *qua* plaintiff has misused proprietary rights in a noncreative database are:

- the extent to which potential users have been frustrated by contractual arrangements or technological measures;
- the extent to which the information contained in a database is the sole source of information, and is otherwise made available through licensing or sale on reasonable terms and conditions;
- the extent to which a license or sale has been conditioned on the performance of other activity not directly related to the license or sale;

- the extent to which access to the information is necessary for research, competition, or innovation;
- the extent to which the manner of asserting rights granted under the bill constitutes a barrier to entry into the relevant database market; and
- the extent to which the judicial doctrine of misuse is applicable.

Enforcement. The Federal Trade Commission (FTC) is given sole enforcement authority, including rulemaking authority, under the bill. A violation of a rule prescribed by the FTC will be treated as a violation of a rule respecting unfair or deceptive practices under § 5 of the FTC Act, 15 U.S.C. § 45. The FTC is required to report to Congress within 36 months after enactment on the effect the law has had on electronic commerce and on the U.S. database industry.

Relationship to other laws. The rights under the bill are designed to supplement, not displace any rights or remedies that currently exist under, *e.g.*, copyright, patent, trademark, design rights, or antitrust laws. State laws that are inconsistent with the rights established are expressly preempted.

Effective date. The Act would take effect upon the date of enactment, and would apply prospectively to sales or distributions of a database that was created after the date of enactment.

Title II–Securities Market Information. This provision of the bill would amend the Securities and Exchange Act of 1934, 15 U.S.C. § 78k-1, to prohibit the misappropriation of real-time market information from a market information processor. Among remedies available to an injured processor are injunctions, monetary damages, and disgorgement of a defendant's gains. The bill excepts from the prohibition independent gathering of real-time market information and news reporting. Protection would not extend to "delayed" market data, which constitutes "historic fact" in the public domain.