

U.S. - CHILE FREE TRADE AGREEMENT ANALYSIS OF IMPLEMENTATION OF EXCEPTIONS AND LIMITATIONS AND TECHNOLOGICAL PROTECTION MEASURE PROVISIONS

A. INTRODUCTION

Discussions of limitations and exceptions to copyright are meaningless unless they also encompass the impact of rightsholders' technological protection measures (TPMs) under the law. It's well and good for law to spell out public rights – exceptions and limitations - that are reserved from copyright, but if a rights-holder can lock up its works with measures that prevent the public from exercising those public rights, what does it matter?

The United States' experience with the 1998 Digital Millennium Copyright Act (the “DMCA”) has made this clear: overbroad legal sanctions for circumventing rightsholders' technological protection measures (“TPM”) can effectively eliminate existing limitations and exceptions, to the detriment of the public and the educational community, and undermine scientific research and technological development. Article 17.7(5) of the Intellectual Property chapter of the US-Chile Free Trade Agreement (the “FTA TPM provisions”) contains provisions dealing with technological protection measures. Those provisions closely mirror the DMCA anti-circumvention provisions in their framework, but differ from them in many important respects.

Both the FTA TPM provisions and the DMCA include a prohibition on the *act* of circumventing a technological measure that controls access to a copyrighted work, and a restriction on the manufacture and distribution of *technologies and devices* (“tools”) that can be used for circumvention. Like the DMCA, the FTA TPM provisions also include a set of limited exceptions for the same activities permitted under the DMCA, and provide for an administrative or legislative process to grant three year exemptions to the circumvention act ban. And both the DMCA and the FTA TPM provisions provide for civil penalties and criminal sanctions for certain violations of the circumvention provisions.

However, the FTA TPM provisions differ from the DMCA in three important respects. These permit a more flexible implementation in Chilean legislation.

1. The FTA TPM provisions ban only the act of *knowing* circumvention of a TPM;
2. The FTA TPM provisions require regulation of the manufacture and distribution of circumvention tools, technologies and devices. However, where the DMCA prohibits the use of these tools for any and all purposes, the FTA TPM provisions appear to permit the use of tools for lawful purposes;
3. The FTA TPM provisions provide more flexibility for the creation of further exceptions (beyond the eight specified) and the application of criminal penalties for circumvention violations.

This paper reviews some of the issues arising from the DMCA provisions in the United States over the last five years, and provides proposals for the Chilean implementation legislation based on the language of Article 17.7(5) of the U.S.–Chile FTA. Suggested draft legislative implementation language for some of the proposals is provided in Annexure A. For additional information, further resources analyzing the DMCA and implementation of TPM provisions in other countries are listed in Annexure B.

B. EXECUTIVE SUMMARY OF IMPLEMENTATION SUGGESTIONS

1: Limit legal protection for TPMs to copyright infringement.

The Chilean implementation legislation should make it clear that the act of circumventing a

technological protection measure is only unlawful if done for the purpose of infringing a rightsholder's rights under current Chilean copyright law.

2: Restrict only “black boxes” specifically designed for circumvention.

The Chilean implementation legislation should limit the restriction on manufacture and distribution of tools and devices to only those that are not capable of any use except circumvention of a TPM for the purpose of infringing copyright. The wording of Article 17.7(5) of the FTA appears to leave flexibility in the Chilean implementation legislation as to the scope and conditions for regulation of such devices. Two suggested approaches are provided below.

3: Preserve room for circumvention for legitimate purposes.

The Chilean implementation legislation should create a general exception for circumvention for legitimate, non-infringing purposes recognized under Chilean law, including for fair use, fair dealing or a right of private, non-commercial copying. It appears that Article 17.7(5)(d) can be interpreted to leave flexibility in implementation legislation for the creation of additional exceptions to both the “act prohibition” and the “tools regulation” in Article 17.7(5)(a) and (b) respectively, so long as these meet the proviso of not impairing the adequacy of legal protection and effectiveness of legal remedies for the protected work.

4: Protect consumers' existing legitimate uses of purchased digital media.

The Chilean implementation legislation should define “authorization” for the purposes of Article 17.7(5)(a) of the FTA provisions to include implied authorization arising from purchase or customary usage of the relevant media. The implementation legislation should also provide that authorization cannot be unreasonably withheld if it would result in a loss of legitimate competition in the market for that good or an interoperable good.

5: Prohibit anti-competitive misuse of TPMs.

The Chilean implementation legislation should implement a “no mandate” provision that incorporates the wording in Footnote 19 to Article 17.7(5) to make it clear that technology designers do not have to design new products, or “refit” existing products to make them respond to particular technological protection measures. This provision should apply to devices *at the time they were designed*. In addition, the implementation legislation should expressly provide that rightsholders shall not use TPMs for anti-competitive purposes or to achieve anti-competitive effects, and should reserve the power to regulate such behavior to the Chilean government.

6: Preserve room for Reverse Engineering and Technological Innovation.

To preserve room for legitimate reverse-engineering and technological innovation, the implementation legislation should also (1) define “technological protection measure” for the purposes of Article 17.7(5)(a) to mean encrypted content or content not otherwise readily accessible to a user (sometimes called “self-protecting content”), and (2) define “device, product, component or service” for the purposes of Article 17.7(5)(b), to exclude any software device in existence at time that this provision becomes operational, and to exclude information communicated in a natural (non-computer) language.

7: Protect scientific research and educational purposes.

To partially mitigate the chilling effect of the ban on acts of circumvention and circumvention technologies needed for scientific research and to provide appropriate incentives for educational activities, the Chilean implementation legislation should:

- (1) Create an exception from criminal liability for circumvention acts and tools for scientific research and educational purposes, by formalizing the discretion provided in Article 17.7(5) to ensure that due account is given to the scientific and educational purpose of the conduct;

(2) Reduce the threshold for civil liability for scientific research by making knowledge an element of a violation of both the “act” prohibition and the regulation of circumvention devices-- for instance, by requiring knowledge that the device or tool is one prohibited under the law; and (3) Make it clear that information communicated in plain (non-computer) language, and research papers, are not “devices” for the purposes of the device ban.

8: Exclude civil and criminal liability for innocent infringers.

Article 17.7(5)(a) of the FTA TPM provisions only requires criminal liability for a violation of the act prohibition in “appropriate circumstances”, and for violation of the devices regulation, only where the conduct is willful and for “prohibited commercial purposes”. The Chilean implementation legislation should exempt innocent infringers who are not aware, and have no reason to believe that they are undertaking a circumvention of a technological protection measure for the purpose of copyright infringement, from both civil penalties (on the grounds that the innocent infringer did not have the relevant knowledge and intent to commit copyright infringement (see Proposals 1 - 3 above)) and from criminal liability.

9: Exclude civil and criminal liability for non-profit libraries, archives and educational institutions

Article 17.7(5) of the FTA permits an exemption from criminal liability to be granted to nonprofit libraries, archives and educational institutions. It also permits exemption from civil liability, where the circumvention is carried out by those entities in good faith and without knowledge that the conduct is prohibited. The Chilean implementation legislation should include both of these exceptions.

10: Enshrine fair procedures for Administrative or Legislative Exemption Granting.

In implementing the administrative or legislative exemption granting process contemplated by Article 17.7(5)(d)(i) of the FTA, the Chilean implementation legislation should set the threshold for the burden of proof for exemption proponents in a manner that is commensurate with their ability to provide the information sought. Once the threshold burden of proof is met, the burden of proof should shift to rightsholders to disprove the need for the exemption sought. In order to create meaningful exemptions for consumers, the implementation legislation should provide an automatic exception for the use of circumvention tools, devices and technologies needed by consumers to give effect to any exemption to the act prohibition granted in the administrative or legislative exemption process. It appears that Article 17.7(5)(d) of the FTA provisions can be interpreted to provide flexibility for this implementation measure.

