

How to Approach Limitations in the Digital Network Environment

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1. Introduction

I would like to discuss the following four issues, based on an analysis of the traditional limitations under Japanese copyright law.

- (1) Why should a limitation be justified?
- (2) In what situation should the right of remuneration be secured?
- (3) In what situation should circumvention of technological protection measures (TPM) be allowed?
- (4) To what new uses in digital network environment should a limitation be applied?

For this analysis, I will use the Three Step Test under Article 9(2) of the Berne Convention and Article 13 of the TRIPS Agreement, rather than the Fair Use Doctrine under Section 107 of the U.S. Copyright Act. The reason is that the Three Step Test brings more sophisticated conclusions than the Fair Use Doctrine. While the Three Step Test may justify a limitation with and without giving the right to remuneration to a right holder, the Fair Use Doctrine may justify only a limitation without giving the right to remuneration.

Under the Three Step Test, any statutory limitation may be justified only if it complies with “not conflict with a normal exploitation of the work”¹ of the Second Step and “not unreasonably prejudice the legitimate interests of the right holder”² of the Third Step.

However, the market analysis conducted in U.S. courts under the Fair Use Doctrine gives us some useful suggestions to analyze the prejudice to the legitimate interests of a

¹ The WTO panel decision on May 5, 2000 with respect to Section 110(5) of the U.S. Copyright Act, found the meaning of the Second Step as follows: “an exception or limitation to an exclusive right in domestic legislation rises to the level of a *conflict with a normal exploitation of the work* (i.e., the copyright or rather the whole bundle of exclusive rights conferred by the ownership of the copyright), if uses, that in principle are covered by that right but exempted under the exception or limitation, enter into economic competition with the ways that right holders normally extract economic value from that right to the work (i.e., the copyright) and thereby deprive them of significant or tangible commercial gains” (6.183)

² According to the WTO panel’s construction of the meaning of the Third Step, “The crucial question is which degree or level of “prejudice” may be considered as “*unreasonable*”, given that, under the third condition, a certain amount of “*prejudice*” has to be presumed justified as “not unreasonable”. In our view, prejudice to the *legitimate interests of right holders* reaches an unreasonable level if an exception or limitation causes or has the potential to cause an unreasonable loss of income to the copyright owner” (6.229).

right holder under the Second Step analysis.³

2. Analytical Approach: Analysis of Japanese Traditional Limitations

As shown below, there are numbers of traditional limitations under Japanese copyright law. I will pick up some of the typical limitations from here for analysis.

(a) A List of the Traditional Limitations under Japanese Copyright Law

Japanese Copyright Law has a long list of the traditional limitations as follows:

- Private reproduction (Art. 30)
- Reproduction in libraries (Art.31)
- Quotations (Art. 32)
- Reproduction in school textbooks (Art. 33)
- Broadcasting in school education programs (Art. 34)
- Reproduction in schools (Art. 35)
- Reproduction in examinations (Art. 36)
- Reproduction in Braille (Art. 37)
- Interactive transmission for aurally handicapped (Art. 37^{bis})
- Performance not for profit-making (Art. 38)
- Exploitation of politics speeches (Art. 40)
- News-reporting (Art. 41)
- Reproduction for judicial proceedings (Art. 42)
- Ephemeral recording for broadcasting (Art. 44)
- Exhibition of an original artistic work (Art. 45)
- Exploitation of an original artistic work or an architectural work (Art. 46)
- Reproduction ancillary to exhibition of an original artistic work (Art. 47)
- Reproduction of program works (Art. 47^{bis})
- Reverse-engineering (no statute or case)

Next are justifications for the most typical limitations: (1) private reproduction, (2) reproduction in libraries, (3) quotations, (4) reproduction in school textbooks, (5) performance not for profit making and (6) reproduction for judicial proceedings.

(b) Private reproduction

There are different situations for private reproduction. Here, I will use the following three examples:

(1) Practice painting by imitating copyrighted paintings:

- Justification

³ In the *Campbell v. Acuff-rose Music, Inc.*, 510 U.S. 569 (1994), the Supreme Court of the U.S. held that “This distinction between potentially remediable displacement and unremediable disparagement is reflected in the rule that there is no protectable derivative market for criticism. The market for potential derivative uses includes only those that creators of original works would in general develop or license others to develop. Yet the unlikelihood that creators of imaginative works will license critical reviews or lampoons of their own productions removes such uses from the very notion of a potential licensing market.”

The justification is learning expression methods in the copyrighted works. The object of copyright law is to incorporate works into our common property, and learning expression methods in the copyrighted works is the way to do so physically.

With respect to the Second Step in the Three Step Test, it does not conflict with a normal exploitation of the work, as a right holder may have no refusal right to the use and therefore no market to license the use.

