

ACKNOWLEDGEMENTS

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With the utmost gratitude,

Annelise Rivera Rivero

Editor in Chief, Volume 5

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EL ARBITRAJE DENTRO DE LA CONTRATACIÓN INDIVIDUAL PATRONO-EMPLEADO EN PUERTO RICO Y SUS IMPLICACIONES

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Individualism gave birth to modern capitalism,

but carried to its outmost it created the conditions for its own demise...¹

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¹ Luis Muñiz-Argüelles, *A theory on the will theory: freedom of contract in a historical and comparative perspective*, 52 REV. JUR. UPR 249, 262 (1983).

*Aunque los tribunales deben ejercer su juicio propio, ello no significa en modo alguno que es nula toda ley que a los jueces que la interpretan les parezca excesiva, que no se ajusta a su fin ostensible o que se base en conceptos de moralidad con los que ellos estén en desacuerdo.*²

I. INTRODUCCIÓN

“El arbitraje es probablemente tan viejo como la sociedad humana”.³ Encontramos que dicha práctica era común desde la época bíblica. Vemos por ejemplo como Jacob y Labán, luego de llegar a un acuerdo respecto al casamiento de Jacob con las hijas de Labán, erigieron dos *masebah* para dar fuerza a las estipulaciones de su acuerdo.⁴ Otro ejemplo de ello es el llamado que hace el Apóstol Pablo a los cristianos para que dirimieran sus diferencias bajo arbitraje y no en los tribunales.⁵ Del mismo modo podemos encontrar varios ejemplos en la historia donde el arbitraje ha tomado un rol protagónico. Una rápida mirada a la historia nos ilustrará que el comercio fue el primer suelo fértil para su práctica. Eventualmente encontró cabida en las relaciones internacionales, en las relaciones comerciales- esta vez entre el comerciante y el cliente-, en las relaciones obrero-patronales y, más recientemente, en las relaciones entre patrono-empleado individual.

El presente escrito busca encontrar soluciones a la inclusión de cláusulas de arbitraje en el contrato de empleo individual que se atemperen a nuestro ordenamiento jurídico. Ello se debe a dos razones principales. La primera es que el contrato de empleo individual entre un empleado y un patrono, en especial uno multinacional, carece del balance que generalmente existe entre dos comerciantes o una unión y un patrono. Sin embargo, la reciente jurisprudencia federal estadounidense ha querido equiparar el contrato individual de empleo con los pactos comerciales o los acuerdos obrero-patronales, concediendo la misma deferencia al arbitraje en todas las instancias. Ello -y esto constituye la segunda razón de este escrito- claramente va en contra de la política pública de Puerto Rico.

² *Otis v. Parker*, 187 U.S. 606, 608-09 (1903) citado por el Hon. Juez Asociado señor Martínez Torres en A.A.R. *ex parte*, 2013 TSPR 42, opinión de conformidad, en la pág. 29. (Traducción del original).

³ DEMETRIO FERNANDEZ QUIÑONES, *EL ARBITRAJE OBRERO-PATRONAL*, §1.1, pág. 3 (2000).

⁴ Véase Génesis 31: 43-53. Véase también JOHN H. WALTON. VICTOR H. MATTHEWS & MARK W. CHAVALLAS, *COMENTARIO DEL CONTEXTO CULTURAL DE LA BIBLIA* 57 (Nelda Bedford de Gaydou, Arnoldo Canclini, Raimundo Ericson y José Antonio Septién trad., Editorial Mundo Hispano, 3ra ed. 2008); FERNÁNDEZ QUIÑONES, *supra* nota 3, §1.1, en la pág. 3.

⁵ Véase FERNÁNDEZ QUIÑONES, *supra* nota 3, §1.1, pág. 3. Véase también 1 Corintios 6:1-7; THE OXFORD BIBLE COMMENTARY 117 (John Barton & John Muddiman ed., 2001).

Además, pierde de perspectiva el propósito real de la legislación protectora del trabajo en Puerto Rico, así como la razón niveladora original que pretendía el arbitraje.

Para ello comenzaremos un recorrido por los conceptos básicos de la doctrina de contratos en Puerto Rico. Procederemos también a describir la figura del arbitraje, junto con sus ventajas y desventajas. Analizaremos la jurisprudencia interpretativa de la figura del arbitraje en Puerto Rico así como el contrato de empleo. Finalmente, analizaremos la jurisprudencia estadounidense respecto a las cláusulas de arbitraje en el lugar de empleo y proveeremos algunas sugerencias para atemperar lo decidido por el Tribunal Supremo de Estados Unidos a nuestro ordenamiento jurídico y la política pública imperante en Puerto Rico con relación al derecho de empleo.

II. SENTANDO LAS BASES

A. Doctrina de los contratos en Puerto Rico

1. *La buena fe contractual*

La buena fe, según definido por Rivera García, es la “[c]onvicción en que se halla una persona que hace o posee alguna cosa con derecho legítimo” añadiendo como sinónimos “[r]ectitud, honradez, sinceridad, pureza de conciencia”.⁶ El profesor Godreau Robles, por su parte, ilustra que el concepto de buena fe no ha sido definido de manera precisa en nuestro ordenamiento. Expone que, a raíz de las definiciones ofrecidas por el Código Civil de Puerto Rico (“CCPR”), dicho concepto puede ser descrito de manera objetivo-normativa (art. 1210) o en términos subjetivos (art. 1597).⁷ Explicando los conceptos de subjetivo y objetivo antes mencionados, el profesor Ataz López plantea que el punto de vista subjetivo implica, en el caso de la buena fe, el “desconocimiento de una realidad, confianza en la apariencia, ausencia de dolo...” y el punto de vista objetivo convierte la buena fe en “una especie de estándar de conducta, una regla de conducta social que impone un

⁶ IGNACIO RIVERA GARCÍA, DICCIONARIO DE TÉRMINOS JURÍDICOS 29 (3ra ed. 2003).

⁷ Michel J. Godreau Robles, *Lealtad y buena fe contractual*, 58 REV. JUR. UPR 367, 372-73 (1989). Véase CÓD. CIV. PR, arts. 1210 & 1597, 31 LPRA §§ 3375 & 4397 (2011).

determinado comportamiento ético en las relaciones jurídicas”.⁸ Por su parte, Ataz López ha mencionado que dentro de la discusión del punto de vista objetivo “la buena fe exige entonces una rectitud, lealtad y honradez en el trato que la ética social aprueba y considera como razonablemente exigibles”⁹.

Ahora bien, el Tribunal Supremo de Puerto Rico (“TSPR”) expuso en *Colón v. Glamorous Nails* que la buena fe “es la lealtad en el tratar, el proceder honrado y leal. Supone el guardar la fidelidad a la palabra dada y no defraudar la confianza, ni abusar de ella; supone un conducirse como cabe esperar de cuantos, con pensamiento honrado, intervienen en el tráfico como contratantes”.¹⁰ El TSPR expresó también, en *Velilla v. Pueblo Supermarkets, Inc.*¹¹ que la buena fe permea todo el ordenamiento y, en *Santiago Aponte v. Rodríguez Martínez*, que basado en el principio de buena fe, “nadie puede actuar contra sus actos... [ni] tampoco puede asumir una conducta contradictoria a una actuación previa que generó expectativas en quién confió en ese obrar”.¹² En palabras del profesor Ataz López, interpretando el art. 1258 del Código Civil Español (“CCE”) (el cual es equivalente al art. 1210 del CCPR), la buena fe “impone a las partes un comportamiento conforme a un principio de conducta socialmente admitido como correcto[,] [l]o cual, a su vez, se traduce en deberes concretos dependiendo del contrato de que se trate y del caso particular”¹³. Según expone nuestro más alto foro judicial en *Producciones Tommy Muñiz, Inc. v. COPAN*:

... la buena fe... impone a las partes que tratan o negocian un arquetipo de conducta social, lealtad y fidelidad a la palabra dada...y consiste en que cada parte de la relación precontractual se entreg[ue] confiadamente a la conducta leal de la otra. Fía y confía en que ésta no le engañará. . . . Las partes tienen la obligación de comportarse según la buena fe en el sentido de que a ella incumbe la

⁸ Joaquín Ataz López, *La buena fe contractual* en 1 TRATADO DE CONTRATOS, §2, pág. 167 (Rodrigo Bercovitz Rodríguez-Cano dir., Nieves Moralejo Imbernón & Susana Quicios Molina coord., 2009). Véase Godreau, *supra* nota 7, en las págs. 372-73.

⁹ *Id.*

¹⁰ LUIS DIEZ PICAZO, LA DOCTRINA DE LOS PROPIOS ACTOS 157 (1ra ed. 1963) citado en *Colón v. Glamorous Nails*, 167 DPR 33, 45 (2006).

¹¹ *Velilla v. Pueblo Supermarkets, Inc.*, 111 DPR 585 (1981). Véase Godreau, *supra* nota 7, en la pág. 369.

¹² *Santiago Aponte v. Rodríguez Martínez*, 181 DPR 204, 217 (2011).

¹³ Ataz López, *supra* nota 8, en la pág. 168.

carga de una lealtad recíproca de conducta socialmente valorable y exigible.¹⁴

2. Los elementos del contrato

En nuestro ordenamiento, los requisitos presentes en todos los contratos para que éstos sean válidos son el consentimiento, el objeto y la causa. Se entiende por *consentimiento* aquella expresión de voluntad que da a entender que se quiere ser parte de un contrato. Es preciso señalar que para que exista consentimiento debe mediar una voluntad real de consentir. Para determinar la voluntad de consentir a un negocio jurídico se debe “indagar las intenciones internas... dado que son ellas las que dan a la declaración de la voluntad, es decir, a las palabras habladas o escritas virtud para engendrar efectos jurídicos”.¹⁵ Por su parte, en nuestro ordenamiento aún no está definido exactamente qué constituye el objeto. Los tratadistas se han encargado de cubrir este vacío. Castán Tobeñas, según Vélez Torres, define el *objeto* inmediato del contrato como la obligación que por él se constituye de dar, hacer o no hacer.¹⁶ Puig Brutau, por su parte, lo define como “el acto jurídico que regula la conducta que han de seguir las personas que lo otorgan”.¹⁷ Es decir, el objeto implica que “a) existe un acuerdo de voluntades, b) del que resulta uno o varios derechos personales o de crédito, c) que imponen una serie de conductas a los contrayentes [y] d) conducta que se refiere a la manera de proceder con determinada cosa, objeto o servicio”.¹⁸ Es decir, el objeto es “aquello a que nos obligamos”.¹⁹

La *causa*, por su parte, es la “prestación o promesa de una cosa o servicio por la otra parte”.²⁰ Es decir, es aquella cosa que se va a intercambiar entre las partes. Otro requisito de gran importancia es la buena fe entre las partes. La buena fe, según expresó el TSPR en *Colón v. Glamorous Nails*, “es la lealtad en el tratar, el proceder

¹⁴ Prod. Tommy Muñiz, Inc. v. COPAN, 113 DPR 517, 528 (1982). (Citas omitidas). Véase también Godreau, *supra* nota 7, en las págs. 374-75.

¹⁵ ERICH DANZ, adaptada por FRANCISCO BONET RAMÓN, LA INTERPRETACIÓN DE LOS NEGOCIOS JURÍDICOS 75 (3ra ed. 1955).

¹⁶ III CASTÁN TOBEÑAS, DERECHO COMÚN Y FLORAL 506 (1978) citado por 2-IV JOSÉ RAMÓN VÉLEZ TORRES, CURSO DE DERECHO CIVIL 45 (3ra reimp. 2006).

¹⁷ 1-II PUIG BRUTAU, FUNDAMENTOS DEL DERECHO CIVIL 109 (3ra ed. 1988).

¹⁸ *Id.*, en la pág. 110.

¹⁹ VÉLEZ TORRES, *supra* nota 16, en la pág. 72.

²⁰ CÓD. CIV. PR, art. 1226, 31 LPRA §3431 (2011).

honrado y leal. Supone el guardar la fidelidad a la palabra dada y no defraudar la confianza, ni abusar de ella; supone un conducirse como cabe esperar de cuantos, con pensamiento honrado, intervienen en el tráfico como contratantes”.²¹ El TSPR expresó también en *Velilla v. Pueblo Supermarkets, Inc.*²² que la buena fe permea todo el ordenamiento y, en *Santiago Aponte v. Rodríguez Martínez*, que basado en el principio de buena fe, “nadie puede actuar contra sus actos... [ni] tampoco puede asumir una conducta contradictoria a una actuación previa que generó expectativas en quién confió en ese obrar”.²³

3. La figura del consentimiento, su manifestación y sus vicios

a. El consentimiento en general

Según el CCPR, se presume que una persona que presta su consentimiento tiene la capacidad para así hacerlo.²⁴ En palabras del Prof. José Ramón Vélez Torres “... la regla general [es] que en Puerto Rico se presume la capacidad de las personas para contratar”²⁵. Esta presunción de consentimiento, aunque no está escrita en nuestras Reglas de Evidencia, puede entreverse dentro del contenido de las mismas. Sobre esto el profesor Chiesa Aponte comenta:

... las presunciones enumeradas en esta regla [regla 304 de evidencia] no son todas las que reconoce el ordenamiento jurídico. Sólo se han puesto las que han venido a ser parte de la Ley de Evidencia desde el Código de Enjuiciamiento Civil y que la Asamblea Legislativa optó por incluir como regla 16 de 1979. El Código Civil y las leyes especiales establecen presunciones...²⁶

El CCPR, así mismo, presenta en su art. 1215 que los locos o dementes, los menores no emancipados y los sordomudos que no sepan escribir se encuentran

²¹ LUIS DIEZ PICAZO, LA DOCTRINA DE LOS PROPIOS ACTOS 157 (1963) citado en *Colón v. Glamorous Nails*, 167 DPR 33, 45 (2006).

²² *Velilla v. Pueblo Supermarkets, Inc.*, 111 DPR 585 (1981).

²³ *Santiago Aponte v. Rodríguez Martínez*, 181 DPR 204, 217 (2011).

²⁴ VÉLEZ TORRES, *supra* nota 16, en la pág. 20.

²⁵ *Id.*

²⁶ ERNESTO L. CHIESA APONTE, REGLAS DE EVIDENCIA DE PUERTO RICO 2009. ANÁLISIS POR EL PROF. ERNESTO L. CHIESA 112 (JTS, 2009). Véase REG. EV. PR, regla 304, 32 LPRA Ap. V (2011).

incapacitados para prestar su consentimiento.²⁷ Por otro lado, los motivos por los cuales un consentimiento puede ser inválido en materia contractual son el error, la violencia, la intimidación y el dolo.²⁸ Dentro de los errores se encuentran (1) el error obstativo; (2) los vicios de la declaración de la voluntad, los cuales se subdividen en (a) la reserva mental, (b) la declaración de voluntad falta de seriedad y (c) la simulación; (3) el error propio o los vicios de consentimiento, el cual a su vez se subdivide en (a) error sobre la sustancia de la cosa o sobre sus condiciones esenciales, (b) error sobre la persona, (c) error en los motivos, (d) error de cálculo, (e) error sobre la cantidad o valor y (f) error sobre las cualidades no esenciales de la cosa²⁹; (4) error de hecho y el error de derecho; y por último el (5) error de vicio.

b. Modos de manifestar el consentimiento

El art. 1214 del CCPR dispone que “[e]l consentimiento se manifiesta por el concurso de la oferta y de la aceptación sobre la cosa y la causa que han de constituir el contrato”³⁰. Es decir, “...cuando ambas partes se ponen de acuerdo, uno en pedir o requerir algo y el otro en hacer, dar o, de otro modo, comportarse conforme a lo esperado por el otro, ha habido acuerdo...”³¹ se constituye lo que conocemos como contrato. El Tribunal Federal para el Distrito de Puerto Rico ha expresado que “[p]ara perfeccionar un contrato por mera aceptación de la oferta, debe haber una voluntad común cuando la oferta es determinada y contiene todos los elementos requeridos de un contrato”³². El TSPR, por su parte, ha delimitado unos requisitos para que el consentimiento sea válido, siendo éstos: (1) que el declarante tenga conocimiento adecuado del alcance de su declaración³³; (2) que haya una voluntad libre, voluntaria y consciente³⁴; (3) que exista consentimiento, objeto y causa³⁵; y (4) que el contrato no atente contra la ley, la moral ni el orden

²⁷ Cód. Civ. PR, art. 1215, 31 LPRA § 3402 (2011).

²⁸ Cód. Civ. PR, art. 1217, 31 LPRA § 3404 (2011). Véase VÉLEZ TORRES, *supra* nota 16, pág. 46.

²⁹ *Id.*, art. 1218, 31 LPRA § 3405 (2011).

³⁰ Cód. Civ. PR, art. 1214, 31 LPRA § 3401 (2011).

³¹ VÉLEZ TORRES, *supra* nota 16, en la pág. 36.

³² *Satellite Broadcasting v. Telefónica de España*, 807 F. Supp 210 (1992).

³³ *Colón Gutiérrez v. Registrador*, 114 DPR 850 (1983).

³⁴ *Capó Caballero v. Ramos*, 83 DPR 650 (1961).

³⁵ Cód. Civ. PR, art. 1213, 31 LPRA § 3391 (2011).

público³⁶. Sobre la expresión del consentimiento, nuestro ordenamiento no establece un modo particular de realizarlo. El único requisito que se impone es que se exteriorice la voluntad de modo tal que la otra u otras partes involucradas advengan en conocimiento de la misma. El Prof. Vélez Torres, citando a Castán Tobeñas, establece que para la creación de una obligación jurídica resultante de la prestación del consentimiento, deben cumplirse los siguientes requisitos: (1) pluralidad de sujetos y partes; (2) voluntad contractual (resultante de la conjunción de voluntades conscientes, inteligentes y libres); (3) capacidad para contratar; (4) declaración y/o manifestación del consentimiento, ya sea de manera tácita o explícita; y (5) concordancia entre la voluntad interna y la externa.³⁷

Como mencionamos anteriormente, nuestro ordenamiento no establece método alguno para la determinación de la expresión de la voluntad. Sólo requiere que una parte le manifieste su voluntad a una o más partes de modo que éstas puedan darse por enteradas. El Prof. Jesús Manuel Marín López destaca que “por medio de la declaración de voluntad, cada contratante da a conocer al otro su propia voluntad interna”³⁸. A esto le añade que “[l]a declaración de voluntad contractual es siempre recepticia: además de su emisión o exteriorización, es necesario que se dirija a las personas que jurídicamente resultan afectadas por la misma”³⁹. Dicha manifestación puede ser implícita o explícita. Sobre este particular el profesor comenta que la declaración “es expresa cuando se utiliza un mecanismo que, por su naturaleza o porque así se deriva del consenso social, está delineado a manifestar una determinada voluntad. El medio habitual es el lenguaje (escrito o hablado) . . .”⁴⁰ En cuanto a la manifestación tácita, la describe como un comportamiento que, aun cuando no se manifiesta voluntad alguna explícitamente, de ella se deduce una voluntad contractual.⁴¹ Añade también que “[a]sí sucede cuando esa conducta significa en el ámbito social en el que se desarrolla una toma de posición inequívoca, que genera la confianza ajena”⁴². Asimismo cita al Tribunal Supremo de España (“TSE”) el cual expone que:

³⁶ *Id.*, art. 1207, 31 LPRA § 3372 (2011).