11: Retain flexibility to modify in accordance with changes in U.S. law and domestic public policy priorities.

The Chilean implementation legislation should establish a procedure that permits any person to file a submission with the Chilean government to bring to the attention of Parliament any legislative amendments made to the U.S. DMCA. On receipt of such a submission, the Parliament should conduct an investigation to decide whether a similar or corresponding amendment is required to Chilean law.

C. ELECTRONIC FRONTIER FOUNDATION

The Electronic Frontier Foundation (EFF) is a non-profit public interest organization dedicated to protecting civil liberties and free expression in the digital world. Founded in 1990 and based in San Francisco, California, U.S.A., EFF represents the interests of Internet users in court cases and in the broader policy debates surrounding the application of law in the digital age, and publishes a comprehensive archive of digital civil liberties information at one of the most linked-to websites in the world. <http://www.eff.org>

EFF works to ensure that the public's traditional rights in the copyright bargain represented in United States copyright law are preserved as we move into the digital era. In particular, EFF has participated as counsel or amicus curiae ("friend of the court") in all the leading cases interpreting the anti-circumvention provisions of the DMCA, and has testified before the U.S. Copyright Office seeking consumer exemptions for digital media in both the 2000 and 2003 DMCA exemption rule-making hearings. EFF has also submitted comments to the governments of Australia, Canada, Germany and New Zealand on those countries' proposed implementation of TPM provisions in their national law.

D. OVERVIEW OF DMCA AND FTA TPM PROVISIONS

1. *The DMCA in the U.S.*

Article 17.7(5) of the U.S. – Chile FTA contains TPM provisions modeled on the anti-circumvention provisions in the U.S. DMCA, codified in section 1201 of the U.S. Copyright statute. The U.S. Congress enacted section 1201 in response to two pressures. First, Congress was responding to the perceived need to implement obligations imposed on the U.S. by the 1996 World Intellectual Property Organization (WIPO) (OMPI) Copyright Treaty¹ and Performances and Phonograms Treaty. Article 11 of the WCT and Article 18 of the WPPT require signatory countries to provide "adequate legal protection and effective legal remedies" against the circumvention of technological measures used by copyright owners to protect copyrighted works.

However, the DMCA provisions went beyond what was necessary to implement the U.S.'s treaty obligations.² In fact, the U.S.'s chief policy spokesperson and proponent of the DMCA, Assistant Secretary of Commerce and Commissioner of Patents and Trademarks, Bruce A. Lehman, admitted during his congressional testimony in the debates leading to the passage of the DMCA, that the U.S. anti-circumvention provisions went beyond the requirements of the WCT and WPPT.³ The details of section 1201, therefore were a response not just to U.S. treaty obligations, but also to the demands of the entertainment industries for additional rights in the networked digital world.⁴

Section 1201 created two distinct prohibitions. First, 1201(a)(1) prohibits the "circumvention" of technical measures used by copyright holders to control access to their works. So, for example, section 1201(a)(1) prohibits the circumvention of the encryption used on commercial DVDs. This provision makes the *act* of circumvention unlawful, whether or not the ultimate intended use of the copyrighted work would be infringing.

Second, sections 1201(a)(2) and 1201(b) outlaw the manufacture, sale, or providing of any device, service or technology that is primarily designed or useful for circumvention of technical measures used by copyright owners to protect copyrighted works.⁵ These provisions ban the *tools*

¹ Article 11 WIPO Copyright Treaty, Article 18 WIPO Performances and Phonograms Treaty.

² Pamela Samuelson, *Intellectual Property and the Digital Economy: Why the Anti-Circumvention Regulations Need to be Revised*, 14 BERKELEY TECHNOLOGY L.J. 519, 521 & 531-32 (1999) (explaining that existing U.S. law satisfied WIPO treaty obligations) (available at <http://www.sims.berkeley.edu/~pam/papers.html>).

³ See *WIPO Copyright Treaties Implementation Act and Online Copyright Liability Limitation Act: Hearing on H.R. 2281 and H.R. 2280 before the House Subcomm. on Courts and Intellectual Prop.*, 105th Cong., 1st sess. (Sept. 16, 1997) at 62 (testimony of Asst. Sec. of Commerce and Commissioner of Patents and Trademarks Bruce A. Lehman).

⁴ See Jessica Litman, *DIGITAL COPYRIGHT* 89-150 (2000).

⁵ 17 U.S.C. § 1201(a)(2), (b). These provisions ban not only technologies that defeat *access* controls, but also technologies that defeat use restrictions imposed by copyright owners, such as *copy controls*. Accordingly, the ban on devices is broader than the section 1201(a)(1) ban on acts of circumvention.

and technologies that would make circumvention of technical protections possible.

2. *The U.S.-Chile FTA*

Article 17.7(5) of the U.S.-Chile FTA has a similar structure. It also requires signatories to ban the act of circumvention and to regulate the manufacture and distribution of circumvention tools and technologies.

3. *Article 17.7(5)(a): Ban on Acts of Circumvention*

Article 17.7 (5)(a) provides the framework for a prohibition on the act of knowingly circumventing any “effective technological measure” that controls access to a protected work, performance, or phonogram without the *authorization* of the rights holder or *law consistent with the FTA*.

“Effective technological measure” is defined to mean “*any technology, device, or component that, in the normal course of its operation, controls access to a work, performance, phonogram, or any other protected material, or that protects any copyright or any rights related to copyright and cannot, in the usual case, be circumvented accidentally*” (Art.17.7(5)(f)).

The scope of acts prohibited is thus determined by the scope of the authorization given by rightsholders or by national laws.

4. *Article 17.7(5)(b): Regulation of Circumvention Tools, Technologies and Devices*

Like section 1201, Article 17.7(5)(b) of the FTA TPM provisions provides the framework for a ban on the manufacture and distribution of certain circumvention tools. However, unlike the U.S. DMCA, Article 17.7(5)(b) does not appear to require an outright ban on these tools and has a narrower scope of criminal liability. Art. 17.7(5)(b) requires signatories to provide “administrative or civil measures” with regard to the manufacture, import, distribution, sale or rental of devices, products, or components or the provision of services which:

- (i) “are promoted, advertised, or marketed for the purpose of circumvention of any effective technological measure, or
- (ii) do not have a commercially significant purpose or use other than to circumvent any effective technological measure, or
- (iii) are primarily designed, produced, adapted, or performed for the purpose of enabling or facilitating the circumvention of any effective technological measures.”

It requires criminal measures for conduct that is willful and for *prohibited* commercial purposes. This appears to be narrower than the equivalent provision in section 1204 of the DMCA provisions.

5. *Exceptions*

The FTA provides for exceptions and limitations to copyright and related rights in accordance with the three step test in Article 13 of the Agreement on Trade-Related Aspects of Intellectual Property (“TRIPs”) and Articles 9 and 10 of the Berne Convention. The wording of Articles 17.7(3) and 17.7(5)(c) indicates that the parties intended that existing exceptions and limitations in Chilean copyright law would remain and that new exceptions consistent with Article 13 of TRIPs may be created. Article 17.7(3) specifically states that signatories “shall confine limitations or exceptions to rights to certain special cases which do not conflict with a normal exploitation of the work, performance, or phonogram, and which do not unreasonably prejudice the legitimate interests of the right holder.” Article 17.7(5)(c) states that “Each Party shall ensure that nothing in subparagraphs (a) and (b) affects rights, remedies, limitations, or defenses with respect to copyright or related rights infringement.”