- Right to Remuneration
The nature of the use is enjoyment, but the user has already paid for the enjoyment. Accordingly, there is generally no harm, and therefore no need for compensation to a right holder.
As to the Third Step, the prejudice to the right holder is not unreasonable as there is generally no harm.
 - TPM Circumvention
Justification is for superior value, but there is no need to circumvent TPM. Accordingly, it is not justified to circumvent TPM.
- (2) Play music by CD player through RAM temporary storage:
- Justification
The justification for this is no harm to a right holder.
This justification meets the Second Step.
 - Right to Remuneration
The nature of the use is enjoyment, but the user has already paid for the enjoyment. Accordingly, there is no harm, and thus no need for compensation to the right holder.
It meets the Third Step in the Three Step Test because there is no harm to the right holder.
 - TPM Circumvention
This Justification is not for superior value. Accordingly, it is not justified to circumvent TPM.
- (3) Photocopy an article or duplicate CD:
- Justification
The justification is market failure. A license market cannot be formed or maintained because transaction cost exceeds license fee.
Concerning the Second Step in the Three Step Test, it does not conflict with a normal exploitation of the work as no market can be formed.
However, a market can be formed as long as digital right management (DRM) system is feasible, where there is no justification for limitation.
 - Right to Remuneration
The nature of the use is also enjoyment, and here, the user has not paid for the enjoyment. Accordingly, there is harm, and therefore there is a need for

compensation to the right holder. However, it is important to note that the right to remuneration is not feasible here because transaction cost exceeds the remuneration. With respect to the Third Step, the prejudice to the right holder is not unreasonable as there is no way to extract income.

Instead, the levy system is expected to be alternative measures in such market failure situation. However, there are some problems in the levy system. First, it has an effect to depress the use of public domain materials, as it levies on photocopies and duplicates of non-copyrighted materials as well. Second, if the money collected under the levy system is not or substantially not distributed to right holders, it has no effect to promote creation of works but only an effect to depress the use of copyrighted works⁴. Collecting money should not be punishment against use of a work but incentive for creation of a work. Therefore, when balancing the promotive effect and depressive effect, free use may be a better solution for market failure than the levy system in many cases, as long as the use does not conflict with a normal exploitation of the work.

- **TPM Circumvention**

Justification is not for superior value. Therefore, it is not justified to circumvent TPM.

(c) Reproduction in libraries

The followings are two examples of reproduction in libraries:

(1) Reproduction of rare books unavailable in the normal market for preservation:

- **Justification**

The justification is maintaining the culture, which serves to the object of copyright law.

With respect to the Second Step in the Three Step Test, it does not conflict with a normal exploitation of the work, as a right holder may have no refusal right to the use and therefore no market to license the use.

- **Right to Remuneration**

The nature of the use is enjoyment, and the user has not paid for the price. Accordingly, there is harm, and therefore there is a need for compensation to the right holder.

However, the right to remuneration may not be feasible as it may unreasonably cost to find the right holder.

With respect to the Third Step, the prejudice to a right holder may not be unreasonable as it may unreasonably cost to find the right holder.

⁴ There is a toll bridge near my town. It collects approximately US\$1.50 per car. 100 or 200 cars pass over the bridge everyday. The total revenue therefore becomes approximately US\$200 a day. On the other hand, I am not sure of the salary payment to the collecting officer but it must be more than US\$200 a day. Here, there is no promotive effect but depressive effect. It is obvious that the best solution here would be to make the use of the bridge free rather than tolled. If it were free, 1,000 or 2,000 cars might pass over the bridge.

- TPM Circumvention
Justification is for superior value and there is a need to circumvent TPM. Accordingly, it is justified to circumvent TPM.

(2) Reproduction upon request of users for investigation or research:

- Justification
The justification would be market failure.
With respect to the Second Step in the Three Step Test, it does not conflict with a normal exploitation of the work as no market can be formed.
- Right to Remuneration
The nature of the use is enjoyment, and the user has not paid for the price. Accordingly, there is harm, and therefore there is a need for compensation to the right holder.
However, the right to remuneration is not feasible because transaction cost exceeds the remuneration.
As to the Third Step, the prejudice to the right holder is not unreasonable as there is no way to extract income.
- TPM Circumvention
Justification is not for superior value. Accordingly, it is not justified to circumvent TPM.

(d) Quotations:

- Justification
The justification is free speech, which is a constitutional value.
As to the Second Step in the Three Step Test, it does not conflict with a normal exploitation of the work, as we cannot reasonably expect that the right holder would grant a license to criticize the work⁵ and therefore no market here.
- Right to Remuneration
This time, the nature of the use is non-enjoyment. Accordingly, there is no harm, and thus no need for compensation to the right holder.
As to the Third Step, the prejudice to a right holder may not be unreasonable as there is no market and no harm.
- TPM Circumvention
Justification is for superior value and there is a need to circumvent TPM. Accordingly, it is justified to circumvent TPM.

(e) Reproduction in school textbooks:

- Justification
The justification is learning expression methods in the copyrighted works, which serves to the object of copyright law.
Looking at the Second Step in the Three Step Test, it does not conflict with a

⁵ See the *Campbell* case in the above footnote 5.

normal exploitation of the work, as a right holder may have no refusal right to the use and therefore no market to license the use.

- **Right to Remuneration**
The nature of use is enjoyment, but the user has not paid for the price. Accordingly, there is harm, and thus there is a need for compensation to the right holder.
Here, the right to remuneration should be given to the right holder, as it is feasible.
With respect to the Third Step, the prejudice to the right holder may be unreasonable, and must be cured by the right to remuneration.
- **TPM Circumvention**
Justification is for superior value and there is a need to circumvent TPM. Accordingly, it is justified to circumvent TPM.