³⁷ 3 JOSÉ CASTÁN TOBEÑAS, *Derecho Común y Floral* 486-88 (15ta. ed. 1995) citado por VÉLEZ TORRES, *supra* nota 16, en la pág. 36.

³⁸ Manuel Jesús Marín López, *El consentimiento contractual* en 1 TRATADO DE CONTRATOS, §4, págs. 551-552 (Rodrigo Bercovitz Rodríguez-Cano dir., Nieves Moralejo Imbernón y Susana Quicios Molina coord., 2009).

³⁹ *Id.*, en la pág. 552.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.*

... existirá declaración de voluntad tácita cuando el sujeto, aun sin exteriorizar de modo directo su querer mediante palabra (escrita u oral), adopta una determinada basada en los usos sociales y del tráfico, que han de ser valorada como expresión de la voluntad interna; en definitiva se trata de los hechos concluyentes (facta concludentia) y como tales inequívocos.⁴³

Podemos añadir lo establecido por el TSPR en *Teachers Annuity v. Soc. de Gananciales*, donde se dispone que:

[e]l elemento determinante del consentimiento tácito es la conducta o hechos de las partes y no las palabras que utilicen para expresarlo. Los hechos deben revelar inequívocamente la voluntad de consentir y no pueden ser compatibles con otra voluntad ni estar sujetos a diversas interpretaciones.⁴⁴

c. El silencio como manifestación de voluntad.

Vélez Torres sostiene que “el silencio, por regla general, no puede considerarse que equivale a la aceptación de una oferta”.⁴⁵ Esto se debe a que el art. 1214 del CCPR, así como la interpretación jurisprudencial ofrecida por el TSPR, apuntan a que se requiere una “manifestación inequívoca de la voluntad de obligarse”⁴⁶. Es decir, por su particularidad, y ante una ausencia total de la proactividad requerida tanto por el CCPR y las determinaciones del TSPR, el silencio “no constituye un medio idóneo para exteriorizar una declaración de voluntad”⁴⁷. Nuestro ordenamiento, al igual que el ordenamiento español, no contiene disposición alguna donde manifieste el valor que debe darse al silencio.⁴⁸ Sin

⁴³ *Id.*

⁴⁴ *Teachers Annuity v. Soc. De Gananciales*, 115 DPR 277 (1984).

⁴⁵ G. VELÁZQUEZ, LAS OBLIGACIONES SEGÚN EL DERECHO PUERTORRIQUEÑO, 1965, en la pág. 24, citado por VÉLEZ TORRES, *supra* nota 16, en la pág. 44.

⁴⁶ *Id.*

⁴⁷ Marín López, *supra* nota 38, a la pág. 552. Este autor establece que “hay silencio cuando un sujeto no manifiesta su voluntad ni de manera tácita ni explícita”. *Id.*

⁴⁸ *Id.*

embargo, el TSE se ha expresado en cuanto al particular al resolver el 14 de junio de 1963:

... que el silencio puede ser considerado como una declaración de voluntad contractual cuando, dada una determinada relación entre dos personas, el modo corriente de proceder implica el deber de hablar, ya que si el que puede y debe hablar no lo hace, se ha de reputar que consciente en aras de la buena fe. El silencio puede ser considerado como declaración en todos aquellos casos en que la buena fe impone un deber positivo de manifestación de una repulsa.⁴⁹

A la decisión antes citada, el Prof. Manuel Jesús Marín López detalla que:

[e]xiste ese deber de hablar cuando entre las partes hay relaciones de negocios que así lo exijan... o cuando lo normal y natural, según los usos generales del tráfico y en aras de la buena fe, es que se exprese el disenso, si no se deseaba aprobar la propuesta de la otra parte.⁵⁰

Este tratadista añade otras instancias en las cuales se le puede atribuir propiedades de consentimiento al silencio. Las dos instancias principales son mediante acuerdo de las partes y/o mediante disposición de ley.⁵¹ En ausencia de éstas, al silencio puede adjudicársele valor jurídico si se puede concluir que éste puede interpretarse como una manifestación tácita de voluntad.⁵² Destaca que:

[a]sí sucederá cuando, a la vista de las circunstancias concurrentes, las exigencias de la buena fe, y el sentido objetivo del comportamiento de ese sujeto permitan concluir que el silencio debe interpretarse como declaración de voluntad. Las circunstancias a las

⁴⁹ Opinión del Tribunal Supremo de España del 14 de junio de 1963, citado por VÉLEZ TORRES, *supra* nota 16, en la pág. 44. Dicha opinión también es traída por Marín López, *supra* nota 38, pág. 553.

⁵⁰ Marín López, *supra* nota 38, en la pág. 553.

⁵¹ *Id.*, en las págs. 552-53.

⁵² *Id.*, en la pág. 553.

que ha de atenderse son, entre otras, si existe entre las partes previas relaciones contractuales, y cuáles eran ellas entre los usos respecto al modo de valoración del silencio... habrá que analizar si, conforme a las circunstancias del caso, hay que proteger la confianza de quien de buena fe consideró el silencio de la otra parte como declaración de voluntad... puede hablarse de un silencio cualificado sólo cuando se junte a hechos positivos precedentes, a una actividad anterior de la parte que guardó silencio, o a particulares situaciones subjetivas u objetivas que sirvan como elemento útil para tener por hecha la manifestación de una determinada voluntad.⁵³

Es decir, la voluntad del contratante se ha formado de manera defectuosa, ya sea por falta de conocimiento de la verdadera realidad o por falta de libertad de contratación.⁵⁴

d. Los vicios del consentimiento

Estos vicios consisten en la equivocada o inexacta creencia o representación mental de que se ha realizado un acto, ya sea creyéndose o queriéndose realizar otro.⁵⁵ Generalmente, pues, se trata de errores, aun cuando pueden ser voluntarios o involuntarios. Dentro de estos errores se encuentran: (1) el error obstativo, el cual consiste en esa declaración de voluntad que correctamente se dirige a consentir conforme a la voluntad interna, con conocimiento exacto de la realidad, pero por equivocación se expresa otra cosa, creando una divergencia entre realidad y voluntad declarada;⁵⁶ y (2) los vicios de la declaración de la voluntad los cuales tienen lugar cuando la voluntad que se expresa no concuerda con la voluntad deseada, y se realiza a sabiendas de esta situación. Es decir, el contratante, queriendo una cosa consiente a otra con pleno conocimiento de que no desea las consecuencias que trae esa otra cosa. Este tipo de error generalmente se subdivide en tres categorías, las cuales son: la reserva mental, la declaración de voluntad falta de seriedad y la simulación. La reserva mental ocurre cuando existe una

⁵³ *Id.*, en las págs. 553-54. (Citas omitidas).

⁵⁴ *Id.*, en la pág. 554.

⁵⁵ VÉLEZ TORRES, *supra* nota 16, en la pág. 47.

⁵⁶ *Id.* Véase Marín López, *supra* nota 38, en las págs. 583-585.

discrepancia consciente y querida entre la voluntad y lo que se declara.⁵⁷ En este tipo de error el declarante manifiesta una apariencia de voluntad negocial cuando realmente no quiere vincularse con todos o algunos de los efectos que acarrea dicha voluntad. Esta manifestación de voluntad crea la apariencia de negociación y consentimiento cuando realmente se trata de un engaño. Este tipo de error puede desembocar en dolo, aunque no necesariamente ocurre siempre de esa manera. Dado que de ello podría depender la validez o invalidez de un contrato, Marín López destaca:

[s]i uno de los contratantes actúa con reserva mental, el contrato será válido (e inatacable) en los términos que expresan la declaración. La reserva mental es jurídicamente irrelevante. Aunque es cierto que ese contratante no tiene esa específica voluntad negocial interna, la adecuada aplicación de los principios de responsabilidad y confianza lleva a esa solución: hay que proteger la confianza de quien, de buena fe, creyó que la declaración exteriorizada expresaba la voluntad interna, frente a quien voluntariamente suscitó dicha confianza... La situación es distinta cuando el destinatario de la declaración hecha con reserva no es de buena fe. Si ese destinatario conoce la reserva mental, falta la confianza que justifica el mantenimiento del contrato, por lo que éste será nulo, por ausencia de consentimiento... si el destinatario no conoce la reserva mental, pero podría haberla conocido si hubiera actuado con diligencia exigible en las concretas circunstancias del caso... lo más adecuado será considerar válido este contrato.⁵⁸

Por otra parte, la declaración de voluntad falta de seriedad consiste en otra divergencia entre lo declarado y lo deseado. En este caso se pretende declarar, a sabiendas, algo distinto a lo que se desea con el propósito de que el receptor se percate de la falta de seriedad que tiene la declaración. Aun cuando la mayor parte de las veces el contrato será nulo por falta de consentimiento, para así considerarlo hay que tomar en cuenta:

⁵⁷ VÉLEZ TORRES, *supra* nota 16, en la pág. 47. Véase Marín López, *supra* nota 38, en las págs. 585-86.

⁵⁸ Marín López, *supra* nota 38, en la pág. 586. (Citas omitidas).

[(a)] [s]i el destinatario de la declaración conoce el carácter no serio de la declaración... [(b)] [s]i el destinatario ni conoce, ni podría conocer el carácter no serio de la declaración, incluso [actuando] con la diligencia exigible... [(c)]... si el destinatario de la declaración podía haber advertido, actuando con la diligencia exigible en esas circunstancias, el carácter no serio de la declaración...⁵⁹

La simulación es aquella “acción o efecto de encubrir el carácter jurídico de un acto bajo la apariencia de otro... por el cual se constituyen o transmiten derechos a personas interpuestas distintas de aquellas a favor de las cuales realmente se constituyen o transmiten”⁶⁰. Es decir, la simulación está comprendida dentro del contenido del art. 1228 del CCPR, el cual establece que “[l]a expresión de una causa falsa en los contratos dará lugar a la nulidad, si no se probase que estaban fundados en otra verdadera y lícita”⁶¹. En cuanto a la simulación el TSPR, en *Reyes v. Jusino*, se expresó estableciendo que:

[l]a simulación, sugiere la idea de ocultamiento o engaño... Esto es, “[e]n el lenguaje común, simular significa hacer aparecer lo que no es, y disimular significa esconder lo que es. En el lenguaje jurídico, igualmente, simular significa fingir una realidad, y disimular significa lo contrario; en uno y otro concepto se halla ínsita la idea de un consciente operar con ficción u ocultación. Simulación en el negocio jurídico, en particular, se tiene cuando las partes, de acuerdo, realizan deliberadamente declaraciones distintas de la voluntad interna, con el fin de engañar a los terceros”...⁶²

También en *Reyes v. Jusino* se determinó que el efecto jurídico de un contrato simulado se rige por cuatro principios. El primero consiste en que la simulación por sí misma no hace ilícito o nulo el contrato. El segundo plantea la creencia de una sospecha sobre el negocio y su validez. El tercero postula que, al descubrirse la simulación, el negocio pierde la presunción de causa. Finalmente, el cuarto es que se

⁵⁹ *Id.*, en la pág. 587. Véase VÉLEZ TORRES, *supra* nota 20, en la pág. 48.

⁶⁰ RIVERA GARCÍA, *supra* nota 6, en la pág. 260.

⁶¹ CÓD CIV. PR, art. 1228, 31 LPRA § 3433 (2011).

⁶² *Reyes v. Jusino*, 116 DPR 275, 282 (1985).

crea sobre el negocio una presunción de simulación absoluta, la cual le toca al simulador rebatir.⁶³

El vicio del consentimiento (o error propio) puede definirse como aquella instancia donde la voluntad interna concurre con lo que se declara, pero por algún motivo la realidad externa en la que se basó la declaración y la voluntad interna cambiaron.⁶⁴ Éste se subdivide en seis categorías, las cuales son: el error sobre la sustancia de la cosa o sus condiciones esenciales, el error sobre la persona, el error de motivos, el error de cálculo, el error sobre la cantidad o valor, y el error sobre las cualidades no esenciales de la cosa. El error sobre la sustancia adviene cuando existe un error sobre la cosa por la cual se contrató y/o por las condiciones esenciales que motivaron a la contratación. Éste se subdivide en error *in corpore*, donde el error estriba sobre la identidad de la cosa, el cual se funda en la creencia de que lo que se está contratando está constituido de una manera cuando la realidad es que lo está de otra, y el error *in substantia*, el cual se fundamenta en la creencia de que lo que se contrata cuenta con atributos no materiales o físicos, pero que fueron considerados por las partes. El error *in corpore* hace el contrato nulo, mientras que el error *in substantia* hace el contrato anulable pero no lo anula automáticamente.⁶⁵ El error sobre la persona, por otra parte, adviene cuando se piensa que se ha contratado con una persona cuando realmente se ha contratado con otra. El art. 1218 del CCPR establece que ello constituirá causa para nulidad cuando “la persona” sea un factor esencial para la contratación.⁶⁶ El error sobre los motivos es aquel en el cual existe una divergencia entre lo que movió a la persona a contratar y la razón por la cual finalmente ésta contrató. En nuestro ordenamiento ello no tiene mayor relevancia a no ser que este inciso haya sido expresamente pactado como condición.⁶⁷ El error de cálculo o matemático es un error sobre una “pura operación aritmética”. El art. 1218 del CCPR dispone que, de ocurrir un error matemático, bastará con corregir la operación matemática en cuestión.⁶⁸ El error sobre la cantidad o valor no está directamente señalado en el CCPR, pero cabe mencionar, como bien hace el tratadista Vélez Torres, que el CCPR da un tratamiento especial a situaciones donde la cantidad, como es el caso de la cabida, es un factor que tiene consecuencias tanto sobre el intercambio monetario, como sobre el comercio y el

⁶³ *Id.*

⁶⁴ VÉLEZ TORRES, *supra* nota 16; Marín López, *supra*, nota 38, en la pág. 554.

⁶⁵ Véase VÉLEZ TORRES, *supra* nota 16, en las págs. 48-49; Cooperativa la Sagrada Familia v. Castillo, 107 DPR 405 (1978); Cód Civ. PR, art. 1228, 31 LPRA § 3433 (2011).

⁶⁶ Cód Civ. PR, art. 1228, 31 LPRA § 3433 (2011).

⁶⁷ VÉLEZ TORRES, *supra* nota 16, en la pág. 50.

⁶⁸ VÉLEZ TORRES, *supra* nota 16, en la pág. 50; DIEZ PICAZO, *supra* nota 10, en la pág. 125.

tráfico económico. Por tal motivo, debemos entender que una dinámica similar debe ocurrir con el error sobre la cantidad o el valor. El error sobre las cualidades no esenciales de la cosa realmente no tiene relevancia en nuestro ordenamiento, debido a que para considerar la anulabilidad o nulidad del contrato es necesario que la controversia surja sobre aspectos esenciales del contrato, en los cuales se haya fundado una voluntad, luego manifestada.

El error de hecho es un error basado en la apreciación de aspectos de la realidad que sirvieron para formar la voluntad interna que dieron paso a la declaración externa. Este tipo de error puede ser causa de nulidad, dado que vicia el consentimiento.

El error de derecho, el cual consiste en un error en la apreciación del derecho o la reglamentación pertinente al negocio jurídico en cuestión, por su parte, no causa nulidad dada la máxima de que “la ignorancia de la ley no exime de su cumplimiento”.⁶⁹ Por último, el error de vicio, constituye un error que “ha influido adversamente sobre la formación de la voluntad interna de una parte”⁷⁰. Nuestra jurisprudencia, así como algunos tratadistas, ha identificado los siguientes requisitos para este error: (1) ha de ser determinante de la voluntad de la parte contratante que lo alega; (2) debe existir una relación causal entre el error y la finalidad que perseguía el contratante; (3) debe tratarse de un error excusable; (4) nunca se presume.⁷¹

4. La interpretación contractual

El art. 1233 del CCPR establece que “[s]i los términos de un contrato son claros y no dejan duda sobre la intención de los contratantes, se estará al sentido literal de sus cláusulas”.⁷² Sin embargo, este artículo también dispone que si las palabras parecieren contrarias a la intención evidente de las partes, será la intención la que prevalecerá sobre las palabras. El TSPR ha establecido en reiteradas ocasiones que la intención de las partes es el criterio fundamental para establecer el

⁶⁹ Véase VÉLEZ TORRES, *supra* nota 16, en la pág. 51.

⁷⁰ *Id.*, en la pág. 52.

⁷¹ *Id.*, en las págs. 51-53. Véase también *Hermida v. Márquez*, 19 DPR 467, 471 (1913); *Cancel v. Municipio de San Juan*, 101 DPR 296, 301 (1973); *Caballero v. Ramos*, 83 DPR 650, 673 (1961); Cód. Civ. PR, art. 1218, 31 LPRA § 3405 (2011).