Of course, the practical value of public interest exceptions such as reproduction for educational or academic use, or private non-commercial copying, depends on the impact of the TPM provisions on these exceptions. Article 17.7(5)(d) provides certain exceptions to the circumvention act ban and for use of “tools” for the purpose of circumventing either “access TPMs” (Art. 17.7(5)(e)(ii)) or “use control TPMs” (Article 17.7(5)(e)(iii)). These follow the excepted activities in the DMCA.

However, unlike the DMCA, the use of the words “in particular” in Article 17.7(5)(d) suggests that the list is not intended to be exhaustive, but merely provides certain examples of permitted exceptions. On this reading, the parties would be free to enact implementation legislation with additional exceptions, beyond the eight listed, so long as they meet the proviso of not impairing the adequacy of legal protection and effectiveness of legal remedies for the protected work.

II. LESSONS LEARNED UNDER THE DMCA AND PROPOSALS FOR CHILEAN IMPLEMENTATION

A. PRESERVING COPYRIGHT LAW EXCEPTIONS AND THE BALANCE OF RIGHTS

The U.S. Congress enacted the DMCA anti-circumvention provisions to stop copyright pirates from defeating anti-piracy protections added to copyrighted works, and to ban “black box” devices intended for that purpose.⁶ However, in practice, the anti-circumvention provisions have proven to be overbroad and have been used to stifle a wide array of legitimate activities, rather than to stop copyright piracy. In particular, the provisions have:

- (a) had a chilling effect on scientific research and publications;
- (b) eliminated or impaired consumers’ ability to make fair use or other non-infringing uses of digital media they have purchased; and
- (c) been used by businesses against their competitors to prevent the development of interoperable products and to stifle technological innovation.

In short, the balanced rights granted by U.S. copyright law have been supplanted by the broad “anti-circumvention” prohibitions of the DMCA.

The U.S. Copyright statute represents over one hundred years of legislative and judicial efforts to strike a fair balance between the interests of copyright owners and those of the public. The copyright balance is reflected in the U.S. Copyright statute by a broad grant of certain exclusive rights to copyright owners for a limited time, on one hand, and a number of exceptions and limitations to preserve access for the public, on the other. Each of the limitations on the scope of a copyright owner’s exclusive rights reflect a deliberate legislative conclusion that public policy imperatives outweigh the interest in maximizing economic incentives for copyright owners.

The DMCA, in contrast, allows a rightsholder to unilaterally supercede this balanced set of rights. The DMCA’s Section 1201(a)(1) has been interpreted to provide copyright owners with a new right, above and beyond copyright, to control *access* to copyrighted works. In effect, this allows a copyright owner to use a technological protection measure (TPM) together with the legal sanctions of section 1201 for a circumvention of that TPM, to unilaterally redraw the copyright balance and determine how much protection will be given to their work.

⁶ For examples of Congress’ stated purpose in enacting the DMCA’s anti-circumvention provisions, *see* 144 Cong. Rec. H7093, H7094-5 (Aug. 4, 1998); Senate Judiciary Comm., S. Rep. 105-190 (1998) at 29; Judiciary Comm., H. Rep. 105-551 Pt 1 (1998) at 18; House Commerce Comm., H. Rep. 105-551 Pt 2 (1998) at 38.

First Set of Proposals: Limit TPM protection to Copyright Infringement

To make it clear that the TPM provisions do not override the rest of Chilean copyright law, including the various exceptions it recognizes, the Chilean implementation legislation should restrict the scope of the TPM provisions to the protection of copyright and related rights under existing Chilean copyright law. Article 17.7(5)'s use of the language "*in connection with the exercise of their rights*" and "*protected by copyright and related rights*" indicates that this was the intended scope.

This could be achieved by several means:

(1) The implementation legislation should include the proviso "*for the purpose of infringing a right protected under Chilean copyright law.*" For instance, Article 17.7(5)(a) could be implemented as:

"No person shall knowingly circumvent, for the purpose of infringing a right protected under Chilean copyright law, without authorization of the right holder or applicable law any effective technological measure that controls access to a protected work, performance, or phonogram."

(2) In the alternative, the implementation legislation could define "*access*" for the purposes of the definition of "Effective Technological Measure" in Article 17.7(5)(f) as "*access for the purpose of infringing a right protected under Chilean copyright law*".

Second Proposal: Restrict regulation of circumvention devices to sole-purpose "black boxes".

The implementation legislation should restrict the regulation of the manufacture, distribution and trafficking of circumvention devices in Article 17.7(5)(b) to only those devices that are not capable of any use except circumvention of a TPM that controls access for the purpose of copyright infringement. For instance, this could be achieved by regulating devices which meet all of the three conditions of "unlawful circumvention" in sub-paragraphs in Article 17.7(5)(b)(i) – (iii). Suggested draft wording for this approach is provided in Annexure A.

Alternatively, this might be done by implementing a regime with administrative or civil measures that regulates the availability of tools, technologies and devices for unlawful circumvention, but permits their use for lawful, non-infringing purposes. For instance, a regime could be established similar to the "permitted purposes" exceptions to the tools prohibition in section 116A(3) of the Australian Copyright Act of 1968.⁷

Third Proposal: Preserve room for circumvention for legitimate purposes

The implementation legislation could create a new general exception to sub-paragraphs (a) and (b) under Article 17.7(d), as discussed in section 5 of the Overview of DMCA and FTA TPM Provisions, page 6, above, for circumvention for legitimate, non-infringing purposes permitted under Chilean law. This would encompass circumvention for access for fair use or fair dealing or private, non-commercial copying permitted under Chilean law. Suggested draft wording to implement such an exemption, based on DMCA reform legislation currently pending in the U.S. Congress,⁸ is provided in Annexure A.

B. PROTECTING CONSUMERS' FAIR USE/ FAIR DEALING RIGHTS IN LEGITIMATELY PURCHASED DIGITAL MEDIA

⁷ See http://austlii.law.uts.edu.au/au/legis/cth/consol_act/ca1968133/s116a.html

⁸ Digital Media Consumer Rights Act (H.R. 107, 108th Cong.) introduced by Representatives Boucher and Doolittle, section 5. Note the scope of the exemption required for circumvention tools will depend on the scope and nature of the device regulation provision in Proposal 2.

The DMCA's prohibition on the act of circumvention of a TPM that controls access to a protected work allows rightsholders to prevent consumers from circumventing a TPM to make fair use of the protected work. The DMCA also bans the "tools" or "devices" that a consumer could otherwise use for circumvention. In the United States, the combination of the DMCA's ban on the act of circumvention together with the ban on tools, has adversely impacted consumers' ability to make fair and other non-copyright-infringing uses of technologically protected DVD movies and audio CDs that they have purchased.

In one of the first DMCA cases, *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y., 2000),⁹ the court ruled that there was no fair use defense to a violation of the anti-circumvention provisions of the DMCA. The case involved major motion picture who sued a website publisher which posted DeCSS on its website. DeCSS is a software program that decrypts and copies DVDs that are encrypted with the Content Scramble System (CSS). Because DVD movies are encrypted with CSS, decryption is necessary in order for a consumer to make a copy or play the DVD movie on anything other than an "authorized" DVD player.

The court found that the DeCSS code was a circumvention tool banned under the DMCA and that fair use did not apply to the anti-circumvention provisions. According to the court, the DMCA's prohibitions were "paracopyright" law created by statute and thus the copyright law exceptions did not apply. In effect, this interpretation meant that DMCA section 1201(c)(1)¹⁰ (worded similarly to Article 17.7(5)(c) of the FTA TPM provisions) does not give a consumer the affirmative right to circumvent in order to make fair use or any other use that is not infringing under copyright law.