(f) Performance not for profit-making:

- **Justification**
The justification would be market failure.
With respect to the Second Step in the Three Step Test, it does not conflict with a normal exploitation of the work as no market can be formed.
- **Right to Remuneration**
The nature of the use is enjoyment, and the user has not paid for the price. Accordingly, there is harm, and therefore there is a need for compensation to the right holder.
However, the right to remuneration is not feasible because transaction cost exceeds the remuneration.
As to the Third Step, the prejudice to the right holder is not unreasonable as there is no way to extract income.
- **TPM Circumvention**
Justification is not for superior value. Accordingly, it is not justified to circumvent TPM.

(g) Reproduction for judicial proceedings:

- **Justification**
The justification is justice in court proceedings, which is a constitutional value.
As to the Second Step in the Three Step Test, it does not conflict with a normal exploitation of the work as the right holder has no refusal right and therefore there is no market here.
- **Right to Remuneration**
This time, the nature of the use is non-enjoyment. Accordingly, there is no harm, and therefore there is no need for compensation to the right holder.
As to the Third Step, the prejudice to a right holder may not be unreasonable as there is no market and no harm.

- TPM Circumvention
Justification is for superior value and there is a need to circumvent TPM.
Accordingly, it is justified to circumvent TPM.

3. Inductive Approach: Rules induced from the Analysis

To sum up, the above analysis can be concluded as follows:

(a) Justifications for limitations

The followings are considered as justifications for limitations:

- Superior Values:
 - (i) Objectives of Copyright Law
 - (ii) Constitutional Values
- Market Failure
However, DRM can be the way to form a market and to eliminate market failure.
- No Harm

(b) The right to remuneration

It must be given if the following conditions are fulfilled:

- The limitation is justified,
- The nature of the use is enjoyment,
- The price is not paid while it causes harm to right holders, and
- The right to remuneration is feasible.
Though I doubt, the levy system may be alternative measures for the right to remuneration if it is physically and economically feasible.

(c) The Three Step Test:

The Three Step Test will be applied to a limitation as follows:

- Superior Values
Second Step: A right holder has no refusal right, and therefore a market cannot be formed. Accordingly, a limitation for superior value does not conflict with a normal exploitation of the work.
Third Step: There is no harm in some cases. On the other hand, there is harm in other cases, where the right to remuneration must be given.
- Market Failure
Second Step: There is no market. Accordingly, a limitation for market failure does not conflict with a normal exploitation of the work.
Third Step: There is no way to extract income here, and therefore the prejudice to the right holder is not unreasonable.
- No Harm

Second Step: There is no harm. Accordingly, a limitation due to no harm does not conflict with a normal exploitation of the work.

Third Step: There is no harm. Accordingly, the prejudice to the right holder is not unreasonable.

(d) Requirements for TPM Circumvention

The requirements to justify circumvention of TPM would be the followings:

- The purpose is for superior value, and
- Circumvention of TPM is necessary to use the work for the purpose.

4. Deductive Approach: Application of the induced Rules to New Uses in the Digital Network Environment

Based on the rules induced from the analysis I have made above, I would like to discuss limitations to new uses: (1) browsing, (2) downloading, and (3) personally transmitting copyrighted works, as well as (4) library's transmission services of copyrighted works.

(a) Browsing

● **Justification for Limitation**

Here, there is no harm to a right holder. Therefore, the justification for this is no harm and this meets the Second Step in the Three Step.

● **Right to Remuneration**

The nature of the use is enjoyment, but there is no harm. Accordingly, there is no need for compensation to the right holder.

● **TPM Circumvention**

Justification is not for superior value. Therefore, it is not justified to circumvent TPM.

(b) Downloading

● **Justification for Limitation**

The justification would be market failure.

With respect to the Second Step in the Three Step Test, it does not conflict with a normal exploitation of the work as no market can be formed.

● **Right to Remuneration**

The nature of the use is enjoyment, and the user has not paid for the price. Accordingly, there is harm, and thus there is a need for compensation to the right holder.

However, the right to remuneration is not feasible because of market failure.

Looking at the Third Step, the prejudice to a right holder is not unreasonable as there is no way to extract income.

● **TPM Circumvention**

Justification is not for superior value. Accordingly, it is not justified to circumvent TPM.

(c) Personal Transmission

This directly conflicts with a right holder's license activities. Therefore, limitation is not justified for it.

(d) Transmission by Libraries

This also directly conflicts with a right holder's license activities. Accordingly, limitation is not justified for it.

5. Conclusion

While market failure is a justification for limitations, DRM can be a way to eliminate market failure and to form a market.

The levy system is expected to be alternative measures for market system when market failure is a justification for limitations. However, it causes anti-market consequence to apply the levy system. I am afraid that the levy system would only work as punishment against use of a work, rather than as incentive for creation of a work.

In the digital network environment, personal transmission and transmission by libraries among new uses should not be justified for limitations.