⁷² Cód. Civ. PR., art. 1233, 31 LPRA § 3471 (2011).

alcance de las obligaciones de un contrato.⁷³ También ha estipulado que cuando resulte necesario determinar cuál fue la intención real de las partes, el contrato se interpretará como si los otorgantes se hubieran expresado partiendo de la buena fe.⁷⁴ Para determinar la relación entre las partes, el TSPR ha utilizado varios criterios mediante los cuales se estudian los actos anteriores, coetáneos y posteriores al momento de perfeccionarse el contrato. Ello incluye cualquier otra circunstancia que pudiera indicar o dejar entrever la verdadera voluntad de las partes, así como el acuerdo que se intentó llevar a cabo.⁷⁵

5. El contrato de adhesión

En nuestro ordenamiento no hay una prohibición expresa respecto a los contratos de adhesión. Ni siquiera hay legislación especial que atienda el tema.⁷⁶ Sin embargo, tanto nuestra jurisprudencia como los tratadistas se han encargado de definir dicha particular figura de la contratación.⁷⁷ Por ejemplo, el TSPR ha definido los contratos de adhesión como “... aquellos contratos en que una sola de las partes dicta las condiciones del contrato que ha de aceptar la otra, situación típica del contrato de obra pública, en el cual las condiciones generales del contrato están contenidas en un modelo o formulario preparado de antemano por el propietario”⁷⁸. Según Vélez Torres, los contratos de adhesión:

[s]on aquellos en que una de las partes contratantes no interviene en negociación previa alguna, porque la otra parte redactó el contrato, imponiendo sus propias condiciones, de forma que la parte no

⁷³ Véase *VDE Corporation v. F & R Contractors Inc.* 2010 TSPR 210, págs. 14-16, 180 DPR __; *Municipio Mayagüez v. Lebron & Associates*, 167 DPR 713 (2006), *Marcial Burgos v. Tome*, 144 DPR 522, 537 (1997); *Unisys v. Ramallo Brothers*, 128 DPR 842, 852-53 (1991); *Marina Ind. Inc. v. Brown Corp.*, 114 DPR 64, 69-70 (1983).

⁷⁴ *VDE Corporation v. F & R Contractors Inc.* 180 DPR 210 (2010).

⁷⁵ *Id.* Véase también: *CÓD. CIV. PR*, art. 1234, 31 LPRA § 3472 (2011); *Municipio Mayagüez v. Lebrón*, 167 DPR 713, 724 (2006); *Ramírez Segal & Latimer v. Rojo Rigual*, 123 D.P.R. 161, 174 (1989); *Merle v. West Bend Co.*, 97 D.P.R. 403, 410 (1969).

⁷⁶ MARGARITA E. GARCÍA CÁRDENAS, *DERECHO DE OBLIGACIONES Y CONTRATOS*, § 10.1, en la pág. 359 (2012).

⁷⁷ *Id.*

⁷⁸ *Zequeira v. Municipal Housing Authority of the Capital of Puerto Rico*, 83 DPR 878, 880 (1961). Véase *González v. Cooperativa de Seguros de Vida de Puerto Rico*, 117 DPR 659, 662 (1986); *Maryland Casualty Co. v. San Juan Racing Assoc., Inc.*, 83 DPR 559, 566 (1961).

colabora en la formación del contenido del contrato. En esta forma, la parte que no interviene acepta el contrato tal como se lo presenta la otra parte.⁷⁹

Según Puig Brutau, y resumiendo la definición antes plasmada, los contratos de adhesión son aquellos “en el que el contrato ha sido redactado por una sola de las partes y la otra se ha limitado a adherirse”.⁸⁰ Vemos que en este tipo de contratos “... una parte se compromete con la otra, sin haber hecho aportación alguna a la negociación con excepción de haber aceptado la propuesta”⁸¹.

El art. 1240 de nuestro Código Civil establece que “la interpretación de cláusulas obscuras de contrato no deberán favorecer a la parte que hubiese ocasionado la obscuridad”.⁸² Quiere esto decir, y tal como en reiteradas ocasiones ha expuesto el TSPR, las ambigüedades resultantes de un contrato deben interpretarse restrictivamente contra la parte que lo redactó y liberalmente contra la parte que no lo redactó.⁸³ También establece el TSPR que al interpretar un contrato de adhesión, se aplicarán las disposiciones del art. 1240 con mayor fuerza a favor de la parte económicamente más débil que *no contribuyó* a la redacción del contrato.⁸⁴ De modo que la protección no va dirigida a interpretar el contrato a favor de la parte más débil, sino a balancear los intereses cuando sólo existe una cláusula oscura o dudosa y ésta fue creada por una sola de las partes.⁸⁵ No obstante, la propia jurisprudencia ha establecido que aun cuando se interpretará restrictivamente contra quien lo redactó y favorablemente contra quien no lo hizo, esto no dará pie a

⁷⁹ VÉLEZ TORRES, *supra* nota 16, pág. 7. Véase 31 LPRA §1240; Zequeira, pág. 880; González, en la pág. 662;

⁸⁰ PUIG BRUTAU, *supra* nota 17, en la pág. 239.

⁸¹ GARCÍA CÁRDENAS, *supra* nota 76, en la pág. 359.

⁸² Cód. Civ. PR, art. 1240, 31 LPRA § 3478 (2011).

⁸³ Véase: Corporación del Fondo del Seguro del Estado v. Unión de Médicos de la Corporación del Fondo del Seguro del Estado, 170 DPR 443 (2007); Guerrido García v. Univ. Cent. de Bayamón, 143 DPR 337, 348 (1997); A.A.A. v. Librotex, Inc., 141 DPR 375, 380 (1996); González Burgos v. Cooperativa de Seguros de Vida de P.R., 117 DPR 659, 662 (1986). Vale señalar que muchos de los casos de contratos de adhesión son de seguros, por tal razón el Tribunal Supremo en *AAA v. Librotex* hizo el señalamiento de que los contratos de seguro eran de adhesión. *A.A.A. v. Librotex*, 141 DPR 375, 380 (1996).

⁸⁴ Herrera v. First National City Bank, 103 DPR 724, 727 (1975).

⁸⁵ GARCÍA CÁRDENAS, *supra* nota 76, en la pág. 359.

interpretaciones irrazonables.⁸⁶ En palabras de Puig Brutau, la finalidad del art. 1288 del Código Civil español, idéntico al 1240 del CCPR, es “proteger la buena fe a través de una sanción”.⁸⁷

B. El arbitraje: Un breve trasfondo y su evolución en Puerto Rico.

1. Definición

El arbitraje es un método alternativo de resolución de disputas, que se ha utilizado desde épocas antiguas. Se le atribuye el abaratamiento de costos en los procesos adversativos, mayor rapidez que los sistemas judiciales a la hora de resolver disputas y la tendencia a afectar menos las relaciones entre las partes que se ven involucradas en el proceso. Pero cabe preguntarse, ¿cómo se define *arbitraje*? Según el artículo siete del Convenio de la Haya de 1907 sobre el Arreglo Pacífico de Diferencias, el arbitraje “tiene por objeto arreglar los litigios entre los Estados mediante jueces elegidos por ellos y sobre la base de respeto al Derecho. El compromiso de arbitraje implica la obligación de someterse de buena fe a la sentencia arbitral”.⁸⁸ Según Roca Martínez, el arbitraje puede definirse como “...la práctica de acudir a un tercero cuyos conocimientos y sabiduría le proporcionase la suficiente confianza para asumir la solución que le suministrase”.⁸⁹ Por otra parte, el profesor Fernández Quiñones expone que el arbitraje “... es la alternativa existente más formal a la adjudicación y litigio judicial. En este proceso, las partes en disputa someten y presentan su caso ante un tercero neutral que está investido con la facultad de rendir una decisión”.⁹⁰ El profesor Daniel Nina añade que:

... se trata de un proceso cuasi judicial, **aunque privado**, por el cual un tercero imparcial recibe prueba, alegatos y reclamos de las partes, se presentan testigos, y el árbitro(a) decide sobre los méritos del caso, emitiendo un laudo. Los laudos pueden ser finales (vinculantes) o no finales (no vinculantes). Si no son vinculantes, las

⁸⁶ R.C. Leasing Corp. v. Williams Int. Ltd., 103 DPR 163, 167 (1974).

⁸⁷ PUIG BRUTAU, *supra* nota 17, en la pág. 238.

⁸⁸ Convenio de la Haya de 1907 sobre el Arreglo Pacífico de diferencias, art. 7.

⁸⁹ JOSÉ MARÍA ROCA MARTÍNEZ, ARBITRAJE E INSTITUCIONES ARBITRALES 18 (1992) citado en FERNÁNDEZ QUIÑONES, *supra* nota 3, en la pág. 9.

⁹⁰ FERNÁNDEZ QUIÑONES, *supra* nota 3, en la pág. 9.

partes pueden recurrir a otra metodología para resolver su conflicto.⁹¹

Podemos resumir que el arbitraje, a grandes trazos, puede verse como un método alternativo de resolución de disputas en donde se lleva ante un tercero ajeno e imparcial, generalmente de confianza y con peritaje en el asunto a dilucidarse o en procesos de resolución de conflictos, una controversia la cual tiene la facultad de emitir una decisión.

El arbitraje, de su faz, es una institución que surge por mutuo acuerdo de las partes involucradas. Tal como plantea Fernández Quiñones:

[e]l hecho más importante que debe tenerse presente cuando hablamos de arbitraje es que se trata de un proceso contractual.⁹² Es un proceso que [...] emana de la voluntad de las partes y se ejercita por la plena autonomía que disfrutaron los contratantes [...]. [...] surge a la vida del derecho cuando las partes en disputa acuerdan someterse a arbitraje bien mediante disposiciones [...] [del contrato] o como mecanismo *ad hoc*.⁹³

Al ser una institución donde las partes -por mutuo acuerdo- se someten a la misma, podemos, como dice Fernández Quiñones, esperar que sea proteiforme, es decir, que puede variar de caso en caso, acomodándose a las circunstancias particulares de las partes contratantes.⁹⁴ Es necesario aclarar que, como veremos más adelante, existen varias organizaciones que ofrecen servicios de arbitraje y, en ocasiones, tienen sus propias reglas. Pero aún en estos casos, existe un cierto grado de discreción entre las partes a la hora de redactar el contrato de arbitraje. En palabras de Fernández Quiñones:

La naturaleza consensual del arbitraje está íntimamente relacionada con su flexibilidad. Las partes están en absoluta libertad de diseñar el sistema a la medida de sus necesidades. Pueden optar por una

⁹¹ DANIEL NINA, *MEDIACIÓN. TEORÍA Y PRÁCTICA* 22 (2006). (Negrillas añadidas).

⁹² TROTTA M., *ARBITRATION OF LABOR- MANAGEMENT DISPUTES* 3 (1974) citado por FERNÁNDEZ QUIÑONES, *supra* nota 3, en la pág. 33.

⁹³ FERNÁNDEZ QUIÑONES, *supra* nota 3, en la pág. 33.

⁹⁴ *Id.*

cláusula de arbitraje de carácter universal que permita que la totalidad de los agravios se someta a arbitraje o pueden optar porque sólo sean arbitrables aquellos agravios que envuelvan la interpretación y aplicación de cláusulas específicas del contrato [...].⁹⁵

El proceso de arbitraje se puede resumir del siguiente modo: se somete una petición de arbitraje, en donde se describen las controversias a dilucidarse. Luego, se designa uno o varios árbitros que evaluarán la evidencia y emitirán un laudo. Dependiendo de las estipulaciones con que se dio inicio al arbitraje, la parte no favorecida por un laudo puede o no llevar el mismo a apelación. Por otra parte, si existe evidencia de que hubo irregularidades tales como parcialidad del árbitro o no admisión de evidencia determinante, entre otros factores, se puede revocar el laudo.

En resumen, podríamos decir, tal como señala Díez de Velasco, que el arbitraje, en su contexto general, se caracteriza por lo siguiente:

(1) La sumisión de una controversia depende de la voluntad de las partes. [...]

(2) A través del arbitraje se trata de buscar una solución a la diferencia basada en el derecho [...] aunque excepcionalmente puede ocurrir que las partes acuerden resolver la misma sobre la base de la equidad [...].

(3) Los [árbitros] son elegidos por las partes en litigio, lo que supone que no estén predeterminados como sucede en el arreglo judicial y que no sean verdaderos jueces lo que distingue también al arbitraje de otros medios de arreglo diplomático de diferencias.

(4) La esencia del arbitraje es la de arreglar definitivamente la diferencia, lo que se consigue a través de la sentencia obligatoria para las partes.⁹⁶

⁹⁵ *Id.*, en la pág. 34.

⁹⁶ MANUEL DÍEZ DE VELASCO, INSTITUCIONES DEL DERECHO INTERNACIONAL PÚBLICO 929 (17ma ed. 2007).

2. Ventajas y desventajas del arbitraje

Al arbitraje, ya sea comercial, civil, doméstico, internacional, etc., se le pueden atribuir una serie de ventajas y desventajas que propicia su utilización. Algunas de éstas son relativas al individuo, su poder económico y las circunstancias particulares de cada caso. Por tal motivo, se recomienda el asesoramiento por parte de una persona experimentada en la dinámica del arbitraje. A continuación, describimos algunas de las ventajas y desventajas que hemos encontrado.

a. Reconocimiento internacional de decisiones arbitrales.

Aun cuando los dictámenes de las cortes tienden a respetarse más allá de las fronteras de sus jurisdicciones, resulta más efectivo y fácil hacer valer laudos debido al alcance de la Convención de Nueva York.⁹⁷ Esto se puede ver cuando existe animosidad entre países, donde uno y otro país no se reconocen las sentencias de los tribunales pero, al ser firmantes de la Convención de Nueva York, están obligados a reconocer los laudos arbitrales que emitan en sus respectivas jurisdicciones. Cabe señalar que esto sólo sucede si ambos estados son firmantes de la Convención de Nueva York tomando en consideración, además, las reservas hechas al firmar dicho convenio.⁹⁸

b. Neutralidad del tribunal y su decisión.

Generalmente, los juzgadores en un proceso de arbitraje tienden a ser personas con vasta experiencia en el tema de la controversia, lo cual les permite entender en mayor grado los pormenores del caso. Asimismo la percepción es que, dado que son personas conocedoras del tema en cuestión, tienden a ser más predecibles y menos sesgados a la hora de emitir el laudo, característica que el mercado no les reconoce a los jueces, quienes son vistos muchas veces como inexpertos en algunos temas. Por otra parte, las cortes tienden a tener unas reglas y procedimientos específicos en cuanto a la determinación y aceptación de la prueba,

⁹⁷ Convención sobre el Reconocimiento y la Ejecución de las Sentencias Arbitrales Extranjeras, conocida como la Convención de Nueva York, del 10 de junio de 1958, 9 U.S.C. §1 *et. seq.*

⁹⁸ GRANT HANESEAN & LAWRENCE W. NEWMAN, INTERNATIONAL ARBITRATION CHECKLIST 207-09 (2nd ed. 2009).

procedimientos y ley aplicable a los hechos. Los tribunales arbitrales, además de ser generalmente más laxos en cuanto a estas formalidades, tienden, mediante acuerdo previo, a que esto sea establecido por las partes. Además, tienden a estar menos atados a leyes y reglamentos a la hora de resolver las controversias, lo cual les permite disponer de una gama más amplia de soluciones. Otro beneficio que representa el arbitraje es que ofrece la opción de escoger un árbitro que no proceda de ninguna de las jurisdicciones de las partes, lo que podría, hasta cierto punto, ofrecer una opción menos parcializada a la hora de decidir. En los casos en que haya más de un árbitro, permite que ambas partes seleccionen un árbitro de su predilección. Esta opción no está disponible cuando se ve el caso en los tribunales. Lo antes mencionado es particularmente atractivo cuando se trata de pleitos contra el estado.⁹⁹

c. Costos

Los costos dentro de un proceso de arbitraje pueden resultar menores en varios aspectos, comparados con un proceso judicial. Primeramente, nos gustaría presentar un listado de los trámites ordinarios de un proceso judicial: (a) preparar y presentar las demandas; (b) resolver conflictos sobre jurisdicción, lugar donde se verá el pleito y otros asuntos del litigio; (c) preparar y/o contestar mociones de desestimación y sentencia sumaria; (d) llevar a cabo el proceso de descubrimiento de prueba y las mociones relacionadas; (e) preparar y realizar; (f) resolver controversias sobre la admisibilidad de la prueba; (g) construir un jurado y llevar a cabo el juicio; (h) preparar y (si aplica) proceder en apelaciones.¹⁰⁰ Los procedimientos antes señalados, en un pleito comercial de complejidad promedio, pueden implicar gastos más allá de los cientos de miles de dólares. A esto podemos añadirle el hecho de que algunas jurisdicciones, como las de los Estados Unidos, tienden a emitir veredictos con cifras compensatorias astronómicamente altas. También, a estos costos podríamos añadirle el hecho de que llevar a cabo un pleito en un país ajeno al propio podría incrementar los costos legales por razón de consultoría legal, dado que los abogados del país de una parte podrían no conocer el ordenamiento jurídico del otro país.

Otro factor que puede reducir los costos del proceso es el hecho de que el descubrimiento de prueba en un proceso de arbitraje es, generalmente, menos reglamentado, formal y extenso. Incluso, en el proceso de audiencia se pueden exponer los hechos relevantes. Además, existe una tendencia de los árbitros a no

⁹⁹ *Id.*, en la pág. 210.

¹⁰⁰ *Id.*, en la pág. 211.

excluir la prueba. Por último, una encuesta informal realizada en los Estados Unidos refleja que, contrario a lo que sucede en los tribunales, los árbitros tienden a adjudicar los honorarios de abogados a la parte no prevaleciente, lo que constituye un ahorro a la parte favorecida.¹⁰¹

A *contrario sensu*, aunque en la mayoría de las ocasiones el arbitraje tiende a ser más económico que un proceso judicial, ésta no siempre es la norma. Recordemos que en el proceso judicial el juez, las secretarías, las instalaciones, etc., son pagados por los contribuyentes del país. En el caso de un proceso arbitral las partes tienen que considerar el costo de: el o los árbitros, que pueden fluctuar entre uno y tres, cada uno cobrando sus respectivos salarios (miles de dólares diarios), las secretarías de éstos, dieta y hospedaje, transportación, etc. Además, hay que considerar el costo del establecimiento donde se llevará a cabo el arbitraje, así como los costos de representación legal. Un proceso de arbitraje extenso puede superar, por mucho, el costo de un litigio.

d. Velocidad

Como ya observamos, el proceso arbitral, generalmente, prescinde de elementos como reglas para el descubrimiento de prueba, así como procesos para establecer jurisdicción, recopilar deposiciones, etc. Además, las apelaciones tienden a no ser comunes en estos procesos. A esto, podemos añadirle que no se ven afectados por la congestión de casos que existe en los tribunales, es decir, los litigantes no están a la merced de la agenda del tribunal.¹⁰² Sin embargo, cabe considerar que en ocasiones, durante el proceso de arbitraje es necesaria la intervención del tribunal en algunas controversias. Esto podría resultar en un proceso paralelo, donde se está viendo una controversia tanto en el foro arbitral como en el foro judicial, incrementando así la duración del pleito y los costos del mismo.

e. Privacidad y confidencialidad

Tanto en los Estados Unidos como en varios países de Europa y Latinoamérica, los procesos judiciales son públicos, así como la documentación que se produce para éstos. El arbitraje, en cambio, ofrece la opción de que tanto el

¹⁰¹ Murray Smith, *Cost of International Commercial Arbitration*, 56 DIS. RESOL. J. 30, 30-34 (2001) citado por GRANT HANESSIAN & LAWRENCE W. NEWMAN, *supra* nota 98, en la pág. 212.