The copyright owner parties based their argument on an interpretation of DMCA section 1201(a)(3) which defines "circumvention" by reference to conduct *authorized* by a copyright holder. In order to deny consumers the benefit of copyright law exceptions, U.S. copyright owners argue that they have not "authorized" consumers to make fair use of technologically-protected digital media that they have purchased. At the same time, copyright owners have been able to extend their monopoly rights beyond traditional copyright through expanding the scope of the circumvention prohibition. Tying "circumvention" to "authorization" has therefore allowed copyright owners to determine the scope of protection provided by the act prohibition in section 1201(a)(1), and has limited the rights previously reserved to consumers.

The motion picture studios in the *Reimerdes* case argued that the only authorization that the purchaser of a DVD receives is authorization to *view* the DVD on a *DVD player licensed by the DVD Copy Control Association (DVD-CCA)*.¹¹ On this view, a viewer is engaging in unlawful circumvention if he or she plays a lawfully purchased DVD on a Linux computer using a non DVD-CCA licensed DVD-ROM player or uses software that decrypts CSS to make a personal back-up copy of a purchased DVD¹². Also on this view, individuals who want to play their

⁹ Affirmed under the name *Universal City Studios, Inc. v. Corley et al.*, 273 F. 3d 429 (2nd Circ. 2001)

¹⁰ Section 1201(c)(1) states that: "Nothing in this section shall affect rights, remedies, limitations, or defenses to copyright infringement, including fair use, under this title."

¹¹ *Universal City Studios, Inc. v. Reimerdes*, Reply Brief for Plaintiffs-Appellees, at p.63, note 43 (2nd Circ., filed Feb. 28, 2001), available on EFF's website. The motion picture copyright owners have also made this authorization argument in their recent reply papers in the lawsuit against 321 Studios, a company which makes DVD back-up software. See *321 Studios v. MGM Studios et al*, Reply Memorandum of Points and Authorities in support of Motion for Partial Summary Judgment, (N.D. Ca., filed March 28, 2003), at p.7, available on EFF's website.

¹² Motion picture copyright owners claim 321 Studios is violating the DMCA's "tools" bans in section 1201(a)(2) and (b)(1). See Defendants' Motion for Summary Judgment in *321 Studios v. MGM Studios et al*, available at:

legitimately purchased DVDs on an unauthorized “region-free” DVD player would violate the TPM circumvention ban.

Fourth Set of Proposals: Protect Consumers’ Existing Rights to Use Their Purchased Digital Media

(1) The implementation legislation should define “authorization” for the purpose of Article 17.7(5)(a) to include implied authorization under Chilean law or implied authorization arising from the sale, purchase, or customary usage of the relevant type of digital media.

(2) In addition, the implementation legislation should provide that authorization cannot be unreasonably withheld if it would result in a loss of legitimate competition in the market for a copyrighted work or works, software, or devices that can interoperate with the copyrighted work. (See below).

C. ANTI-COMPETITIVE USES

The DMCA’s anti-circumvention provisions have been used by U.S. copyright holders to hinder the efforts of legitimate competitors to create interoperable non-copyrightable products. In several cases, owners of the copyright in small and economically-insignificant computer programs have attempted to use the prohibition on circumvention of a TPM to obtain a monopoly over uncopyrightable products that interoperate with the computer code. This has serious anti-competitive implications for consumers. Consumers have to pay higher, monopoly-based prices for the goods, and have a smaller range of products to choose from. In addition, the use of the DMCA provisions in this way stifles technological innovation by technology developers.

Under U.S. copyright law, reverse engineering of computer code to extract functional, non-copyrightable elements of code in order to create interoperable products is not copyright infringement.¹³ In recognition of this, the DMCA includes an exception from the circumvention ban for reverse engineering to create program-to-program interoperability (section 1201(f)). However, in practice, it has proven to be too narrow to assist anyone seeking to use it.¹⁴

In addition, U.S. Copyright law has a doctrine of copyright misuse, which restrains copyright owners from using a copyright in one item to leverage control over the market for another item, where that would constitute a violation of anti-trust law or another legal norm. Further, in U.S. patent law, courts have found that it is illegal to use patent rights in a good in one market to obtain a monopoly over a different market in a different good.¹⁵ However, the courts have not yet ruled on misuse of the anti-circumvention provisions.¹⁶ This issue is raised in two pending cases.

Lexmark, the second largest printer distributor in the United States, has used the DMCA to block

http://www.eff.org/IP/DMCA/MGM_v_321Studios/

¹³ *Sega Enterprises v. Accolade*, 977 F. 2d 1510 (9th Circ. 1993), *Sony Computer Enterprises, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Circ. 2000).

¹⁴ The DMCA’s reverse engineering exception is in issue in the *Davidson & Associates, Inc. (dba Blizzard Entertainment and Vivendi Universal Games) v. Internet Gateway et al case*, (E.D. Mo., 2002) decision pending. Summary judgment motion at:

http://www.eff.org/IP/Emulation/Blizzard_v_bnetd/

¹⁵ *Moreton Salt Co. v. G.S. Suppinger Co.*, 314 U.S. 488 (1942)

¹⁶ See Amicus Curiae brief filed by EFF in support of Static Control Components for reversal of preliminary injunction in *Lexmark International, Inc. v. Static Control Components, Inc.*, (E.D. Ky Civil Action No. 02-571 KSF, unreported decision, February 27, 2003), available at EFF’s website at:

http://www.eff.org/Cases/Lexmark_v_Static_Controls/

and Dan L. Burk, “Anti-Circumvention Misuse”, available at:

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=320961

the development of an aftermarket in recycled Lexmark printer cartridges. Certain Lexmark printer cartridges include a special chip, which contains an authentication routine that interoperates with the Lexmark printer's driver, to prevent toner cartridges from being refilled. Static Control Components reverse engineered the Lexmark cartridge chip and sold its "SMARTEK" microchip to printer cartridge remanufacturers, who manufacture refilled printer cartridges and sell them to consumers at lower prices than new cartridges. Lexmark also sells its own "authorized" remanufactured printer cartridges, in competition with those sold by the third party remanufacturers, at a higher cost.

Lexmark used the DMCA to obtain an injunction banning Static Control from selling its reverse-engineered chip.¹⁷ That decision is presently on appeal. Static Control has countered by filing an anti-trust lawsuit. Static Control also filed an unsuccessful exemption request with the Copyright Office in its tri-ennial rule-making procedure. It requested that the Copyright Office grant an exception for circumvention to access computer programs that are embedded in machines or products and control the operation of the machine or product, but that do not have any independent economic significance.¹⁸

In a similar case,¹⁹ Chamberlain Group, the manufacturer of an electronic garage door opener, has used the DMCA to sue Skylink, the vendor of a competing universal garage door opener that interoperates with Chamberlain's garage door mechanism. Chamberlain brought a DMCA lawsuit against Skylink after several major U.S. retailers stopped stocking the Chamberlain brand garage door transmitter units, and began carrying the less expensive Skylink transmitters instead. Chamberlain claims that Skylink's opener has violated the DMCA by bypassing an authentication regime that controls access to a computer program in the Chamberlain garage door motor.

Although Skylink defeated Chamberlain on a motion for summary judgment,²⁰ that decision is currently on appeal. In the meantime Chamberlain has sought to ban the import and sale of Skylink clickers into the U.S. by filing a simultaneous lawsuit against Skylink and the clicker's Chinese manufacturer in the International Trade Commission. Whatever the outcome of that suit, it is clear that in enacting the DMCA, Congress did not intend to give copyright owners the right to veto the creation of interoperable, non-copyrightable goods and technologies.

Geographic Region Coding

Copyright holders have also used the circumvention prohibitions and the "authorization" argument (described above) in conjunction with restrictive DVD player manufacturer licensing terms, to support the potentially anti-competitive system of geographical region coding and zoned

¹⁷ *Lexmark International, Inc. v. Static Control Components, Inc.*, (E.D. Ky Civil Action No. 02-571 KSF, unreported decision, February 27, 2003), available at EFF's website at: http://www.eff.org/Cases/Lexmark_v_Static_Controls/

¹⁸ Static Control Components' exemption request is available at: <http://www.copyright.gov/1201/2003/petitions/index.html>

The comments filed by EFF in support of Static Control's request are at: <http://www.copyright.gov/1201/2003/reply/reply11.html>

¹⁹ *The Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, (N.D. Ill., Civil Action No. 02 C 6376). Complaint, Plaintiff's Motion for Summary Judgment and Defendant's Opposition to Motion for Summary Judgment, available at EFF's website at: http://www.eff.org/Cases/Chamberlain_v_Skylink/

²⁰ *The Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, (N.D. Ill., Civil Action No. 02 C 6376). Complaint, Plaintiff's Motion for Summary Judgment and Defendant's Opposition to Motion for Summary Judgment, available at EFF's website at: http://www.eff.org/Cases/Chamberlain_v_Skylink

price discrimination for DVDs and video games.

The U.S. motion picture copyright owners (the “Studios”) take the view that DVD players that can play DVDs from multiple regions (multi-region DVD players) are illegal under the DMCA. They claim that (a) the only authorization given to a purchaser of a DVD is to play that disk on a DVD-CCA licensed player and (b) since the DVD-CCA license requires manufacturers to make DVD players that will play in only one particular region, any multi-region player is necessarily unlicensed and unauthorized.

The Studios also consider that it is an illegal circumvention act for a consumer to *play* a legally-acquired foreign-region DVD on a U.S. region 1 DVD player that has been modified to play DVDs from another region. The motion picture copyright owners claim that playback on a modified DVD player is beyond the scope of authority granted to the purchaser of a DVD. This is so even if the movie is not available in the United States on region 1 DVD format, so there would be no financial loss to a U.S. copyright owner, and even if the consumer would have no other way of viewing the foreign movie.²¹

It is clear that the U.S. Congress did not intend that the DMCA would be used to stymie the development of legitimate markets in interoperable non-copyrighted consumer goods, or to force consumers to watch only those movies released on U.S. region DVDs. However, the overbroad language of the DMCA’s circumvention ban, the narrow reverse engineering exception, the absence of an exception for circumvention for lawful purposes, and the definition of “circumvention” in terms of copyright owners’ “authorization”, leave open the possibility that the DMCA may be used in these unintended ways. As the FTA TPM prohibition on circumvention in Article 17.7(5)(a) also uses the phrase “authorization of the right holder”, the implementation into Chilean law needs to address these issues.

Fifth Set of Proposals: Provide Protection Against Anti-competitive misuse of TPMs

(1) The implementation legislation should include a “no mandate” provision that incorporates the wording in Footnote 19, to make it clear that technology designers do not have to design new products, or “refit” existing products to make them respond to particular technological protection measures. This is an exceedingly important safeguard for future technological innovation. (See equivalent wording in 17 U.S.C. 1201(c)(3)). To give full effect to the no mandate provision, the proviso should be applied to devices *at the time they were designed*.

(2) In order to avoid similar anti-competitive misuses of TPM provisions, the Chilean implementation legislation should expressly prohibit anti-competitive use of TPMs by rightsholders and reserve to the Chilean government the power to regulate such misuses, to protect the balance between the interests of private rightsholders and the public’s rights of access.

(3) The implementation legislation should define “protected work” for the purposes of Article 17.7(5)(a) as *“a copyrighted work which has economic value independent of its relationship to, or ability to interoperate with, other copyrighted or non-copyrighted works or devices”*. (For instance, incorporate wording similar to *“independent economic significance”* in Footnote 17 of the FTA provisions (dealing with temporary reproduction).

D. REVERSE ENGINEERING AND TECHNOLOGICAL INNOVATION STIFLED

In the U.S. DMCA protection has been claimed for digital content that is not strongly technologically protected in an attempt to prevent reverse-engineering to create interoperable

²¹ EFF unsuccessfully requested an exemption for this category of motion pictures in the 2003 U.S. Copyright Office administrative rule-making under section 1201(a)(1)(C). See: http://www.eff.org/IP/DMCA/copyrightoffice/20030515_region_dvd.php

products. For instance, it has been used for content which is not encrypted (and therefore accessible or “in the clear”) and that relies for its security on an interaction between a specific purpose device (such as a console) and a particular cartridge, or a “flag.” To avoid potential impairment of legitimate reverse engineering and the benefits to consumers that flow from more choice of interoperable products, anti-circumvention protection should not be accorded where no attempt has been made to encrypt content – for instance where the only technological measure is a flag or similar measure that can merely be ignored and the content accessed without any form of decryption.

Examples:

(1) In Chamberlain Group’s case against Skylink, involving a generic garage door remote control transmitter, Chamberlain’s technological protection measure appears to be the garage door unit’s check to see whether an unencrypted code transmitted by a door opener is in the right range.

(2) Alleged violation of the tools prohibition by Streambox VCR, which intercepted and recorded streamed media transmitted by RealNetworks that was designed to be intercepted and played (but not recorded) on RealNetworks’ mediaplayer. Since the streamed content was not encrypted, the Streambox VCR merely had to ignore a copy prohibition flag to obtain access to RealNetworks’ unprotected content. (*RealNetworks, Inc. v. Streambox, Inc. (2000 U.S. Dist. LEXIS 1889)*).

(3) Sony has invoked the Australian version of the DMCA to protect its Playstation console-game interaction and ban the sale of “mod” chips that would allow a purchaser to play a legitimately-purchased game bought in a different geographical region (*Kabushiki Kaisha Sony Computer Entertainment. v. Stevens*, [2002] FCA 906 (Federal Court of Australia, Full Court, 26 July 2003) case under s. 116A Australian *Copyright Law* of 1968);

(4) Some legal commenters claim that distribution of the object code version of source code could be treated as a TPM under the DMCA’s definition of “circumvent a technological measure” in section 1201(a)(3)(A) because it would require a process (decompilation) to gain access to the code in a human-readable form. As object code is the machine-readable functional equivalent of source code, and is “accessible” by a computer, and decompilation is a functional operation not involving decryption or any attempt to bypass obfuscation, this was clearly not Congress’ intention.

Sixth Set of Proposals: Preserve room for Reverse Engineering and Technological Innovation

In addition to the first of the seventh set of proposals (above), the Chilean implementation legislation should:

(1) define “technological protection measure” for the purposes of Article 17.7(5)(a) and (f) to mean encrypted content or content not otherwise accessible to a user without application of information, a process, or treatment that first requires use of a password or other authentication feature.

(2) define “device, product, component or service” for the purposes of Article 17.7(5)(b) to exclude any software device in existence at time that this provision becomes operational, and exclude information communicated in a natural (non-computer) language.

E. CHILLING EFFECT ON SCIENTIFIC RESEARCH AND PUBLICATION, AND FREE EXPRESSION

Section 1201 has been used by copyright owners to cast a chill on free expression and legitimate scientific research. Two incidents which clearly illustrate this trend are the threat to sue Princeton

University's Professor Felten, and the arrest of Russian programmer Dmitry Sklyarov.

Professor Edward Felten and a team of researchers from Princeton and Rice Universities and Xerox were threatened with legal liability under the DMCA when they successfully answered a public challenge issued by the music industry group, the Secure Digital Music Initiative, to remove digital watermarks on digital music and tried to publish a paper describing their methodology. Since the paper described vulnerabilities in the digital watermarking technology that the SDMI intended to protect digital music, the SDMI considered that publishing the paper would violate the DMCA's ban on distributing "circumvention tools".