¹⁰² HANESSIAN & NEWMAN, *supra* nota 98, en las págs. 213-16.

proceso como los documentos, e incluso el laudo, sean privados.¹⁰³ Por otra parte es meritorio resaltar que, aunque no afecta tanto a las partes involucradas en el proceso, la privacidad de las vistas, los documentos y los resultados van en detrimento del crecimiento de la profesión jurídica, dado que no existe información sobre cómo se resuelven las controversias, y se deja a un lado el conocimiento de posibles soluciones innovadoras en el proceso.

f. Apelación

Generalmente, luego de una adjudicación judicial, las partes tienen derecho a ir en apelación, por cualquier razón. Esto, claro está, no significa que la apelación será vista, dado que su aceptación está condicionada a la discreción y mejor entendimiento del tribunal. En el caso del arbitraje, la apelación es un proceso poco común, dado que, generalmente, se da bajo condiciones extraordinarias. Por ejemplo, el *Federal Arbitration Act* establece que para que se revoque un laudo arbitral deben ocurrir una o varias de las siguientes situaciones: (1) el laudo fue obtenido por corrupción, fraude u otro método indebido; (2) hubo una evidente parcialidad o corrupción por parte del árbitro; (3) los árbitros fueron culpables de alguna conducta impropia oponiéndose a posponer una audiencia, aún con suficiente causa para hacerlo, o se negaron a aceptar evidencia pertinente y relacionado con la controversia, o cualquier otra conducta impropia por la cual los derechos de una de las partes fueron perjudicadas; (4) los árbitros se extralimitaron de sus poderes, o los ejecutaron de manera errónea, de modo tal que una decisión mutua, final y definitiva sobre el asunto a tratarse no fue realizada; (5) los árbitros, intencionalmente, ignoraron el estándar de derecho aplicable, conocido como *indiferencia manifiesta* del derecho; o (6) a una parte se le negó el debido proceso, como por ejemplo, si el árbitro se negó a evaluar evidencia relevante.¹⁰⁴ Así mismo, existen varias legislaciones en países diversos, además de tratados internacionales y reglas de arbitraje en donde se establecen los motivos o las condiciones por las cuales se pueden revocar los laudos arbitrales. El punto a ilustrar es que es más difícil apelar un laudo arbitral que una sentencia de un tribunal.

g. Conveniencia y desigualdad de poder

En los arbitrajes, la conveniencia puede ser un factor relativo, dado que las cláusulas las impone aquella parte con mayor poder económico, dejando la

¹⁰³ *Id.*, en las págs. 220-21.

¹⁰⁴ *Id.*, en la pág. 212.

sensación de que, más que un pacto entre las partes, podría tratarse de un contrato por adhesión. También, se puede dar el caso de que una de las partes no hace valer sus reclamaciones dado que le saldría extremadamente costoso.

III. BREVE TRASFONDO Y ANÁLISIS JURISPRUDENCIAL DEL ARBITRAJE EN PUERTO RICO

El arbitraje estuvo regido en Puerto Rico por la Ley Española desde 1881. Luego pasó a ser regido por los artículos 1719 y 1720 del Código Civil de Puerto Rico¹⁰⁵, aunque de un modo muy sobrio según planteado por el Juez Asociado Torres Rigual en *Rivera v. Samaritano & Co., Inc.*¹⁰⁶ Luego entró en vigor la Ley de Arbitraje Comercial de 1951¹⁰⁷, la cual tiene como base el *Federal Arbitration Act*¹⁰⁸. Cabe señalar que, aunque se hizo utilizando la ley Federal como modelo, la Ley de Arbitraje Comercial de 1951 es más abarcadora, además de contener disposiciones que reglamentan el proceso de arbitraje en sí.¹⁰⁹ Las interpretaciones jurisprudenciales de la Ley de Arbitraje Comercial de 1951¹¹⁰ las resumiremos más adelante en esta sección.

La jurisprudencia puertorriqueña le ha dado gran importancia a respetar la autonomía de las leyes cuando las partes incluyen en un contrato cláusulas de arbitraje. Esto debido a una política pública a favor del mismo, donde el Tribunal Supremo de Puerto Rico ha reiterado los principios fundamentales del *kompentenz-kompetenz*¹¹¹ y de la autonomía del tribunal arbitral.¹¹² Esto queda evidenciado en el

¹⁰⁵ Cód. Civ. PR, arts. 1719 & 1720, 31 LPRA §§ 4841 & 4842 (2011).

¹⁰⁶ Manuel A. Rivera v. Samaritano & Co., Inc., 108 DPR 604 (1979).

¹⁰⁷ Ley de Arbitraje Comercial de 1951, 32 LPRA §3201 *et. seq.*

¹⁰⁸ 9 USC §1 *et seq.*

¹⁰⁹ Véase David M. Helfeld, *La jurisprudencia creadora: factor determinante en el desarrollo del derecho de arbitraje en Puerto Rico*, 70 REV. JUR. UPR 1 (2001).

¹¹⁰ Ley de Arbitraje Comercial de 1951, 32 LPRA §3201 *et. seq.*

¹¹¹ Es un término de origen alemán que significa "jurisdicción con respecto a jurisdicción". Esto significa que los árbitros tiene facultad para decidir sobre su propia competencia para atender el asunto. Además pueden tener competencia para atender disputas relacionadas a la validez del convenio arbitral o cualquier otra problemática que impida entrar a considerar el asunto en su fondo. El Convenio arbitral y el contrato constituyen dos acuerdos diferentes. Véase José M^a Fernández Seijo, *Principios inspiradores de la nueva ley de arbitraje. Visión judicial (Ley 60/2003, de 23 de diciembre), El arbitraje internacional*. Cuestiones de actualidad (Marzo 2009). Obtenido en <http://vlex.com/vid/57740179>.

¹¹² Estos principios han sido consagrados de modo similar en la Ley Modelo de CNUDMI.

caso de *Universidad Católica de Puerto Rico v. Triangle Engineering Corp.*, donde el TSPR expone que "...[e]s al árbitro a quien le corresponde determinar si existe controversia de hechos y adjudicar la materialidad de los mismos"¹¹³. No se puede permitir que el tribunal resuelva una disputa arbitrable sumariamente por determinación de ausencia de hechos materiales. Este proceder constituye un subterfugio que vulnera de manera directa la eficacia del arbitraje como método alterno.¹¹⁴

Por otro lado, el Tribunal Supremo de Puerto Rico ha sido enfático en que, aunque el arbitraje constituye un medio extremadamente valioso para resolver controversias en Puerto Rico, ello no representa una política pública de orden absoluto ante la cual tenga que doblegarse toda otra política pública. El tribunal utiliza el término "política pública" en referencia a lo que en el sistema de *common law* se conoce como *public policy* y en el sistema civilista se le da el nombre, entre otros, de "orden público". En definitiva se establece que el arbitraje no puede contravenir el orden público del país ni sustituir normas de aplicación inmediata o imperativa, mejor conocidas en el *common law* como *mandatory rules*. En este sentido, el TSPR afirma que "el procedimiento de arbitraje no exime al tribunal de sopesar los intereses en pugna reflejados por legislaciones distintas, como tampoco de la obligación de impedir el deterioro del arbitraje en mecanismos de evasión de mandatos legislativos vitales."¹¹⁵ Además, se ha concluido que en algunas materias existen ciertas distinciones respecto a la aplicación del Arbitraje. Por ejemplo, se ha determinado que la ley que regula el arbitraje comercial no es de aplicación al arbitraje obrero-patronal.¹¹⁶ Ello debido a que implicaría contradecir el orden público interno.

Jurisprudencialmente, el tribunal ha establecido cuál es la política pública en cuanto a arbitraje se refiere, así como varios planteamientos acerca del mismo. Primeramente, en *Manuel A. Rivera v. Samaritano & Co., Inc.*¹¹⁷ el tribunal ilustra dos puntos importantes. El primero es el hecho de que si no se establece que el laudo arbitral se resolverá conforme a derecho, el mismo no puede revisarse más adelante

¹¹³ *Universidad Católica de Puerto Rico v. Triangle Engineering Corp.*, 136 DPR 133, en la pág. 143.

¹¹⁴ *Id.*, en la pág. 142.

¹¹⁵ Véase *Puerto Rico Telephone Co. v. Tribunal Superior*, 103 DPR 200, 203 (1975). (Énfasis suplido).

¹¹⁶ Véase *Aquino González v. AEELA*, 182 DPR 1, 20-22 (2011); *Seafarers International Union v. Tribunal Superior*, 86 DPR 803, 813 (1962). Algo similar ocurrió recientemente cuando el Tribunal Supremo prohibió la aplicación de la mediación a los casos de asuntos de menores. Véase *Pueblo en interés de los menores CRL y AVL*, 178 DPR, 315, 359 (2010).

¹¹⁷ *Manuel A. Rivera v. Samaritano & Co., Inc.*, 108 DPR 604.

por un foro judicial por razón de no resolver conforme a derecho. Segundo, se establece una similitud entre el arbitraje obrero-patronal y el arbitraje comercial en el sentido de que ambos son pactos de naturaleza contractual. En *Corporación de Renovación Urbana y Vivienda de Puerto Rico (CRUV) v. Hampton Development Corp.*¹¹⁸, la parte inconforme con el laudo -luego de acordar que este sería inapelable- apeló el mismo aduciendo que estaba parcializado y que hubo corrupción en el proceso, pues dentro del panel de tres árbitros que ambas partes habían seleccionado, el árbitro seleccionado por CRUV había actuado de manera parcializada y corrupta, al haberse reunido con la otra parte así como haber considerado evidencia que no debía considerar. El Tribunal Supremo determinó que esto se trataba más bien de una “expedición de pesca” por la parte inconforme con el laudo, de modo que la reclamación era infundada y el laudo era válido. Se establece que iría en contra de la política pública del Estado Libre Asociado de Puerto Rico a favor del arbitraje permitir dichas *expediciones* dado que van en contra del fin del arbitraje. Por otra parte, en *Mitsubishi Motors Corporation v. Soler Chrysler-Plymouth*¹¹⁹ el Tribunal Supremo establece que la cláusula de arbitraje dispuesta en los contratos era cónsona tanto con la Ley de Arbitraje de Puerto Rico como con el *Federal Arbitration Act*.¹²⁰ Por tal razón, la cláusula de arbitraje que establecía que las disputas se resolverían en Japón de acuerdo a las reglas de la Asociación Japonesa de Arbitraje Comercial, era válida. En cambio, la defensa de “David contra Goliath” no era válida. En *World Films, Inc. v. Paramount Pictures Corp.*¹²¹ se establece que cuando una cláusula de arbitraje es lo suficientemente amplia, el árbitro tiene autoridad para adjudicar prácticamente todo tipo de controversia legal, incluso la existencia o no de un contrato. Otro caso resuelto por nuestro Tribunal Supremo que trata este tema es *Municipio de Mayagüez v. Edgardo Lebrón h/n/c Lebrón & Associates*.¹²² En éste se establece que, ante un contrato ambiguo, tanto la letra como la intención de las partes serán tomadas en consideración a la hora de vincular o no a las partes al mismo. Si las acciones de una parte llevan a pensar que las disputas se resolverían según la cláusula de arbitraje que dispone un contrato, aun cuando se alegue que se desconocía la existencia de las mismas. Asimismo la opinión de

¹¹⁸ *Corporación de Renovación Urbana y Vivienda de Puerto Rico v. Hampton Development Corp.*, 112 DPR 59 (1982).

¹¹⁹ *Mitsubishi Motors Corporation v. Soler Chrysler- Plymouth*, 723 F.2d 155 (1983).

¹²⁰ 9 U.S.C. §1 *et seq.*

¹²¹ *World Films, Inc. v. Paramount Pictures Corp.*, 125 DPR 352 (1990).

¹²² *Municipio de Mayagüez v. Edgardo Lebrón h/n/c Lebrón & Associates*, 167 DPR 713 (2006).

nuestro Tribunal Supremo en *Unión General de Trabajadores v. Corporación de Puerto Rico para la Difusión Pública*¹²³ establece que una reclamación para arbitrar una controversia puede prescribir si en el convenio se establece un término para someter la misma. Por otra parte, *Hermandad Independiente de Empleados Telefónicos v. Celulares Telefónica, Inc.*¹²⁴ trata de un pleito obrero-patronal, por razón de un despido injustificado. Cuando se sometió a arbitraje, el laudo estableció que el despido, en efecto, fue injustificado y que se debía restituir al empleado en su puesto y el salario dejado de devengar retroactivamente. *Celulares Telefónica* fue en apelación al Tribunal de Primera Instancia (TPI), cuya decisión modificó el laudo, estableciendo que el remedio era una mesada al empleado, según la Ley Núm. 80 de 1976, conocida como la Ley de Despido Injustificado, derogada. De modo que la compensación retroactiva fue eliminada del laudo, porque, según el tribunal, iba en contra del Derecho. Inconformes con esta determinación, la Hermandad Independiente de Empleados Telefónicos (HIETEL), fue en apelación al Tribunal de Apelaciones. Este Tribunal confirmó la sentencia del TPI, argumentando que, dado que en el convenio colectivo se estableció que las controversias se resolverían conforme a Derecho, el árbitro no podía conceder un remedio más amplio que el de la Ley Núm. 80. Inconformes, una vez más, HIETEL apeló la decisión en el TSPR, el cual revocó a los foros anteriores y confirmó el laudo establecido por el árbitro.

En *Corporación del Fondo del Seguro del Estado v. Unión de Médicos de la Corporación del Fondo del Seguro del Estado*¹²⁵ se establece que si se ha pactado que el laudo arbitral debía hacerse conforme a derecho, el tribunal tiene la facultad de revisarlo, y en efecto revocarlo, si han habido tales errores. En *Pablo Méndez Acevedo Monserrate Acevedo Feliciano y La Sociedad Legal de Gananciales Compuesta por ambos v. Héctor Juan Nieves Rivera, et al*¹²⁶ se atiende la controversia sobre si la nulidad de un contrato volvería nula una cláusula de arbitraje. El Tribunal Supremo, siguiendo la tendencia del Tribunal Supremo de Estados Unidos así como de otros estados, adoptó en la jurisdicción de Puerto Rico la cláusula de separabilidad, lo cual significa que, siempre que la validez de la cláusula de arbitraje no sea lo que se esté impugnando, la invalidez de un contrato no invalida una cláusula de arbitraje, de

¹²³ *Unión General de Trabajadores v. Corporación de Puerto Rico para la Difusión Pública*, 168 DPR 674 (2006).

¹²⁴ *Hermandad Independiente de Empleados Telefónicos v. Celulares Telefónica, Inc.*, 169 DPR 1 (2006).

¹²⁵ *Corporación del Fondo del Seguro del Estado v. Unión de Médicos de la Corporación del Fondo del Seguro del Estado*, 170 DPR 443 (2007).

¹²⁶ *Acevedo Monserrate, Feliciano y La Sociedad Legal de Gananciales Compuesta por ambos v. Nieves Rivera, et. als.*, 179 DPR 359 (2010).

modo que la validez o invalidez del contrato debe ser determinada por un árbitro. Esto, siempre que la cláusula de arbitraje sea una lo suficientemente amplia que permita dicha intervención.

IV. EL CONTRATO DE EMPLEO EN PUERTO RICO

El contrato de empleo en Puerto Rico está a la merced de los mismos requisitos y protecciones que la contratación en general de Puerto Rico. Sin embargo, entendemos que esta modalidad de contratación tiene unas particularidades que podrían no estar presentes en otras clases de contratos. Asimismo, la jurisprudencia ha delimitado algunos requerimientos relacionados a su contenido así como ciertos aspectos de su contenido. Sin embargo, nuestro Tribunal Supremo lo ha definido del siguiente modo:

Los contratos de trabajo son la forma de contratación pertinente a las relaciones sociales que se establecen entre quien emplea y el empleado para realizar un trabajo o servicio. Más técnicamente, se trata del contrato “que tiene por objeto la prestación continuada de servicios privados y con carácter económico, y por el cual una de las partes –el patrono, empresario o empleador- da remuneración o compensa a cambio de disfrutar o servirse bajo su dependencia o dirección, de la actividad profesional de otra, denominada el trabajador”.¹²⁷

Cónsono con lo anterior, nos parece apropiada la definición ofrecida por Del Puebla-Pinilla respecto al contrato de empleo. La misma expone que:

El contrato de trabajo es el acuerdo por el que el trabajador presta voluntariamente sus servicios retribuidos por cuenta ajena y dentro del ámbito de organización y dirección del empresario. Se trata de un contrato que se perfecciona por el consentimiento de las partes, bilateral, oneroso, sinalagmático y de tracto sucesivo. Las notas o rasgos caracterizadores de la relación laboral que se formaliza mediante el contrato de trabajo son los siguientes: **carácter**

¹²⁷ Orsini García v. Srio. de Hacienda, 177 DPR 596, 617 (2009).

**voluntario y personal de la prestación de servicios,
dependencia, ajenidad y remuneración.¹²⁸**

Vemos de la definición antes mencionada que el contrato de empleo contiene cuatro elementos característicos. El primero es el *carácter voluntario y personal*. Con ello se establece que la contratación no versa sobre trabajo forzoso y/o esclavitud.¹²⁹ También, el trabajo es realizado personalmente por la persona quien contrata con el empleador. Ello, sin embargo, no significa que en ocasiones sustituciones esporádicas del empleado por otras personas violenten este principio, dado que el empresario se ve beneficiado de esta sustitución temporera.¹³⁰ Lo que implica el carácter personal de la contratación de empleo es que el empleado responderá por la labor rendida por él o por su sustituto, y que será el empleado quien ejercerá las funciones de su puesto en la mayor parte de las ocasiones.¹³¹

La voluntariedad dentro de la relación de empleo no ha estado exenta de análisis y críticas por parte de diversos sectores. Hay quienes defienden la visión de que la contratación individual es un acto totalmente voluntario, donde ambas partes buscan sus intereses y en base a ello disponen el contenido del contrato y las respectivas prestaciones que lo constituirán. El proceso de contratación debe ser uno regulado por las fuerzas del mercado, donde la intervención gubernamental es mínima y limitada a unas funciones específicas.¹³² Bajo esta visión se presenta al patrono y al empleado como partes con igual fuerza, donde ambos están facultados a perseguir y maximizar sus intereses. Por otra parte, están quienes entienden que la relación contractual entre el patrono y el empleado está permeada por una inequidad subyacente, debido a que la fuerza para negociar no es la misma. Bajo esta premisa se entiende que el patrono tiene un mayor poder de negociación frente al empleado individual, pues posee los recursos materiales y económicos, además de una fuerza laboral desocupada que le provee una fuente de labor disponible y

¹²⁸ Ana del Puebla Pinilla, *El contrato en el ámbito del trabajo* en 1 TRATADO DE CONTRATOS ¶ 476, págs. 405-406 (Rodrigo Bercovitz Rodríguez-Cano dir., Nieves Moralejo Imbernón & Susana Quicios Molina coords., 2009).