The DMCA contains an exception for encryption research – section 1201(g) – but it did not allow for publication of this sort of work. First, it requires researchers to make efforts to obtain a copyright holder's authorization before doing research. Second, even if doing the work were permitted, it would not have allowed for the publication of the research results. After Professor Felten and his team filed a lawsuit,²² the threat was withdrawn and the researchers were eventually allowed to present a portion of the research at a later conference.²³

Russian programmer Dmitry Sklyarov was detained in the United States for five months in 2001, after presenting a paper describing weaknesses in Adobe's e-book protection at a conference. While in Russia, Sklyarov had worked on a software program that allowed owners of Adobe e-books to convert them from Adobe's e-Book format to Adobe's portable document format, thereby removing embedded use restrictions. Sklyarov's Russian employer offered the program for sale over the Internet. Although the software could be used to make legitimate uses of purchased e-books, (such as printing a copy), it could also be used to copy an e-book without the publisher's permission. The United States Department of Justice charged Sklyarov with the *crime* of trafficking in a circumvention tool. Sklyarov was eventually allowed to return home, but the Government continued to prosecute ElcomSoft, his Russian employer. In December 2002, 18 months after Sklyarov's arrest, a jury acquitted the company of all charges.²⁴

The chilling effect of these cases on scientific research and publication of information about access control vulnerabilities has been profound. In 2001, prominent Dutch cryptographer and security systems analyst Niels Ferguson declined to publish details of the security flaw he discovered in the High Bandwidth Digital Content Protection video encryption standard. Earlier this year, the U.S. publisher of Andrew "Bunnie" Huang's book describing security flaws in the Microsoft X-Box game console dropped the book, citing concerns about DMCA liability. And in October 2002, the former U.S. White House Cyber Security chief advisor, Richard Clarke, noted that the DMCA had been used to chill legitimate security research and called for DMCA reform. In addition, some bulletin boards have censored the mere *discussion* of any tools that could be used for circumvention, due to potential DMCA liability.²⁵

There is growing concern within the United States about the impact of the overbroad circumvention ban on legitimate scientific research. The U.S. Congress is currently considering

²² *Felten et al. v. Recording Industry Association of America, et al*, Complaint for Declaratory Relief, filed June 6, 2001 in U.S. District Court N.J., available on EFF's website at:

http://www.eff.org/Legal/Cases/Felten_v_RIAA/20010606_eff_felten_complaint.html

²³ For further details of this and the other incidents described, see EFF's White Paper *Unintended Consequences: Five Years under the DMCA*, available at

http://www.eff.org/IP/DMCA/20030102_dmca_unintended_consequences.html

²⁴ *U.S. v. Elcom Ltd.*, 203 F. Supp. 2d 1111 (N.D.Ca., 2002); See also EFF FAQ at:

http://www.eff.org/IP/DMCA/US_v_Elcomsoft/us_v_sklyarov_faq.html

²⁵ In June 2001, the operator of the AVS Forum TiVo bulletin board banned all discussion of hacks for TiVo digital video recorders, citing concern about the uncertain scope of DMCA liability. See:

<http://news.cnet.com/news/0-1005-200-6249739.html>

two different draft statutes that would amend the DMCA's anti-circumvention provisions to permit circumvention, and use of circumvention tools for scientific research.²⁶

Seventh Set of Proposals: Protect Scientific Research and Publication

To mitigate some of the chilling effect of the ban on acts of circumvention and circumvention technologies needed for scientific research and to provide appropriate incentives for educational activities, the Chilean implementation legislation should:

- (1) Create a specific exemption for the act of circumvention and use of circumvention devices for purposes of scientific research, under Article 17.7(5)(d). This exception should also extend to distribution of specially developed tools and dissemination of results of scientific research;
- (2) Alternatively, create an exception from criminal liability for circumvention acts and tools for scientific research and educational purposes, by formalizing the discretion provided in Article 17.7(5) to ensure that due account is given to the scientific and educational purpose of the conduct (also consider incorporating a statutory presumption that the use of tools for these purposes is exempted unless evidence to the contrary is established);
- (3) Reduce the threshold for civil liability for scientific research by making knowledge an element of a violation of both the "act" prohibition (Article 17.7(5)(a)) and the regulation of circumvention devices (Article 17.7(5)(b)) – for instance, by requiring knowledge that the device or tool used falls within the device ban; and
- (4) Make it clear that information communicated in plain (non-computer) language, and research papers, are not "devices" for the purposes of the device ban.

F. ADDITIONAL EXCEPTIONS THAT COULD BE CREATED UNDER ARTICLE 17.7(5)(D):

As noted above, under the wording of Art. 17.7(5)(d), further exceptions could be incorporated in the implementation legislation, so long as they satisfy the proviso that they do not "impair the adequacy of legal protection or the effectiveness of legal remedies" against the prohibition on circumvention.

Proposals for other exceptions:

1. A general exception for educational and academic uses;
2. A general exception for distance education materials that are made available online with technological protection;
3. A broader reverse-engineering exception that would permit the investigation and development of program-to-device interoperability, if that would be consistent with Chilean law on reverse-engineering;
4. An automatic or deemed exception of the tools necessary for consumers to give effect to any exemptions granted in the triennial administrative or legislative rule-making under Article 17.7(5)(d)(i).
5. A process where the administrative or legislative rule-making under Article 17.7(5)(d)(i) can of its own accord, or on receipt of a submission from any person, deem that any exception granted under the U.S. tri-ennial rule-making process shall apply in Chile for the period it is in operation in the U.S. or the duration of the next Chilean rule-making period, whichever is longer.

G. OTHER LIMITATIONS ON CRIMINAL SANCTIONS

²⁶ Digital Media Consumer Rights Act (H.R. 107, 108th Cong.) introduced by Representatives Boucher and Doolittle; B.A.L.A.N.C.E. Act (H.R. 1066, 108th Cong.) introduced by Representative Lofgren.

Article 17.7(5)(a) of the FTA TPM provisions only requires criminal liability for a violation of the act prohibition in “appropriate circumstances”, and for violation of the devices regulation, only where the conduct is willful and for “prohibited commercial purposes”. Criminal liability should only attach where there is both a knowing circumvention of an access control measure (so that the person subjectively knows that they have intentionally circumvented an access control) and where the purpose for doing so was to engage in willful copyright infringement.

Eighth Set of Proposals: No Criminal Liability for Innocent Infringers

(1) The Chilean implementation legislation should exempt innocent infringers who are not aware, and have no reason to believe that they are undertaking a circumvention of a technological protection measure for the purpose of copyright infringement, from both civil penalties (on the grounds that the innocent infringer did not have the relevant knowledge and intent to commit copyright infringement (see Proposals One – Three above)) and from criminal liability.

(2) The use of the phrase “*inter alia*” in Art. 17.7(5)(b) indicates that the implementation legislation should also provide a process or factors to weigh, in exempting the use of circumvention tools from criminal liability for activities undertaken for legitimate purposes other than scientific and educational uses.

Ninth Proposal: Exclude civil and criminal liability for nonprofit libraries, archives and educational institutions

Article 17.7(5) of the FTA permits an exemption from criminal liability to be granted to nonprofit libraries, archives and educational institutions. It also permits exemption from civil liability, where the circumvention is carried out by those entities in good faith and without knowledge that the conduct is prohibited. The Chilean implementation legislation should implement both of these exceptions. The terms “*in connection with*” should be defined broadly to include anyone who is acting at the behest of, as an agent (whether formally appointed or by virtue of their relationship, as understood in Chilean law), contractor, or employee of a nonprofit library, or archive. In addition, for “educational institutions”, “*in connection with*” should also be defined to include students.