¹²⁹ *Id.*, ¶47[7], pág. 406. Esto resulta cónsono a las disposiciones constitucionales de Puerto Rico y los Estados Unidos de América, cuales prohíben tajantemente la esclavitud. Véase U.S. CONST., amnd. XIII & CONST. PR, art. 2 § 12.

¹³⁰ *Id.*

¹³¹ Entendemos que ilegalidades cometidas por el empleado sustituto o actos negligentes deben ser reclamados y respondidos por éste y no por el empleado sustituido.

¹³² Véase e.g. Karin J. Robles Ramos, *El neoliberalismo y el Derecho al trabajo*, REVISTA DE ESTUDIOS CRÍTICOS DEL DERECHO, Tomo 3, 2007-2008, en las págs. 49-86.

dispuesta a trabajar por unas condiciones menos onerosas. Incluso, hay quienes han etiquetado el contrato de empleo como un contrato de adhesión dado el escaso poder de negociación del empleado.¹³³ Asimismo, algunos han expresado que el patrono posee dos ventajas sobre su contratante. Estas son la disparidad en el poder para negociar y la amenaza latente de la no contratación o el despido.¹³⁴ Ambas prerrogativas antes mencionadas resultan de gran peso al analizar la figura de la dependencia dentro del contrato de empleo.

El concepto de *dependencia* parte de la premisa de que una vez el empleado está dentro de la estructura organizativa, es el patrono quien controla la actuación de éste dentro de la empresa por su posición de supremacía.¹³⁵ Otros elementos que pueden considerarse para evidenciar esta dependencia son la sujeción a un horario de trabajo, el compromiso de exclusividad y la obligación de respetar una jornada de trabajo.¹³⁶ Sin embargo, y acorde a la evolución en modos de contratación, la sujeción a una jornada laboral, a un horario o a un compromiso de exclusividad, o la ausencia de ellos, no deben tomarse *de facto* como la inexistencia de un contrato de empleo. Es necesario observar cada contratación laboral individualmente para determinar la existencia o no de un contrato de trabajo.¹³⁷ Entendemos que la cuestión principal debe ser si el empleado actúa como un socio de la organización, compartiendo una parte sustancial de las ganancias, riesgos, y responsabilidades, o si sólo se trata de una relación laboral donde se compensa al empleado por la realización de determinadas funciones. Cabe también considerar el nivel de independencia del empleado dentro de la relación contractual.

El tercer factor es el de la ajenidad, lo cual significa que el patrono obtiene anticipadamente los frutos del trabajo.¹³⁸ El trabajo no es realizado por el empleado para sí mismo, sino para un empleador, sin participar directamente de las ganancias o pérdidas que ello genere.

Finalmente tenemos la remuneración, lo cual implica que el trabajo asalariado tiene un carácter lucrativo; es decir, la labor realizada por el empleado

¹³³ Véase Robles Ramos, *supra* nota 132, en la pág. 55; Véase también JOSÉ MARÍA GÓMEZ, AMÉRICA LATINA Y EL (DES) ORDEN GLOBAL NEOLIBERAL: HEGEMONÍA, CONTRAHEGEMONÍA, PERSPECTIVAS 265 (2004) citado por Robles Ramos, *supra* nota 132, en la pág. 55.

¹³⁴ Véase ADRIÁN O. GOLDIN, CONTRATO DE TRABAJO Y RENUNCIA DE DERECHOS 33 (1987).

¹³⁵ del Puebla Pinilla, *supra* nota 128, ¶478, en la pág. 406.

¹³⁶ *Id.*

¹³⁷ *Id.*

¹³⁸ *Id.*, ¶ 479, en la pág. 406.

tiene una contraprestación económica por parte del patrono.¹³⁹ El monto de dicha contraprestación bien puede ser acordada entre las partes, estar delimitada por limitaciones legales o una combinación de ambas.

Ya discutidos los elementos básicos del contrato de empleo, es meritorio delinear aquellas limitaciones que han puesto los tribunales -tanto de Puerto Rico como de Estados Unidos- a su contenido. Como primer punto cabe señalar que tanto la constitución del Estado Libre Asociado de Puerto Rico como la de los Estados Unidos de América prohíben la esclavitud en todas sus modalidades.¹⁴⁰ De modo que el contrato debe ser voluntario y consentido entre ambas partes. Salvo algunas excepciones, la compensación dentro de los contratos de empleo no puede ser menor al salario mínimo federal establecido en el *Fair Labor Standards Act*¹⁴¹ y, por determinación expresa, en la legislación laboral de Puerto Rico.¹⁴² Asimismo, en Puerto Rico el contrato probatorio de empleo debe constar por escrito; de lo contrario, se presumirá que se trata de un contrato indefinido a tiempo completo, con todos los beneficios y obligaciones que impone el ordenamiento puertorriqueño.¹⁴³ Asimismo, jurisprudencialmente los tribunales han delimitado otros aspectos de la contratación individual patrono-empleado. En primer lugar nuestro Tribunal Supremo delimitó los contornos de las cláusulas de reembolso en *Oriental Financial Services, Inc. v. José Juan Nieves*.¹⁴⁴ En este caso, nuestro Tribunal Supremo describe cláusulas de reembolso de la siguiente manera:

La cláusula de reembolso es aquella mediante la cual el empleado se compromete a repagar al patrono los costes en que este último incurrió en su adiestramiento o educación, si el empleado finaliza su relación de empleo antes de que el patrono haya podido recuperar su inversión mediante el rendimiento del empleado. Su finalidad es, por lo tanto, garantizar a la empresa la amortización de los gastos que para ella ha supuesto la inversión económica efectuada en la especialización del trabajador. De ordinario, previo a la firma del contrato de empleo, se le adscribe un valor económico a de adiestramiento o educación y se determina, además, el período de tiempo necesario para que el patrono pueda recuperar lo invertido.

¹³⁹ *Id.*

¹⁴⁰ Véase U.S. CONST., amnd. XIII & CONST. PR, art. 2 § 12.

¹⁴¹ Véase 29 U.S.C.A. §206.

¹⁴² Véase 29 LPRA §250 (2009 & Supl. 2012).

¹⁴³ 29 LPRA § 185a-185m (2009 & Supl. 2012).

¹⁴⁴ *Oriental Financial Services, Inc. v. José Juan Nieves*, 172 DPR 462 (2007).

Mediante una escala descendiente, o a prorrata, se determina cómo se reduce lo adeudado a mediada que el empleado va rindiendo beneficios a la empresa.¹⁴⁵

En este caso se establece que las cláusulas de reembolso son válidas en Puerto Rico siempre que cumplan con cuatro requisitos esenciales, a saber, (1) que “pretendan recuperar los costos reales -directos e indirectos- en que incurrió el patrono en el adiestramiento o la educación especializada ofrecida al empleado, quien carece de tal conocimiento e experiencia”¹⁴⁶; (2) “[l]a inversión del patrono ha de ser considerable”; (3) el término pactado debe ser moderado; y (4) el acuerdo de reembolso deberá constar por escrito.¹⁴⁷

Otro aspecto que ha reglamentado la jurisprudencia es lo pertinente a las cláusulas de no competencia. En *Arthur Young & Co. v. Vega III*¹⁴⁸ y *PACIV, Inc. v. Pérez Rivera*¹⁴⁹ se aceptó en Puerto Rico la inclusión de cláusulas de no competencia. Para que éstas sean válidas deben cumplir con varios requisitos. El primero es que la cláusula de no competencia debe estar atada a un interés legítimo, lo cual quiere decir que: “[E]l patrono persigue la protección de su negocio de la posible competencia que pueda crear su antiguo empleado. De no suscribir este acuerdo, el patrono podría ver su negocio *sustancialmente* afectado... Es necesario... que el empleado... esté facultado para *efectivamente* competir con su patrono...”¹⁵⁰

Además de las consideraciones correspondientes al patrono, el contrato no debe (1) imponer una carga demasiado onerosa al empleado y (2) no debe afectar demasiado al público.¹⁵¹ También, el alcance de la cláusula o contrato de no competencia debe corresponder al interés legítimo del patrono respecto a objeto, término, lugar geográfico de la restricción y/o clientes.¹⁵² Respecto a lo anteriormente expresado, el Tribunal Supremo señaló:

En cuanto a área geográfica a la que aplica la restricción, ésta debe limitarse a la estrictamente necesaria para evitar la competencia real entre patrono y empleado. Cuando la prohibición de competencia se refiere a los clientes debe

¹⁴⁵ *Id.*, en la pág. 474. (Nota al calce omitida).

¹⁴⁶ *Id.*, en la pág. 478.

¹⁴⁷ *Id.*

¹⁴⁸ *Arthur Young & Co. v. Vega III*, 136 DPR 157 (1994).

¹⁴⁹ *PACIV Inc. v. Pérez Rivera*, 159 DPR 523 (2003).

¹⁵⁰ *Id.*, en la pág. 527.

¹⁵¹ *Arthur Young*, en la pág. 167.

¹⁵² *PACIV*, en la pág. 528.

referirse sólo a aquellos que el empleado atendió personalmente durante un periodo razonable de tiempo antes de renunciar o en un periodo inmediatamente anterior a la renuncia, y que de hacerlo todavía eran clientes del patrono.¹⁵³

Por otra parte, el contrato debe cumplir con los requisitos de todo contrato, a saber, tener consentimiento, objeto y causa.¹⁵⁴ Cabe destacar que la cláusula de no competencia es incidental a un contrato de empleo.¹⁵⁵ Además, debe constar por escrito y requiere que el patrono ofrezca una contraprestación a cambio de la firma de la cláusula, pudiendo ser un aumento de salario, de posición o beneficios, pero nunca ser una condición para retener el empleo.¹⁵⁶ La duración de la cláusula no debe exceder de dos (2) años en el caso de los empleados técnicos ni de seis (6) meses en el caso de los demás empleados.¹⁵⁷

Además de las limitaciones antes descritas, debemos considerar que el Tribunal Supremo de Estados Unidos se ha expresado respecto a la inclusión de cláusulas de arbitraje dentro de los contratos de empleo individual. Asimismo, diversos tribunales de distrito y de apelaciones han contribuido a delinear las características y limitaciones de dichas cláusulas. Esto será lo que discutiremos con más detenimiento a continuación.

V. LAS CLÁUSULAS DE ARBITRAJE EN LOS CONTRATOS INDIVIDUALES DE EMPLEO

En Puerto Rico, al día de hoy, nuestro Tribunal Supremo no ha resuelto la controversia respecto a la validez de una cláusula de arbitraje en un contrato individual de empleo. Sin embargo, el Tribunal Supremo de Estados Unidos ha enfrentado esta controversia en varias ocasiones. La primera ocasión fue en el caso *Circuit City Stores Inc., v. Adams*.¹⁵⁸ En esta controversia se dilucidó si el alcance de los acuerdos de arbitraje bajo el *Federal Arbitration Act*¹⁵⁹ incluía el contrato de empleo individual. La controversia surgía por el hecho de que el *Federal Arbitration Act* dispone que quedan excluidos de la misma “los contratos de empleo de los marineros, empleados de ferrocarriles o cualquier otra clase de trabajadores envuelto en el comercio extranjero o interestatal”¹⁶⁰. Leyendo el texto, y aplicando las reglas de interpretación establecidas en *Norfolk & Western R. Co. v. Train*

¹⁵³ *Arthur Young*, en la pág. 176.

¹⁵⁴ *PACIV*, en la pág. 528.

¹⁵⁵ *Id.*

¹⁵⁶ *Arthur Young*, en la pág. 172.

¹⁵⁷ *Id.*

¹⁵⁸ *Circuit City Stores Inc., v. Adams*, 532 U.S. 105 (2001).

¹⁵⁹ 9 U.S.C. §1 *et seq.*

¹⁶⁰ *Id.*, §1.

*Dispatchers*¹⁶¹, la mayoría interpretó que la exclusión habida en el *Federal Arbitration Act* cubría clases de trabajadores parecidos a los enumerados en la sección uno del *Federal Arbitration Act*.¹⁶² Con ello, se estableció que la mencionada exclusión de la sección uno abarca solamente a los empleados de transportación.¹⁶³ Las opiniones disidentes del caso critican severamente la visión restrictiva al momento de interpretar el mencionado estatuto, sin contextualizarlo con el resto de la ley y/o el desarrollo histórico que llevó a la creación de ésta.¹⁶⁴ Sin embargo, cabe señalar que la decisión de la corte inferior, la Corte del Noveno Circuito de Apelaciones de Estados Unidos, no llegó a la misma conclusión que el Tribunal Supremo de Estados Unidos. Para ello se amparó en lo expresado en la sección dos del *Federal Arbitration Act* y en lo decidido por el Tribunal Supremo de Estados Unidos. En ambos casos se establece que aunque los estados no pueden invalidar acuerdos de arbitraje basándose en leyes aplicables a arbitraje únicamente, sí podían invalidarlos bajos defensas generales de la doctrina de contratos, tales como excesividad y fraude, entre otras.¹⁶⁵ Bajo el ordenamiento de California, un contrato puede ser inaplicable si es procesal y sustantivamente excesivo.¹⁶⁶ El Tribunal del Apelaciones del Noveno Circuito explica: “When assessing procedural unconscionability, we consider the equilibrium of bargaining power between the parties and the extent to which the contract clearly discloses its terms... A determination of substantive unconscionability, on the other hand, involves whether the terms of the contract are unduly harsh or oppressive.”¹⁶⁷

Amparado en lo antes descrito añadió:

The DRA is procedurally unconscionable because it is a contract of adhesion: a standard-form contract, drafted by the party with superior bargaining power, which relegates to the other party the

¹⁶¹ *Norfolk & Western R. Co. v. Train Dispatchers*, 499 U.S. 117, 119 (1991).

¹⁶² *Circuit City*, en la pág. 115.

¹⁶³ *Id.*, en la pág. 116.

¹⁶⁴ *Id.*, en las págs. 124-40.

¹⁶⁵ Véase *Federal Arbitration Act*, 9 U.S.C.A. §1, 2; *Circuit City Stores Inc., v. Adams*, 279 F.3d 889, 892 (2002). Véase también *Doctor's Association Inc. v. Casarotto*, 517 US 681, 687 (1996).

¹⁶⁶ *Circuit City*, en la pág. 893.

¹⁶⁷ *Id.*, citando a *Stirlen v. Supercuts, Inc.*, 51 Cal. App.4th 1519, 60 Cal.Rptr.2d 138, 145 (1997).

option of either adhering to its terms without modification or rejecting the contract entirely. *Id.* at 145-46 (indicating that a contract of adhesion is procedurally unconscionable). Circuit City, which possesses considerably more bargaining power than nearly all of its employees or applicants, drafted the contract and uses it as its standard arbitration agreement for all of its new employees. The agreement is a prerequisite to employment, and job applicants are not permitted to modify the agreement's terms — they must take the contract or leave it¹⁶⁸

Otros fundamentos presentados por el Tribunal de Apelaciones del Noveno Circuito fueron que el acuerdo no era recíproco, es decir, obligaba al empleado a llevar sus controversias a arbitraje pero no así a *Circuit City*. Asimismo, expresan que el acuerdo de arbitraje debía permitir al empleado hacer valer adecuadamente sus derechos estatutarios.

Otra controversia atendida por el Tribunal Supremo de Estados Unidos respecto al arbitraje en el contrato de empleo lo es el caso de *Rent-a-Center, West Inc. v. Jackson*¹⁶⁹. En esta controversia se dilucida si el Tribunal del Circuito de Apelaciones está llamado a decidir controversias sobre si un contrato de arbitraje es excesivo, aun cuando ello se delegó a un árbitro al momento de las partes pactar. El Tribunal Supremo de Estados Unidos hace una distinción y establece que si lo que se trae ante la consideración de la corte es la capacidad del árbitro para determinar si tiene facultad para decidir la validez del acuerdo de arbitraje, el tribunal podrá intervenir. Por otra parte, si lo que se impugna es el contrato como un todo, corresponderá al árbitro determinar la validez del acuerdo.¹⁷⁰ La opinión disidente en esta controversia establece que el mero hecho de que se levante un reclamo contra el principio de buena fe respecto a la validez de una disposición de arbitraje dentro del contrato de empleo debe ser atendido por el tribunal.¹⁷¹ Ello sin ser necesario levantar una reclamación contra la capacidad del árbitro de decidir su capacidad para dilucidar el asunto.¹⁷² Todo esto lo ampara en la desproporción de poder existente en la relación empleado individual-patrono.¹⁷³

¹⁶⁸ *Circuit City*, en la pág. 893.

¹⁶⁹ *Rent-a-Center, West Inc. v. Jackson*, 130 S.Ct. 2772 (2010).

¹⁷⁰ *Id.*, en las págs. 2776-81.

¹⁷¹ *Id.*, en la pág. 2785.

¹⁷² *Id.*, en la pág. 2787.

¹⁷³ *Id.*, en las págs. 2784-85.