H. ADMINISTRATIVE OR LEGISLATIVE EXEMPTION-GRANTING PROCESS

A general exemption-granting procedure is required to protect consumers from the adverse effects of TPMs that either are not covered by one of the listed exceptions or adverse impacts that are not apparent at the time the implementation legislation is enacted.

The DMCA includes a limited, tri-ennial administrative rule-making in s.1201(a)(1)(C), on which Article 17.7(5)(d)(i) is modeled. The U.S. rulemaking process has been extensively criticized for failing to preserve consumers access rights under existing copyright exceptions and limitations, and access to public domain works. As has become clear during the two U.S. rule-making inquiries which have taken place so far, the DMCA procedure is fundamentally flawed because the statute restricts the U.S. Librarian of Congress to granting exemptions for the act of circumventing a TPM that controls access to a work. However, the DMCA does not empower exemptions to be granted for the *tools* required to make use of any exemption granted. As a result, any exemption granted can only be exercised by the small number of persons who have the technological know-how to create their own tools and mechanisms.

In addition, the process is structured in a way that makes it difficult for consumers to participate meaningfully in the process. As a result of stringent administrative rules adopted to govern the process, it is both costly and time-consuming. The rules established a very high standard of proof for a proponent to meet. This has been criticized by the U.S. National Telecommunications and Information Administration, an agency of the U.S. Department of Commerce and public interest

proponents.²⁷ Legal representation is effectively required in order to frame an exemption request, and consumers usually do not have access to the information necessary to meet the high burden of proof. As a result, only six narrow exemptions for five classes of work have been granted to date, despite the considerable volume of consumer exemption requests.

In particular, the DMCA's administrative rules interpret the scope of exemption which can be granted for "a class of works" to exclude any classes framed by reference to particular users or by describing particular users' non-infringing uses of works. This has unfortunately resulted in many consumer requests not being considered.²⁸ The provision in the FTA appears to avoid this limitation.

Tenth Set of Proposals: Enshrine fair procedures for Administrative or Legislative Exemption Granting Process

(1) In implementing the administrative or legislative exemption granting process contemplated by Article 17.7(5)(d)(i) of the FTA, the Chilean implementation legislation should set the threshold for the burden of proof for exemption proponents in a manner that is commensurate with their ability to provide the information sought. Once the threshold burden of proof is met, the burden of proof should shift to rightsholders to disprove the need for the exemption sought.

(2) In order to create meaningful exemptions for consumers, the implementation legislation should provide an automatic exception for the use of circumvention tools, devices and technologies needed by consumers to give effect to any exemption to the act prohibition granted in the administrative or legislative exemption process.

²⁷ See NTIA letter to U.S. Register of Copyrights dated August 11, 2003, at: http://www.ntia.doc.gov/ntiahome/occ/dmca/dmca2003/dmcaletter_08112003.html and EFF/ Public Knowledge letter to U.S. Register of Copyrights dated December 18, 2002, at: www.eff.org/IP/DMCA/20021220_mbpeters.pdf -

²⁸ See Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies; Final Rule, 65 Federal Register 64556, Oct. 27, 2000 and 68 Federal Register 62011, Oct. 31, 2003, available on the U.S. Copyright Office's website at: <http://www.copyright.gov/1201/anticirc.html>

The volume of comments filed demonstrates the difficulty of meeting this burden. In the 2000 rulemaking, 235 initial comments and 129 reply comments were received. Thirty-four witnesses representing 50 groups testified at five days of hearings, and 28 post-hearing comments were subsequently filed. Many of the initial comments were not considered due to failure to comply with formalities. Two exemptions were ultimately granted: (1) Compilations consisting of lists of websites blocked by filtering software applications; (2) Literary works, including computer programs and databases, protected by access control mechanisms that fail to permit access because of malfunction, damage or obsolescence.

In the 2003 rulemaking, 51 exemption requests and 337 reply comments were filed, 254 of which were filed by consumers in support of the exemption requests filed by EFF. Forty-four witnesses representing 60 groups testified at six days of hearings and 24 post-hearing comments were later filed. Four exemptions were ultimately granted: (1) Compilations consisting of lists of Internet locations blocked by commercially marketed filtering software applications that are intended to prevent access to domains, websites or portions of websites, but not including lists of Internet locations blocked by software applications that operate exclusively to protect against damage to a computer or computer network or lists of Internet locations blocked by software applications that operate exclusively to prevent receipt of e-mail(..); (2) Computer programs protected by dongles that prevent access due to malfunction or damage and which are obsolete. (3) Computer programs and video games distributed in formats that have become obsolete and which require the original media or hardware as a condition of access. (4) Literary works distributed in ebook format when all existing ebook editions of the work (including digital text editions made available by authorized entities) contain access controls that prevent the enabling of the ebook's read-aloud function and that prevent the enabling of screen readers to render the text into a "specialized format." (..)

(3) Consider establishing a process where the administrative or legislative rule-making under Article 17.7(5)(d)(i) can of its own accord, or on receipt of a submission from any person, deem that any exception granted under the U.S. tri-ennial rule-making process shall apply in Chile for the period it is in operation in the U.S. or the duration of the next Chilean rule-making period, whichever is longer (see below).

I. OTHER IMPLEMENTATION PROPOSALS

The Chilean implementation legislation should permit flexibility for future amendments to address changing public policy priorities and to address subsequent modifications of U.S. law.

Eleventh Proposal:

The Chilean implementation legislation should establish a procedure that permits any person to file a submission with the Chilean government to bring to the attention of Parliament any legislative amendments made to the DMCA. On receipt of such a submission, the Parliament should conduct an investigation to decide whether a similar or corresponding amendment is required to Chilean law.

Other possible proposals:

(1) Consider incorporating a requirement that the relevant government entities that administer copyright must conduct an annual review of the impact of TPMs and provide a report to the Chilean Parliament. The review could address the impact on encryption research and the development of encryption technology as per DMCA section 1201(f)(5) or a broader range of activities.

(2) Consider incorporating a provision that makes it clear that the device prohibition in Article 17.7(5)(b) does not create an independent basis for a claim of secondary circumvention liability, including as it applies to entities engaged in webhosting, or who maintain websites facilitating online auctions.

(3) Consider having a staggered commencement provision, to delay the commencement of the act prohibition. The U.S. Congress chose to delay commencement of DMCA section 1201(a)(1) until October 2000, two years after the “device” prohibitions became operational, in order to provide a consumer safeguard. This approach would appear to be open under Article 17.7(12)(c) of the FTA.

Please let me know if any of the above is unclear or you would like further information.

Gwen Hinze
Staff Attorney
Electronic Frontier Foundation
Email: gwen@eff.org
Tel.: +(1)(415) 436-9333 x110

September 1, 2004

ANNEXURE A
PROPOSED DRAFT PROVISIONS FOR PART OF ARTICLE 17.7(5)
IMPLEMENTATION

Proposed draft implementation provisions (not including possible exceptions and all possible alternatives):

1. Circumvention Act Prohibition

No person shall knowingly circumvent, for the purpose of infringing a right protected under Chilean copyright law and without authorization of the right holder or applicable law, any effective technological measure that controls access to a protected work, performance, or phonogram.

2. Regulation of Tools, Technologies and Devices

Approach 1:

(1) No person shall manufacture, import, distribute, sell or rent devices, products or components or provide services which:

- a) are promoted, advertised or marketed for the purpose of unlawful circumvention of any effective technological measure; and
- b) do not have a commercially significant purpose or use other than to unlawfully circumvent any effective technological measure; and
- c) are primarily designed, produced, adapted, or performed for the purpose of enabling or facilitating the unlawful circumvention of any effective technological measure.

(2) For the purposes of this section, “unlawful circumvention” means circumvention with knowledge, and the intent to infringe, or the effect of infringing, the exclusive rights in the copyright or related rights in the protected work.

Approach 2:

Alternatively, consider implementing a regime with administrative or civil measures that regulates the availability of tools, technologies and devices for unlawful circumvention, but permits their use for lawful, non-infringing purposes. For instance, a regime could be established similar to the “permitted purposes” exceptions to the tools prohibition in section 116A(3) of the Australian Copyright Act of 1968.

3. Definition of Effective Technological Measure:

For the purpose of this section, “effective technological measure” means any technology, device, or component that, in the normal course of its operation, controls access to a work, performance, phonogram, or any other protected material, or that protects any rights related to copyright, and cannot in the usual case, be circumvented accidentally, and in particular:

- (a) for the purposes of section 1 [or whatever section implements Article 17.7(5)(a)] means encrypted content or content not otherwise accessible to a user without application of information, a process, or treatment that first requires use of a password or other authentication feature, provided that no person shall be liable for civil penalties or criminal sanctions under this section for circumventing any effective technological measure that protects any of the exclusive rights of copyright or related rights in a protected work, but does not control access to such work.

(b) for the purposes of section 2 [or whatever section implements Article 17.7(5)(b)], technology, device, component or service excludes any software program, product or device in existence at time that this provision becomes operational, and excludes information communicated in a natural (non-computer) language.

4. Exception for Legitimate, Non-infringing Purposes

(1) General: Nothing in sections (1) or (2) affects rights, remedies, limitations, or defenses with respect to copyright or related rights infringement

(2) Exception: It is not a violation of section 1 or 2:²⁹

- a) to circumvent a technological measure in connection with access to, or use of, a copyrighted work, if such circumvention does not result in the infringement of the copyright in that work; or
- b) to manufacture, import, distribute, sell or rent any device, product or component, including any hardware or software product, or to provide any service which is capable of enabling significant non-infringing use of a copyrighted work.

5. Protection against anti-competitive behavior

(1) Nothing in this section shall require that the design of, or design and selection of parts and components for, a consumer electronics, telecommunications, or computing product to provide for a response to any particular technological measure, so long as such product does not otherwise violate sub-section (2).

(2) Technological measures shall not be used to enable or facilitate any anti-competitive purpose and rightsholder's authorization cannot be unreasonably withheld if it would result in a loss of legitimate competition for any product, program, technology or item that interoperates with a protected copyrighted work. Nothing in this section [section 1 and 2 or whatever section/s implement Articles 17.7(5)(a) and (b)] shall affect the right and ability of the Chilean government to regulate anti-competitive behavior.

6. Civil Remedies

A provision similar to section 1201(5) of the DMCA should be incorporated, as follows:

(1) Innocent Violations.-The court shall remit damages in any case in which the violator sustains the burden of proving, and the court finds, that the violator was not aware and had no reason to believe that its acts constituted a violation, or if aware that its acts might constitute a violation, had a reasonable good faith basis to believe that such acts would be lawful under this Chapter.

(2) Limitation for Nonprofit Library, Archives, Educational Institution-This sub-section shall not apply to a nonprofit library, archive or educational institution, or employee or agent thereof, that has no knowledge that its good faith conduct is prohibited under this section.

²⁹ This provision is based on section 5 of the Digital Media Consumer Rights Act (H.R. 107, 108th Cong.) introduced by Representatives Boucher and Doolittle. Note the scope of the exemption required for circumvention tools will depend on the scope and nature of the device regulation provision in Proposal 2.

7. Criminal Offenses and Penalties

(1) In General – Any person who violates this section willfully and for a prohibited commercial purpose shall be fined or imprisoned as appropriate. For the purposes of this section:

(a) “willfully” means with knowledge that the conduct was unlawful under this section; and

(b) “prohibited commercial purpose” means unlawful circumvention for a purpose that involves significant commercial-scale financial gain.

(2) Discretion with regard to scientific and educational conduct - In determining whether to apply a criminal penalty under this section, the Court shall consider and give due account to the scientific or educational purpose of the conduct.

(3) Limitation for Nonprofit Library, Archives, Educational Institution, and Innocent Violations.-This section shall not apply to any violator who had a reasonable good faith basis to believe that its acts would be lawful under this section.

ANNEXURE B FURTHER DMCA AND TPM RESOURCES

WIPO COPYRIGHT TREATY TPM PROVISION IMPLEMENTATION:

Technological Protection Measures – Part 1: Trends in Technological Protection Measures and Circumvention Technologies, report prepared for Canada Heritage, June 2003, by Canadian Law Firm, Nelligan, O'Brien Payne, available at:

www.pch.gc.ca/progs/ac-ca/progs/pda-cpb/pubs/protection/protection_e.pdf

Pamela Samuelson, *Intellectual Property and the Digital Economy: Why the Anti-Circumvention Regulations Need to be Revised*, 14 BERKELEY TECHNOLOGY L.J. 519, 521 & 531-32 (1999) (explaining that existing U.S. law satisfied WIPO treaty obligations) (available at <http://www.sims.berkeley.edu/~pam/papers.html>).

U.K. Commission on Intellectual Property Rights, *Report on Integrating Intellectual Property Rights and Development Policy*, September 2002, Chapter 5: "Copyright, Software and the Internet", available at:

<http://www.iprcommission.org>

Current Developments in the Field of Digital Rights Management, prepared by Jeffrey P. Cunard, Debevoise and Plimpton, Washington D.C. for World Intellectual Property Organization Standing Committee on Copyright and Related Rights Tenth Session, 2003, WIPO document SCCR/10/2, at:

http://www.wipo.int/documents/en/meetings/2003/sccr/doc/sccr_10_2_rev.doc

DMCA ANALYSIS:

EFF White Paper, *Unintended Consequences: Five Years under the DMCA*, September 2003 edition, available in English and Spanish at:

http://www.eff.org/IP/DRM/DMCA/20030102_dmca_unintended_consequences.html

D.Nimmer, "A Riff on the Digital Millennium Copyright Act", 148 U. Pa. L. Rev. 673 (2000).

DMCA CASE LAW:

Universal City Studios, Inc. v. Reimerdes, 111 F. Supp. 2d 294 (S.D.N.Y., 2000), affirmed under the name *Universal City Studios, Inc. v. Corley et al.*, 273 F. 3d 429 (2nd Circ. 2001).

U.S. v. Elcom Ltd., 203 F. Supp. 2d 1111 (N.D.Ca., 2002).

Felten et al. v. Verance et al. First Amended Complaint for Declaratory Relief, N.J., filed June 6, 2001, available at:

http://www.eff.org/IP/DMCA/Felten_v_RIAA/20010626_eff_felten_amended_complaint.html

RealNetworks, Inc. v. Streambox, Inc. (2000 U.S. Dist. LEXIS 1889).

Davidson & Associates, Inc. (dba Blizzard Entertainment and Vivendi Universal Games) v. Internet Gateway et al. (E.D. Mo., Case No. 4:02CV498CAS). (The bnetd case, concerning reverse-engineering and development of open source computer code under the DMCA).

Second Amended Complaint filed by Blizzard:

http://www.eff.org/IP/Emulation/Blizzard_v_bnetd/20021203_SAC.pdf

EFF's motion for summary judgment on behalf of the bnetd open source project, filed E.D. Mo., December 2003, (decision pending), and related papers available at:

http://www.eff.org/IP/Emulation/Blizzard_v_bnetd/

Lexmark International, Inc. v. Static Control Components, Inc., (E.D. Ky Civil Action No. 02-571 KSF, unreported decision, February 27, 2003), available at EFF's website at:
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