Contemporánea y posteriormente a los casos antes discutidos, el Tribunal Supremo de Estados Unidos ha resuelto varias controversias relacionadas al arbitraje. Aunque no versan sobre el asunto de las cláusulas de arbitraje en el contrato entre un patrono y un empleado individual, su discusión resulta necesaria. Ello debido a que son claves para poder discutir, de manera fundamentada, las posibles vías que tiene el Tribunal Supremo de Puerto Rico para resolver en su día una controversia respecto a cláusulas de arbitraje de este tipo o de posibles estrategias al momento de abordar al Tribunal Supremo de Estados Unidos nuevamente. En *Green Tree Financial Corp. Alabama & otros v. Randolph* la parte peticionaria alegaba que la ausencia de una disposición que expresara quién pagaría los costos del arbitraje no era motivo suficiente para invalidar la cláusula de arbitraje. El Tribunal Supremo de Estados Unidos reafirmó la norma respecto a que al momento de determinar si una reclamación debe ser arbitrada el Tribunal debe preguntarse: (1) si las partes acordaron someter la controversia a arbitraje, y (2) si el Congreso ha mostrado una intención de excluir del mecanismo del arbitraje para la controversia en cuestión.¹⁷⁴ En cuanto a la controversia del caso, determinó que la ausencia de una cláusula que exponga quién pagará las costas del proceso de arbitraje no es suficiente para invalidar un acuerdo arbitral.¹⁷⁵ Asimismo la opinión mayoritaria estableció que aquella persona que alega que el costo de un proceso de arbitraje es demasiado oneroso tiene el peso de la prueba para evidenciar dicho planteamiento.¹⁷⁶

En *Buckeye Check Cashing, Inc. v. Cardegna et al.*, el Tribunal Supremo de Estados Unidos se enfrentó nuevamente a la controversia respecto a quién debe determinar la validez de un contrato cuando existía una cláusula de arbitraje.¹⁷⁷ Ello con la particularidad de que Cardegna y los demás unidos al pleito alegaban que el contrato era nulo ab initio dado que violentaba varias disposiciones de ley del estado de Florida.¹⁷⁸ La opinión mayoritaria reafirma el precedente de que “. . . independientemente si la controversia se presenta en un tribunal estatal o federal, un cuestionamiento a la validez de un contrato *in toto*, y no específicamente a la cláusula de arbitraje, debe ser resuelta por el árbitro”¹⁷⁹.

¹⁷⁴ *Green Tree Financial Corp.-Ala.v. Randolph*, 531 U.S. 79, 80 (2000).

¹⁷⁵ *Id.*, en la pág. 81.

¹⁷⁶ *Id.*

¹⁷⁷ *Buckeye Check Cashing, Inc. v. Cardegna et al.*, 546 US 440, 442 (2006).

¹⁷⁸ *Id.*, en la pág. 443.

¹⁷⁹ *Id.*, en la pág. 449. (Traducción nuestra).

Otra controversia interesante se presenta en *AT&T Mobility LLC v. Concepción*¹⁸⁰. En este caso Vincent Concepción (en adelante Concepción) alegaba que AT&T Mobility LLC (en adelante AT&T) había cometido fraude en su contra mediante publicidad engañosa, al cobrar el impuesto de ventas sobre un teléfono que se ofrecía como gratis. Posteriormente, Concepción se unió a otras personas y se convirtió en un pleito de clase. Sin embargo, el contrato que firmaron todos los clientes tenía varias cláusulas que dieron génesis a la controversia:

... The contract provided for arbitration of all disputes between the parties, but required that claims be brought in the parties' "individual capacity, and not as a plaintiff or class member in any purported class or representative proceeding." ... The agreement authorized AT&T to make unilateral amendments, which it did to the arbitration provision on several occasions. The version at issue in this case reflects revisions made in December 2006, which the parties agree are controlling.

The revised agreement provides that customers may initiate dispute proceedings by completing a one-page Notice of Dispute form available on AT&T's Web site. AT&T may then offer to settle the claim; if it does not, or if the dispute is not resolved within 30 days, the customer may invoke arbitration by filing a separate Demand for Arbitration, also available on AT&T's Web site. In the event the parties proceed to arbitration, the agreement specifies that AT&T must pay all costs for nonfrivolous claims; that arbitration must take place in the county in which the customer is billed; that, for claims of \$10,000 or less, the customer may choose whether the arbitration proceeds in person, by telephone, or based only on submissions; that either party may bring a claim in small claims court in lieu of arbitration; and that the arbitrator may award any form of individual relief, including injunctions and presumably punitive damages. The agreement, moreover, denies AT&T any ability to seek reimbursement of its attorney's fees, and, in the event that a customer receives an arbitration award greater than AT&T's last

¹⁸⁰ *AT&T Mobility LLC v. Concepcion*, 131 S.Ct. 1740 (2011).

written settlement offer, requires AT&T to pay a \$7,500 minimum recovery and twice the amount of the claimant's attorney's fees.¹⁸¹

Salta a la vista de lo antes transcrito una obligación al cliente de utilizar el método de arbitraje y una prohibición a que se establezca un pleito de clase contra AT&T tanto en el tribunal como en el foro arbitral. El planteamiento de Concepción era que bajo la sección dos del *Federal Arbitration Act* se establece que si el acuerdo de arbitraje es irrazonable bajo las regulaciones aplicables a *todos los contratos* dentro de la jurisdicción donde se realiza, el mismo puede ser declarado inválido.¹⁸² Bajo esta premisa, Concepción argumentó que al ser la prohibición de eximir a unos demandantes de participar en un pleito de clase contrario al ordenamiento contractual general de California, el contrato donde se estipula que no se puede recurrir a un pleito de clase en un proceso arbitral invalidaba la cláusula de arbitraje.¹⁸³ La opinión mayoritaria resolvió que la sección dos del *Federal Arbitration Act* debe interpretarse solamente a base de lo que el ordenamiento de un estado puede considerar irrazonable sino también del efecto práctico que pueda tener dicha irracionalidad sobre la razón de ser del arbitraje. El no permitir que los litigantes lleven un pleito de clase dentro del proceso arbitral permite que dicho proceso cumpla con la función de ser uno rápido.¹⁸⁴ A esto le añade el Tribunal:

Although §2's saving clause preserves generally applicable contract defenses, nothing in it suggests an intent to preserve state-law rules that stand as an obstacle to the accomplishment of the FAA's objectives. ... As we have said, a federal statute's saving clause " 'cannot in reason be construed as [allowing] a common law right, the continued existence of which would be absolutely inconsistent with the provisions of the act. In other words, the act cannot be held to destroy itself.' " ...¹⁸⁵

¹⁸¹ *Id.*, en la pág. 1744.

¹⁸² 9 USCA §2.

¹⁸³ *Concepción*, en las págs. 1746-47.

¹⁸⁴ *Id.*, en la pág. 1748.

¹⁸⁵ *Id.* (Citas omitidas).

De modo que por ser contraria a la cualidad de rapidez que provee el arbitraje, el Tribunal declara válida la prohibición contractual respecto a los pleitos de clase en el proceso arbitral acordado entre las partes.

Finalmente, en *Marmet Health Care Center, Inc. v. Brown*, se discute la prohibición que existe tanto en el *Federal Arbitration Act* como en la jurisprudencia interpretativa de imponer una prohibición específica a la práctica del arbitraje bajo alguna circunstancia por parte de un gobierno estatal.¹⁸⁶ En este caso, el estado de West Virginia tenía una política pública que prohibía la utilización del arbitraje en los contratos en los hogares de ancianos.¹⁸⁷ Esto iba en contraposición del acuerdo firmado entre las partes de este pleito, quienes habían firmado un contrato mediante el cual sometían a arbitraje, con excepción de las acciones de cobro de dinero por pagos tardíos.¹⁸⁸ El Tribunal Supremo de Estados decidió y reforzó nuevamente que cualquier disposición que prohíba directamente la utilización del arbitraje, contrario a lo establecido por el *Federal Arbitration Act*, será inválida.¹⁸⁹

VI. COMENTARIOS

Resulta atractivo dejarnos guiar por la opinión disidente en *Circuit City Stores Inc., v. Adams*¹⁹⁰ y *Rent-a-Center, West Inc. v. Jackson*¹⁹¹ así como con lo resuelto por el Noveno Circuito en *Circuit City Stores Inc., v. Adams*¹⁹². Ello requeriría una interpretación integrada de la cláusula arbitral junto con un análisis histórico, jurisprudencial y normativo, en relación al derecho de empleo en Puerto Rico. El mismo establece expresamente que su interpretación, ante la duda, será aquella que favorezca al empleado. Asimismo, históricamente el derecho a empleo en Puerto Rico se ha interpretado de manera proteccionista hacia el empleado, amparado en una política pública que reconoce la disparidad de poder existente entre el empleador y el empleado.¹⁹³ Ello está amparado en que al contrato de empleo se le considera uno de adhesión. Asimismo, podemos apreciar que en el ordenamiento

¹⁸⁶ *Marmet Health Care Center, Inc. v. Brown*, 132 S.Ct. 1201 (2012).

¹⁸⁷ *Id.*, en la pág. 1203.

¹⁸⁸ *Id.*, en las págs. 1202-03.

¹⁸⁹ *Id.*, en la pág. 1204.

¹⁹⁰ *Circuit City Stores Inc., v. Adams*, 532 US 105 (2001).

¹⁹¹ *Rent-a-Center, West Inc. v. Jackson*, 30 S.Ct. 2772.

¹⁹² *Circuit City Stores Inc., v. Adams*, 279 F.3d 889.

¹⁹³ Ello, entendemos, que no se traduce en una norma absoluta a todos los patronos. Sin embargo, hay que reconocer que los mayores patronos en Puerto Rico son empresas extranjeras con un enorme poder de negociación frente al empleado individual.

puertorriqueño se requiere que cuando un empleado da algún tipo de concesión en la relación de empleo, el patrono debe ofrecer algún tipo de contraprestación. Ello puede ser un aumento de salario, un ascenso, una mejora en las condiciones de empleo, pero nunca debe ser una condición para conservar u obtener un empleo, según expresado en *Arthur Young & Co. v. Vega III*.¹⁹⁴

Cónsono con lo antes expresado, y respecto a la interpretación de la ley en Puerto Rico, el Tribunal Supremo también ha plasmado que:

... reiteramos que es principio cardinal de hermenéutica que “[a]l interpretar una disposición específica de una ley, los tribunales deben siempre considerar cuáles fueron los propósitos perseguidos por la Asamblea Legislativa al aprobarla y nuestra determinación debe atribuirle un sentido que asegure el resultado que originalmente se quiso obtener”. ...Nuestra obligación fundamental en estos casos es imprimirle efectividad a la intención legislativa, propiciando de esta forma la realización del propósito que persigue la ley. ... Al interpretar y aplicar un estatuto, hay que hacerlo teniendo presente el propósito social que lo inspiró. ... También hay que tomar en consideración “que la interpretación de la agencia encargada de la administración de un estatuto merece deferencia sustancial” y que esta interpretación “no necesita ser la única razonable ... ésta merecerá deferencia si es razonable y compatible con el propósito [[legislativo]]”.¹⁹⁵

A la luz del ordenamiento vigente y las reglas interpretativas de la ley, resulta incongruente la visión reparadora y protectora del derecho al empleo en Puerto Rico y la imposición de un deber de arbitrar una controversia entre el empleado individual y el patrono. Ello debido a que:

Al contrato de trabajo siempre se le ha visualizado como un típico contrato de adhesión.²⁸ Esto debido a que el patrono es quien elabora unilateralmente las disposiciones del contrato, mientras que la única función del empleado es aceptar lo que se le propone, porque no tiene la posibilidad de exigir mejores términos. Puesto

¹⁹⁴ *Arthur Young*, en la pág. 189.

¹⁹⁵ *Vázquez v. ARPE*, 128 DPR 513, 523-24 (1991). (Citas omitidas).

que se trata de una relación en la que el trabajador es la parte más débil, el Estado se ha encargado de aprobar una variedad de leyes protectoras del trabajo, cuya finalidad es proteger el empleo, regular el contrato de trabajo y asegurar la salud y seguridad del obrero.¹⁹⁶

Esta incongruencia resalta aún más cuando se pretende que el patrono obtenga el consentimiento del empleado, de un contrato que el primero realizó y el segundo no tiene facultad para negociar, a cambio de que se le ofrezca u otorgue un empleo. Ello, según vimos en *Arthur Young & Co. v. Vega III*¹⁹⁷ no resultaría en una contraprestación aceptable en nuestro ordenamiento.

Sin embargo todo lo anterior no da al traste con el ordenamiento vigente, y por ende recibiría como respuesta un *no ha lugar*. Tanto en el ámbito federal como en Puerto Rico existe una fuerte política pública a favor del arbitraje. Los tribunales han establecido que si entre las partes existe un acuerdo de arbitrar las controversias que surjan entre ellos, se respetará la misma. Sólo se revisarán los laudos arbitrales si las partes así lo han acordado, o si existe claro sesgo, perjuicio o parcialidad por parte del árbitro.

La §2 del *Federal Arbitration Act* ha sido interpretada por el Tribunal a efectos de que cualquier disposición que prohíba el arbitraje directamente, será declarada nula frente a la aplicación de la §2 del *Federal Arbitration Act*.¹⁹⁸ Sin embargo, si existe una disposición de aplicabilidad a *todos los contratos* efectuados dentro de la jurisdicción en cuestión que podría invalidar el contrato en su totalidad, incluida la cláusula arbitral, podría dicha cláusula invalidarse junto al contrato, pero deberá verse caso a caso.¹⁹⁹ El TSPR, debido a la relación política que tenemos con los Estados Unidos, está vinculado y llamado a respetar y acoger aquellas opiniones del Tribunal Supremo de Estados Unidos que apliquen a Puerto Rico. Es por ello que la jurisprudencia federal relacionada a la imposición del arbitraje en el contrato de empleo entre un patrono y un individuo deberá incorporarse eventualmente dentro de nuestra jurisdicción, aun cuando contravenga con nuestra política pública en materia de protección al trabajador. Como vimos, el hecho de que el arbitraje no resulte cónsono con la política pública de un estado no es eximente de la aplicación de las disposiciones del *Federal Arbitration Act* junto con su jurisprudencia interpretativa. Esto último adquiere particular relevancia en Puerto Rico dado que

¹⁹⁶ Orsini García v. Srio. De Hacienda, 177 DPR 596, 617-18.

¹⁹⁷ *Arthur Young*, en la pág. 189.

¹⁹⁸ Véase 9 USCA §2; *Marmet Health Care Center, Inc. v. Brown*, 132 S.Ct. 1201, 1204; *AT&T Mobility LLC v. Concepción*, 131 S.Ct. 1740, 1747.

¹⁹⁹ Véase *AT&T Mobility LLC v. Concepción*, 131 S.Ct. 1740, 1748.

no contamos con una prohibición contra los contratos de adhesión. Nuestro ordenamiento dispone a tales efectos que:

... a aquellos en que el contenido, esto es, las condiciones de la reglamentación son obra de una sola de las partes, de tal modo que el otro contrayente no presta colaboración alguna a la formación del contenido contractual, quedando así sustituida la ordinaria determinación bilateral del contenido del vínculo por un simple acto de aceptación o adhesión al esquema predeterminado unilateralmente.

....

contratos en los cuales la intervención de una de las partes consiste en su mera conformidad, involuntaria y muchas veces sin conocimiento real de los términos de un documento redactado unilateralmente y forzado a aceptarlo generalmente por una empresa poderosa...²⁰⁰

Tal como mencionamos anteriormente, no existe una prohibición de tales contratos en Puerto Rico, sino que la *penalidad* que tiene es que se le aplicará la sección 1240 del CCPR, a efectos de interpretar el mismo de modo restrictivo contra quien lo redactó y de modo liberal respecto a la otra parte.²⁰¹ De modo que no se podría levantar la defensa de que bajo nuestro ordenamiento la cláusula de arbitraje es una irrazonable, a no ser que medie vicio de consentimiento y fraude.

²⁰⁰ Maryland Casualty Co. v. San Juan Racing Assoc., Inc., 83 DPR 559, 566 (1961) (citadas omitidas). Véase Zequeira v. Municipal Housing Authority of the Capital of Puerto Rico, 83 DPR 878, 880 (1961) (“...los llamados contratos de adhesión, o sea, aquellos contratos en que una sola de las partes dicta las condiciones del contrato que ha de aceptar la otra, situación típica del contrato de obra pública, en el cual las condiciones generales del contrato están contenidas en un modelo o formulario preparado de antemano por el propietario); GARCÍA CÁRDENAS, *supra* nota 76, en la pág. 359.

²⁰¹ Véase 31 LPRA §1240; Zequeira, pág. 880; González v. Cooperativa de Seguros de Vida de Puerto Rico, 117 DPR 659, 662 (1986); VÉLEZ TORRES, *supra* nota 16, en la pág. 7; GARCÍA CÁRDENAS, *supra* nota 76, en la pág. 359.

VII. CONCLUSIÓN

Ante las condiciones económicas actuales, el cumplimiento de las disposiciones del derecho de empleo en Puerto Rico no puede estar a la merced de acuerdos unilaterales impuestos por el patrono. Máxime cuando ello no da al traste con el enfoque proteccionista que dio génesis al derecho de empleo, donde se buscó equilibrar la disparidad de poder para negociar entre el patrono y el empleado. Asimismo, ello entraría en conflicto con la jurisprudencia interpretativa del Tribunal Supremo de Puerto Rico respecto a la interpretación de las leyes y con una clara política pública de la asamblea legislativa de proteger al empleado, en especial aquel que carece de la protección de una unión o de un poder de negociación real ya sea por sus conocimientos, su posición, educación, etc.

Sin embargo reconocemos que las determinaciones del Tribunal Supremo de Estados Unidos no favorecen la posición que sugerimos. La figura del arbitraje ha sido ampliamente extendida por todas las situaciones, sin tomar en consideración el poder real de negociación que pueden tener dos partes dentro de una negociación. No versa la interpretación el tribunal sobre la proporcionalidad, sino sobre un positivismo textualista, que en ocasiones se transforma para amoldarse a una política pública que, entendemos, ha sido sacada de proporción. El enfoque interpretativo de dicho Tribunal- en material del contrato de empleo y cláusulas de arbitraje- es uno positivista que logra como resultado equiparar el arbitraje comercial y el arbitraje obrero-patronal con el arbitraje entre un empleado en su carácter individual con cualquier patrono, ya sea una empresa pequeña o multinacional. En definitiva, nuestro Tribunal Supremo está atado de manos al momento de interpretar la validez de una cláusula de arbitraje en un contrato de empleo individual, por lo que es cuestión de tiempo en lo que la controversia se suscita y el razonamiento del Tribunal Supremo de Estados Unidos llegue a formar parte de nuestra jurisprudencia.

MINDS AT WORK: EMPLOYED INVENTORS' IDEAS FOR A THERAPEUTIC PATENT SYSTEM

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Abstract

Employed inventors generally reserve no intellectual property rights and very limited monetary rights for themselves when they assign their patents to their employers. Applying the theoretical framework known as Therapeutic Jurisprudence, this study contemplates the possibility of greater employee productivity through the satisfaction of their self-interest and thus, of national economic development by stimulating innovation. By conducting a qualitative analysis of the responses of ten inventors to a web-based, mostly open-ended questionnaire, we were able to explore therapeutic alternatives to this one-sided patent scheme. Results show that inventors desire monetary compensation based on employer's patent related revenue wish to reserve some rights that might be construed as moral rights for themselves, and find apologies and public admissions to be significant remedies in patent related conflicts. The results of this study are important to practitioners and legislators alike, as it recommends solutions on a private and public level.

I. INTRODUCTION

At the time of writing, since the first application was filed in 1974, there have been 354 applications and 353 issued patents where the assignee's state is Puerto Rico.¹ Why would a country with nearly four million inhabitants have less

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¹ U.S.P.T.O. Patent Full-Text and Image Database, <http://patft.uspto.gov/netahtml/PTO/search-adv.htm> (April 22, 2013).

than 500 issued patents and patent applications, when states similar in size have at least thousands?²

Patents have regularly been used as indicators of innovation across scholarly literature.³ Behind every patent are its inventors, the brains behind the product. Since the independent inventor is nowadays a rarity, most inventors currently fall within two categories of employees: the employee that was “hired to invent,” whose inventions resulting from his employment are assigned to the employer; or the employee that was not hired to invent, but uses his employer’s resources to do so, where the employer only has a “shop right” license and the invention remains assigned to the employee. Patent law requires the employee’s assignment to be made in writing, something that is extremely different from copyright law. In fact, some commentators consider that patent law should borrow from copyright law and adopt an “inventions made for hire” doctrine, which does not require a written assignment if an employment contract exists.⁴

What do inventors think of the existing legal landscape? Do they think it’s fair? What alternatives, if any, do they propose in lieu of full rights assignment in the case of being hired to invent? What remedies do they think are appropriate if infringement occurs? Do they consider apologies appropriate remedies? This article provides possible answers to these questions by examining a group of inventors’ perceptions and attitudes towards the U.S. patent system. Perhaps, through a more therapeutic approach to managing patent right assignment, employed inventors would be more satisfied in their workplaces, fostering innovation and economic development.

II. LITERATURE REVIEW

The reviewed literature supports this hypothesis. One commentator notes: “granting employed inventors greater ownership rights in their inventions or alternatively, granting them additional compensation for valuable inventions

² *Id.* (Five states with a population very close to Puerto Rico were examined: South Carolina, Louisiana, Kentucky, Oregon, and Oklahoma. The average of patents filed and awarded since 1976 between these states was 11, 713).

³ See NINA TEICHERT, *INNOVATION IN GENERAL PURPOSE TECHNOLOGIES: HOW KNOWLEDGE GAINS WHEN IT IS SHARED* 69 (2012).

⁴ See Joshua L. Simmons, *Inventions Made for Hire*, 2 N.Y.U. J. INTELL. PROP. & ENT. L. 1, 50 (2012).

belonging to their employer, is part of the solution to the United States' innovation problem."⁵ In a similar vein, others suggest that:

[C]ourts should evaluate pre[-]invention agreements and shop right claims in light of an explicit public policy favoring innovation. When intellectual awareness of the massive significance of innovation in promoting economic growth leads most commentators to the same conclusion, courts can no longer avoid a reconsideration of their centuries old assumptions about the rights of employed inventors.⁶

The relationship between being a happy worker and a productive worker has been explored throughout the literature. According to the 70 year-old happy worker hypothesis, happy workers are more productive than their less happy counterparts. This conclusion has been debated and researched through a variety of methods. Most commonly, it is operationalized by posing the question, "how happy are you?" Moreover, Veenhoven's happiness study in the 80's defined happiness as "the degree to which an individual judges the overall quality of his life-as-a-whole favorably."⁷ Indeed, many people agree with the adage that *a happy worker is a productive worker* possibly because employees' satisfaction tends to be higher when they are performing a task well versus when they perform it poorly. However, satisfaction does not necessarily predict productivity.⁸

Through a qualitative analysis of inventor's perceptions and attitudes and a thorough review of innovation scholarship, alternative remedies to statutory provisions, and relevant cases and statutes, this article argues that the current patent assignment scheme present in most employee agreements with employed inventors has anti-therapeutic effects and hinders the progress of science. The analysis was framed by the interdisciplinary lens known as Therapeutic Jurisprudence, where law is therapy and therapy can be achieved through law:

Therapeutic jurisprudence is the study of the role of the law as a therapeutic agent. This approach suggests that the law itself can function as a therapist. Legal rules, legal procedures, and the roles of

⁵ Henrik D. Parker, *Reform for Rights of Employed Inventors*, 57 S. CAL. L. REV. 603, 605-06 (1983-1984).

⁶ Mark B. Baker & Andre J. Brunel, *Restructuring the Judicial Evaluation of Employed Inventor's Rights*, 35 ST. LOUIS U. L.J. 399, 432 (1990-1991).

⁷ RUUT VEENHOVEN, *CONDITIONS OF HAPPINESS*, 22 (Springer, 1984).

⁸ Cynthia D. Fisher, *Why Do Lay People Believe that Satisfaction and Performance are Correlated? Possible Sources of a Commonsense Theory*, 24 J. ORG'L BEHAV. 753, 773 (2003).

legal actors, principally lawyers and judges, may be viewed as social forces that can produce therapeutic and anti-therapeutic consequences. The prescriptive focus of therapeutic jurisprudence is that, within important limits set by principles of justice, the law ought to be designed to serve more effectively as a therapeutic agent.⁹

Innovation scholarship suggests that inventors are different from the general population. Independent inventors are more optimistic, overconfident, risk seeking, and have higher levels of self-efficacy than other people.¹⁰ Inventors may also have different motivations than the rest of us as to why they work (or in their case, invent). In a survey of 710 inventors, the number one reason that was stated as a motive for inventing was a "love of inventing".¹¹ This was followed by other incentives, such as "desire to improve," "desire to achieve," and "prestige"; financial gain only accounted for 24% of the responses.¹² Indeed, the reviewed literature supports the view that inventors are strongly motivated by non-financial benefits.¹³

It seems then that if an inventor's motivations are not monetary, then the remedy sought in infringement cases might not have to be exclusively monetary. Furthermore, in *eBay Inc. v. MercExchange, L.L.C.*,¹⁴ the U.S. Supreme Court ruled that injunctive relief is not automatic for the prevailing intellectual property owner under current law.¹⁵ This decision further suggests that traditional remedies such as injunctive relief and monetary damages might not entirely meet an inventor's needs. A combination of these and other remedies, remedies that allow inventors to heal the personal wound caused by having a third party reap the benefits of their inventions, would be more appropriate.

An infringer is defined generally as, "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States, or imports into the United States any patented invention during the term of the patent

⁹ David B. Wexler, *Therapeutic Jurisprudence and the Criminal Courts*, 35 WM. & MARY L. REV. 279, 280 (1993).

¹⁰ Thomas Åstebro, Scott A. Jeffrey, & Gordon K. Adomdza, *Inventor Perseverance after Being Told to Quit: The Role of Cognitive Biases*, J. BEHAV. DEC. MAK'G 253, 266 (2007).

¹¹ Joseph Rossman, *The Motives of Inventors*, 45 Q. J. ECON. 522, 522 (1931).

¹² *Id.*

¹³ Åstebro et al., *supra* note 10, at 254.

¹⁴ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

¹⁵ Xuan-Thao Nguyen, *Apologies as Intellectual Property Remedies: Lessons from China*, 44 CONN. L. REV. 883, 913 (2012).

therefor, infringes the patent.”¹⁶ This definition does not include wrongfully claiming an invention as yours. A wrongful claim can damage the rightful inventor’s reputation. In these situations, a public or private apology may provide inventors with the recognition they crave.¹⁷ Acknowledgment as creator could be crucial to some inventors.¹⁸ This “personality interest” or concern that the inventors have for their creative or scientific expression, their personal intention, and the *sourcehood* of their creation, is protected in American patent law by “requiring that the named inventor(s) on a patent application- and any patent issued- be natural persons who actually invented the invention.”¹⁹

A number of jurisdictions across the globe have already integrated alternative remedies in patent infringement cases. For example, in China and Japan, an apology advertisement may be ordered in an attempt to recover the reputation of the patentee – a common remedy in copyright proceedings, but rare in patents.²⁰ It is interesting to note that Japanese culture takes apologies very seriously, yet courts there have been reluctant to order public apologies.²¹ In France and Italy, the court may order that its decision be published in various journals.²²

Most recently, a U.K. court ordered Apple to publish a notice on its website and in a newspaper stating that Samsung did not infringe their patent.²³ Samsung had sought a declaration from the court stating that its Galaxy tablet did not infringe Apple’s iPad patent. Apple counterclaimed for infringement. The result was not an apology per se, but it was a public admission that could help heal Samsung’s public image as a suspected infringer.²⁴ This suggests that corporations, like individuals,

¹⁶ Infringement of Patent, 35 U.S.C.A. § 271 (2013).

¹⁷ Vivek Koppikar, *Using ADR Effectively in Patent Infringement Disputes*, 89 J. PAT. & TRADEMARK OFF. SOC’Y 158, 162 n.40 (2007) (Citing Danny Ciraco, *Forget The Mechanics and Bring In The Gardener*, 9 U. Balt. Intell. Prop. L. J., 47, 74 (2000), Koppikar interprets that “a major need for a small inventor or entity is simple recognition of their work and an apology provides this).

¹⁸ Justin Hughes, *The Personality Interest of Artists and Inventors in Intellectual Property*, 16 CARDOZO ARTS & ENT. L.J. 81, 84 n.7 (1998).

¹⁹ *Id.* at 165.

²⁰ DUNCAN BUCKNELL, *PHARMACEUTICAL, BIOTECHNOLOGY AND CHEMICAL INVENTIONS: WORLD PROTECTION AND EXPLOITATION* 1004 (1st ed. 2011).

²¹ Scott K. Dinwiddie, *A Shifting Barrier? Difficulties Obtaining Patent Infringement Damages in Japan*, 70 WASH. L. REV. 833, 848 n.76 (1995).

²² BUCKNELL, *supra* note 20, at 1004.

²³ Samsung Electronics (U.K.) Limited v. Apple Inc., [2012] E.W.C.A. (Civ) 1339 [84]-[85] (Eng.).

²⁴ The public notices read: On 9 July 2012 the High Court of Justice of England and Wales ruled that Samsung Electronics (U.K.) Limited’s Galaxy Tablet Computers, namely the Galaxy Tab 10.1, Tab 8.9 and Tab 7.7 do not infringe Apple’s Community registered design No.

may enjoy the therapeutic effects of others' acknowledgement of wrongdoing, even if such action is not regretful in character.

In the U.S., apology as a remedy is absent in patent law, nor is it present as a remedy in the federal statutes for copyrights, trademarks, and trade secrets. As Nguyen explains:

The absence of apology as a statutory remedy is consistent with the long-held suspicious view towards apologetic justice in U.S. law. This absence, however, should not hinder a desire for internal and external examination. Internally, any U.S. case law involving apologies in intellectual property might be examined, and, externally—that is, outside U.S. borders—Americans might endeavor to learn what others have done or are doing so as to fulfill our own goals of justice.²⁵

A possible reason why apologies are so rare in the American legal system is perhaps due to lawyers not being trained to ask for them. In an adversarial system where everything, even suffering, has a price, future lawyers are trained to think that zealously defending their clients is accomplished by crushing the other party economically. The therapeutic-minded lawyer should be aware of her possible predisposition to favor monetary damages instead of an apology.²⁶ We must understand that even though "money is how defendants apologize, in the law, they [clients] may not feel satisfied, vindicated, or fulfilled by this outcome."²⁷

Some scholars claim that "the only place in which it is more difficult to obtain an effective apology than in the international political arena is the American legal system."²⁸ Yet, settling intellectual property disputes with apologies is not

0000181607-0001. A copy of the full judgment of the High Court is available from www.bailii.org/ew/cases/EWHC/Patents/2012/1882.html. That Judgment has effect throughout the European Union and was upheld by the Court of Appeal of England and Wales on 18 October 2012. A copy of the Court of Appeal's judgment is available from www.bailii.org/ew/cases/EWCA/Civ/2012/1339.html. There is no injunction in respect of the Community registered design in force anywhere in Europe. Victor H., Apple's 'apology' to Samsung leaves U.K. judge "at loss", PHONEARENA ([April 22, 2013](http://www.phonearena.com/news/Apples-apology-to-Samsung-leaves-U.K.-judge-at-loss_id36191)), http://www.phonearena.com/news/Apples-apology-to-Samsung-leaves-U.K.-judge-at-loss_id36191.

²⁵Nguyen, *supra* note 15, at 920.

²⁶ ALAN M. GOLDSTEIN, HANDBOOK OF PSYCHOLOGY: 11 FORENSIC PSYCHOLOGY 566, 567 (Irving B. Weiner ed., 1st ed. 2003).

²⁷ Susan Daicoff, *The Comprehensive Law Movement: An Emerging Approach to Legal Problems*, 49 *SIS L.* 109, 124 (2010).

²⁸ Bruce W. Neckers, *The Art of the Apology*, 81 *MICH. B.J.* 10, 10-11 (2002).

unheard of in the Federal Circuit.²⁹ However, at the time this paper was written, there were no federal or state patent related cases (i.e. infringement cases³⁰, contractual disputes, torts) that involved any mention of a public apology as a possible remedy. As far as local law is concerned, apology in Puerto Rican courts has been noteworthy in ethical misconduct cases.³¹

Apology scholarship has suggested that a regretful acknowledgement of an offense may have therapeutic effects. Moreover, in the context of court-ordered apologies, these “could help heal the psychological wounds of victims, send desirable social messages, reinforce accepted norms, and restore social equilibrium.”³² Research on alternative dispute resolution methods, particularly the so-called community conferences, which involve a facilitator, the victim, the offender, and their supporters, has shown that acknowledging shame is crucial for reconciliation and that the chance of healing depends on the genuineness of the apology.³³ It seems to be a general known fact that indeed “an acknowledgement of wrongdoing and a genuine apology can allow victims to heal.”³⁴

Research shows that apologies may advance settlement negotiations, make proposed offers more acceptable, reduce plaintiff’s desire to sue, make the settlement process less antagonistic and tense, and enhance how jurors view the defendant.³⁵ An apology may also reduce damages, help heal the injury, and mitigate damages for intangible losses.³⁶

III. METHOD AND SAMPLE

²⁹ See *Scandinavia Belting Co. v. Asbestos & Rubber Works of America, Inc.*, 257 F. 937 (2d Cir. 1919).

³⁰ Although U.S. Patent Law confers exclusive jurisdiction of patent infringement suits to the federal courts, other aspects of patent law are the proper jurisdiction of state courts.

³¹ See *In re Eugenio Rivera Lozada*, 176 DPR 215, 230 (2009); *In re Díaz Ortiz*, 150 DPR 418, 427 (2000); *In re Arroyo Rivera*, 148 DPR 354 (1999) (The Puerto Rican Supreme Court found that factors such as reputation, prior history, whether this is their first offense, the acceptance of the wrongdoing, and their sincere remorse could be taken into account when determining the applicable disciplinary sanction for a lawyer who was charged with ethical misconduct.).

³² Brent T. White, *Say You’re Sorry: Court-Ordered Apologies as a Civil Rights Remedy*, 91 CORNELL L. REV. 1261, 1311 (2006).

³³ Thomas J. Scheff, *Community Conferences: Shame and Anger in Therapeutic Jurisprudence*, 67 REV. JUR. UPR 96, 101-07 (1998).

³⁴ Bruce J. Winick, *Therapeutic Jurisprudence and Victims of Crime* (2007), forthcoming, available at <http://ssrn.com/abstract=1102350>.

³⁵ EDIE GREENE & KIRK HEILBRUN, *WRIGHTSMAN’S PSYCHOLOGY AND THE LEGAL SYSTEM* 14 (7th ed. 2010) (internal citations omitted).

³⁶ Daniel W. Shuman, *The Role of Apology in Tort Law*, 80 JUDICATURE 180, 189 (2000).

There are many other factors to consider and like most social phenomena, exploring inventors' attitudes and perceptions towards their inventions is a complex and multifactorial endeavor. Therefore, this study limits its findings to the gathered data and does not seek to make statistical generalizations based on an unrepresentative sample of the population. Instead of asking participants how they felt, which is what traditionally would be asked in this sort of study, they were given a series of hypothetical scenarios and asked how they envisioned the outcome of the conflict in order to assess how they perceived the legal landscape at hand.

The sample was initially gathered from the U.S. Patent and Trademark Office's (U.S.P.T.O.) public patent database. The only search criterion was that the assignee's state must be Puerto Rico. Afterwards, each patent was examined and the inventors whose state was also Puerto Rico were selected and run through public search engines to gather the inventor's email. This method proved unfruitful save for one participant that was selected via this method. The other nine participants were also selected through the U.S.P.T.O.'s database, but their information was gathered -with the previous consent of the inventors- by a key informant in the corporation. None of the inventors were assigned their invention. Thus, the sampling method was one of convenience.

The questionnaire was completely in Spanish and was administered via an online webpage where the inventor's identity would remain anonymous (even to the administrator of the webpage), and confidential. Informed consent was achieved through email messages where the link to the questionnaire was provided. All participants were of legal age.

The responses were coded and analyzed; selected excerpts were later translated into English. As for socio-demographic composition, the sample consisted of one female, six males, and three unidentified participants. Participants' ages fell within the thirty-one to sixty range. As expected from such population, eight of them had post-graduate degrees and two of them had a bachelor's degree.

IV. RESULTS

The inventors were asked ten questions, including questions about their age, gender, and education. The questionnaire began with the question, "Why do you invent?" Consistent with Rossman's research, the leading reason the inventors mentioned was a personal one: they said, among other things, that inventing was "fun," that they enjoyed "exploring," that it was "challenging," and that it was an

“adrenaline rush”. These reasons³⁷ were followed by motives related to employment, altruistic reasons, money, and needs.³⁸

Participants were then asked, “What is a patent?” The responses mentioned many rights that participants thought patents conferred. The most mentioned was protection, followed by ownership and a right of commercialization. This question was meant to be broad in order to explore the extent of participants’ understanding of the rights a patent confers to its holders. There were many misconceptions, such as the acquisition of a positive right: a patent in fact confers a *negative* right that excludes others from doing something. None of them mentioned that excluding others from offering to sell the invention was part of the bundle of rights conferred by patents. Only three participants mentioned rights other than commercialization; one mentioned the right to use, another other the right to make, and another the right to claim the invention as her own.

Furthermore, inventors were asked about their perception of *non-assertion of patent contract* provisions. They were asked if they thought it was fair that the invention is usually the sole property of the employer. Most of them said it was fair, but stated the inventor should have some rights related to the patent.³⁹ In the current legal system, the assignee is the person who has all the rights. Their answers were predominantly multipolar, filled with considerations from the point of view of both the employer and the employee. Those that thought it was fair (with exceptions) typically responded like participant Fleming⁴⁰: “I think that it’s partially fair. Even though the company pays for the expenses of these [patents], the inventor could be rewarded in a better way. She could receive a percent of the revenues if it [the patent] is carried out.”

This desire for a share of the revenues was one of the major interests of inventors when they were asked about the rights that they thought an inventor should have over the invention, even though the invention was the legal property of another. This question referred to the case where the inventor is not the assignee of the invention— in this study, the case of all the participants. The results were notable: four inventors reported that a percent of the patent’s revenue should be shared with the inventor; two of them reported the desire to be awarded other rights; some wanted the same rights as the assignee, other forms of monetary compensation or no rights; and others abstained. Salk, another participant, was the sole proponent of those “other rights”: “Right to opine about to whom and under

³⁷ Throughout this analysis, many responses don’t add up to ten items because many participants gave answers that fit into more than one category.

³⁸ Frequencies were three, four, one, and one mention respectively.

³⁹ In relation to this matter, six of them said it was fair, three said it was completely fair, and one abstained.

⁴⁰ All names are pseudonyms.

what conditions it [patent] should be licensed or sold to and a right to litigate the patent if she understands that the assignee is not making good use of it [patent]."

With regards to this point, a system of entitling the employed inventor to compensation based on the commercial success of the invention has already been codified in Germany, Italy, and France. In Germany, "[when] assessing compensation, due consideration shall in particular be given to the commercial applicability of the service invention, the duties and position of the employee in the enterprise, and the enterprise's contribution to the invention."⁴¹ While in France and Italy, the "employed inventor is normally, eventually entitled to a 'fair reward', (*juste prix; equo premio*) This 'fair reward' is related to the economic value of the invention and to other relevant circumstances."⁴² A similar statutory provision could be integrated as an amendment to the U.S. Patent Act, which currently lacks a compensation right of that nature.

The next question refined these rights. The participant would imagine that they made an invention for their employer, who then used or sold the invention for a purpose inconsistent with the inventor's ethics or morals. The questions were, "What solution do you propose for this conflict?" and "Would you like an apology from your employer?" Only two answers indicated an acceptance of the employer's full rights and responsibilities, and the inventor's inability to challenge them. There were four inventors that did not want an apology, three that did want apologies, and two that wanted public notices: one where the inventor's name would be cleared publicly and another one with a public apology, and the remaining two wanted other unspecified legal remedies. Carver, a participant that was among those who wanted an apology, gave a suggestion in this category: a prophylactic measure where the inventors should "be part of the sales agreement or licensing from the start (with a voice and a vote regarding what goes on with the patent)." This desire to have some degree of control over the invention, even though it belongs to someone else, can be construed as a desire for a moral right. Moral rights are a creature of European civil law and are essentially absent in U.S. legislation, except when the Visual Artists Rights Act (VARA)⁴³ applies.⁴⁴

⁴¹ Gesetz über Arbeitnehmererfindungen [ArbnErfG] [Law on Employees' Inventions], July 31, 2009, BGBl. III at 9 (Ger.), available at http://www.wipo.int/wipolex/en/text.jsp?file_id=229680.

⁴² RICCARDO DEL PUNTA, EMPLOYEE'S INVENTIONS AND THE EMPLOYMENT CONTRACT: A EUROPEAN UNION PERSPECTIVE, IN 11 BUSINESS INNOVATION AND THE LAW: PERSPECTIVES FROM INTELLECTUAL PROPERTY, LABOUR, COMPETITION AND CORPORATE LAW 188, 194 (Marilyn Pittard et al. eds., 1st ed. 2013).

⁴³ Rights of Certain Authors to Attribution and Integrity, 17 U.S.C.A. § 106A (2013).

Moreover, in order to assess the bundle of rights that inventors would want when detached from the legal confinement of an employer, they were told to imagine being an independent inventor whose patent was infringed. They were asked the same two questions stated above, applied to the infringer. Cash was king here, and the remedies they mentioned were surpassed by damages. This was followed by: apologies, a lack of desire of being apologized to, a desire for an admission from the infringing party, and an unspecified legal remedy. Participant Carver said: "As a remedy, the inventor should be compensated 100% because she is the owner of the idea. Yes; an apology should be part of the infraction's correction."

Finally, participants were asked to imagine that they invented something and that someone else has published himself or herself as the inventor of that object. Self-identification as the inventor, when in fact you are not, is not an ownership right that is contemplated in the U.S. Patent Act; that publication is done by the application of the patent itself. However, this premise was designed to explore the depth of the personal relationship that an inventor has with his or her invention. Inventors were asked the same two previous questions applied to the self-identifying inventor scenario. There were five mentions of a desire to be apologized to, four mentions of a desire of receiving some unspecified legal remedies, three statements desiring a public admission from the liar, two mentions of a desire of not being apologized to, and one mention of monetary damages. These results are consistent with Hughes' previously cited work. Carver's response embodied these results: "As a remedy, the inventor should be officially ratified as such and the one that seized the idea must indemnify the inventor and the state. Yes, an apology should be part of the infraction's correction."

V. DISCUSSION

Our findings show that the reasons inventors invent are personal, but the rights they desire go beyond their personal needs and include pecuniary remedies. One of the major themes in the inventors' answers was the desire for more monetary compensation. The U.S. Patent Act should be amended in light of this and should oblige the employer to negotiate a reasonable compensation scheme with the employed inventor or soon to be employed inventor, based on the commercial success of the patent. American patent law has many lessons to learn from European law in this area. As participant Morse suggested:

⁴⁴ See Author Moral Rights Act of Puerto Rico, 2012 PR Laws 55 (Moral rights are explicitly absent from federal legislation, but the Commonwealth of Puerto Rico recently enacted moral rights legislation).

It would be ideal if the inventor had some sort of recurrent compensation when and if the patent was being used as some kind of good or service. In my company, the incentives program for inventions only has a bonus component to it when the company decides that it wishes to submit a patent application.

Meanwhile, lawyers can certainly do their part and counsel their corporate clients about the anti-therapeutic effects of the current patent scheme. Stimulating economic growth by shaping agreements that consider how satisfying inventors' needs is essential to innovation; contract lawyers should consider it public policy. Adhesion contracts with assignment clauses like: "I hereby assign to the Company all my right, title, and interest in and to any and all Inventions (and all Proprietary Rights with respect thereto), whether or not patentable or registrable under copyright or similar statutes, that were made or conceived or reduced to practice or learned by me, either alone or jointly with others, during the period of my employment with the company"⁴⁵ completely fail these objectives.

The inventors' responses also shed light on therapeutic complements to monetary remedies, where apology and public admissions were shown to have significant support. By increasing their awareness of inventor's psychological desires, judges and arbitrators can come up with more well-rounded solutions to patent related conflicts, in addition to granting injunctions and damages.

Furthermore, if patent law aims to accept a works for hire doctrine, it seems prudent that patent rights should also have something similar to moral rights attached to them. If moral rights are conceived as a result of the personal relationship between creator and creation, then this is the next logical step. In this hypothetical new bundle of patent rights, some ethical issues that were discussed in the questionnaire, such as remedies for when the employer does something with the invention that the inventor thinks is unethical, could be addressed by giving the inventor the right to "prevent revision, alteration, or distortion of her work, regardless of who owns the work."⁴⁶

VI. CONCLUSION

⁴⁵ VAN LINDBERG, *INTELLECTUAL PROPERTY AND OPEN SOURCE: A PRACTICAL GUIDE TO PROTECTING CODE 271* (Andy Oram ed., 1st ed. 2009).

⁴⁶ Betsy Rosenblatt, *Moral Rights*, *Berkman Center for Internet & Society* (April 22, 2013), <http://cyber.law.harvard.edu/property/library/moralprimer.html>.

Innovation is essential for economic development. Young economies with colonial baggage, most notably India in this century, have focused their developmental efforts in fostering a generation of technological capital. Research and development in these disarticulated economies⁴⁷ result in the export of intellectual wealth. Puerto Rico is not an exception; with less than 500 lifetime patents, there must be a lot of innovation that is not being commercialized.

The employed inventor has spoken: compensation based on employer's patent related revenue, reservation of some rights that might be construed as moral rights, and apologies and public admissions are therapeutic alternatives to our flawed patent system that forgets that without inventors, there are no inventions. Law reform is necessary and this multi-disciplinary process is nothing, if not challenging. As L. Michael Hager eloquently says:

If law reform is a prerequisite for development, a corollary is the need for lawyers to lead that reform. More than legal craftsmanship is required for effective lawmaking, for the paths of development law are largely uncharted. Moreover, tinkering with one part of the legal system demands comprehension of the whole. Lawyers, by training and instinct, consider the procedural implications of substantive changes. Legal policy making is a distinct art, notwithstanding its dependence upon economics, political science, and sociology in development matters.⁴⁸

⁴⁷ By disarticulation I mean a segmentation of a nation's economic sectors. In this sense, disarticulation occurs when production occurs domestically, but is consumed elsewhere. It is often related to economic stagnation and underdevelopment.

⁴⁸ L. Michael Hager, *The Role of Lawyers in Developing Countries*, 88 ABA J. 33, 36 (1972).

STREAMING MOVIES ONLINE: THE E! TRUE HOLLYWOOD STORY

JAN ANDRÉ BLACKBURN-CABRERA*

"Most people would probably agree that Google is not a bad company. Google has probably millions and millions of links to illegal files."

– Daniel Raimer

ABSTRACT

Online streaming of digital content is on the rise and the legal system's failure to eliminate copyright infringing streaming feeds from the Internet has forced Hollywood to change content distribution practices to an online-based streaming model. Studios and producers have, arguably, faced a significant loss in revenue to illegal streaming. The entertainment industry is now facing the same debacle that the music industry faced in 1999 with Napster, namely how to generate revenue from distributing content online.

Advancements in technology allow for live video streaming to a worldwide audience using a conventional personal computer. The future holds ubiquitous computing, where everything will be digitally streamed through video. Everyone's desire to gain *access* to streams, in its inception of copyright content as well as in the future of all other types of content, is imminent. Copyright infringement of digital artistic works is a constant technological battle for copyright owners, one that has created a market disagreement between owners and end-users. Just as it happened with music, users want to download and watch content for free, while copyright owners want to get paid.

Section 2 consists of an analysis of the copyright issues the entertainment industry is facing due to what can be called 'illegal streaming' online feeds and the implications to both end users and website operators. After having understood the various video-streaming products available online, the laws applicable to these technological advancements are provided in order to expose the flaws of the copyright legislations that should be protecting video-recorded entertainment content in digital format. Section 3 offers a look at the current proposed amendments to the Digital Millennium Copyright Act (from now on "DMCA") and the concern that illegal streaming of content may not be covered by criminal law. A new federal criminal statute that makes "infringement by streaming" a felony is unnecessary, difficult to prosecute, and will not eliminate illegal streaming feeds of entertainment content online.

The entertainment industry's attempts to enforce the DMCA and attack illegal streams depicted in section 4, prove that lawsuits have actually increased the number of streaming feeds and websites, thus creating the opposite effect expected by Hollywood studios. The U.S. government seizures of alleged infringing websites demonstrate that copyright laws need to provide agencies and judges with much more guidance so that enforcement efforts can be both appropriate and constitutional. Alternate ways are suggested for the industry's fight against copyright infringement pertaining to streaming websites that do not involve flawed legislation, unlawful criminal prosecutions or costly legal fees.

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I. INTRODUCTION

Online movie streaming is on the rise, and the failure of the legal system to eliminate copyright infringing streaming feeds has forced the entertainment industry to rethink their content distribution practices and to lobby to amend current law. The Hollywood studios' streaming of content as an online-based business model will ultimately replace DVD sales. According to a study commissioned by the Motion Picture Association of America (from now on "MPAA") in 2005, movie studios in the United States are losing around six billion dollars a year to online piracy. This loss is mostly due to the unlimited amount of sources of illegal streams available online for watching movies and television shows, as well as illegal downloads through peer-to-peer networks.¹

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¹ The Motion Picture Association of America, Hollywood's lobbying group, commissioned a detailed study to pinpoint how much the industry loses to piracy annually. The study, by LEK Consulting LLC, was completed in 2005, and reached a startling conclusion: U.S. movie studios are losing about \$6.1 billion to movie piracy. The study also concluded that piracy is responsible for \$5.5 billion in lost annual earnings among U.S. workers, 141,030 jobs lost, \$837 million in lost annual tax revenue, \$20.5 billion in lost annual output to all U.S. industries. *See Studios see big rise in estimates of losses to movie piracy*, Sarah McBride and Geoffrey A. Fowler, Wall Street Journal, May 3rd, 2006, *available at*: <http://online.wsj.com/article/SB114662361192442291.html#ixzz1Twj8tkkL>.

Note [1]: The MPAA-commissioned study states movie studios are losing money to piracy, not losing money in general. Since 2000 the industry has increased their profits every year. *See The Numbers*, a website that analyzes trends in the movie industry since 1995, *available at*: <http://www.the-numbers.com/market/>.

2000: Tickets sold: 1.39 billion, Revenue: 7.48 billion, 2001: Tickets sold: 1.44 billion, Revenue: 8.13 billion, 2002: Tickets sold: 1.58 billion, Revenue: 9.19 billion, 2003: Tickets sold: 1.55 billion, Revenue: 9.35 billion, 2004: Tickets sold: 1.49 billion, Revenue: 9.27 billion, 2005: Tickets sold: 1.40 billion, Revenue: 8.95 billion, 2006: Tickets sold: 1.41 billion, Revenue: 9.25 billion, 2007: Tickets sold: 1.40 billion, Revenue: 9.63 billion, 2008: Tickets sold: 1.39 billion, Revenue: 9.95 billion, 2009: Tickets sold: 1.42 billion, Revenue: 10.65 billion, 2010: Tickets sold: 1.37 billion, Revenue: 10.89 billion.

Note [2]: The MPAA admitted in a press release in 2005 that the study, originally reported, "44 percent of the motion picture industry's domestic losses were attributable to piracy by

Due to the expansion of high-speed broadband during the past decade, the entertainment industry in Hollywood is now facing similar challenges that the music industry faced in 1999 with Napster, namely how to generate revenue from distributing content online?

The Digital Millennium Copyright Act (from now on the “DMCA”), the United States federal law that legislates copyright infringement, prohibits the unauthorized ‘public display’ of copyrighted content without authorization in both its civil and criminal infringement statutes. In Canada, the Copyright Act can be also interpreted as to include streaming without authorization as infringement of the ‘public presentation’ rights. United States law also prohibits the circumvention of Digital Rights Management technology, used to protect artistic works such as movies and television shows, from people who copy the works illegally and distribute the reproductions for profit. A YouTube user violates copyright laws, as well as YouTube’s Terms of Service, by uploading a video without the proper authorization. Said user could face either a civil suit with restitution in damages, could be fined or even possibly serve a year in prison if prosecuted.² Streaming can be considered ‘illegal’ in two circumstances, either when unauthorized copies of copyrighted works are made, or when unauthorized displays are made available to the online public by means of streaming. Internet users infringe on copyright laws when they upload and display or present content on websites without authorization, regardless of the legality of the copy. A user that “rips” a DVD

college students.” While preparing the results of the 2007 version of the study, the independent consulting company LEK discovered what the MPAA refers to as “an isolated error” in the data. The error resulted in the heavily inflated figure about college students and movie piracy. “The 2007 study will report that number to be approximately 15 percent,” reads a release from the MPAA, “or nearly a quarter of a billion dollars in stolen content annually by college students in the U.S.” Because of the mistake, the MPAA will engage a third party to validate the results of the LEK-led 2007 version of the study, the latest attempt to analyze movie industry losses that result from media piracy across the world. *MPAA Revises Piracy Study Results*, Ted Walker, IT News, University IT Services, Indiana University, available at: <http://uitsnews.iu.edu/2008/01/28/mpaa-revises-piracy-study-results/>. “Unfortunately, the admission also means that the MPAA’s overstated figures mislead its lobbying targets, which includes congress, presidential candidates, and university IT staffs. It’s even possible that a number of bills – some of which are still floating through congress – were influenced by the incorrect information. So far, the MPAA has said nothing of how far it will go to make its corrections known; instead it seems unfazed, noting, “[T]he latest data confirms that college campuses are still faced with a significant problem.” *MPAA Overstates College Piracy Rate by 200%*, Tom Corelis, DailyTech.com, January 24th, 2008, available at: <http://www.dailytech.com/MPAA+Overstates+College+Piracy+Rate+by+200/article10447.htm>.

² “Currently, the maximum criminal penalty for unlawful public performance is a fine and/or prison sentence of up to one year.” *Felony penalties proposed for “illegal streaming”*: Senate Bill 978, Abigail Philips, EFF.com, June 23rd, 2010, available: <https://www.eff.org/deeplinks/2011/06/felony-penalties-proposed-illegal-streaming-senate>.

and uploads an illegal copy online is violating three different copyright laws: reproduction, TPM circumvention and the exclusive right of public display or presentation.³ This proposition applies to United States users, since it is not illegal to rip a DVD in Canada. A user that only uploads a stream of a movie without authorization, namely without circumventing TPMs—i.e., if the DVD does not have protection—, is infringing only the exclusive right of an author to publicly present or display a work. The latter is a different violation than that of profit-driven reproductions and distributions of illegal copies of DVDs.

In the analysis that will be presented pertaining to several United States cases, copyright owners in Hollywood have used the DMCA's "Notice and Takedown" regime to effectively remove infringing content online, by either directly and formally requesting the infringing party or through the host website, that the content posted by the Internet user be removed. Owners can also sue the infringing party at any point, in cases where the infringement is clear. Suing a website operator—i.e. YouTube—for content that was not posted by YouTube is not an option since YouTube did not upload the content. Unless a hosting website's main purpose is to provide a platform for infringement to take place, or if the owners and/or operators are dedicated to the infringement of copyrights, the owner of the website should be protected under the "safe harbor" provisions of the DMCA. The safe harbor provision exempts Internet intermediaries, precisely because the site did not perform the action that resulted in infringement of an author's exclusive rights.

There are three different bills before the United States Congress that address the copyright issues that streaming websites currently face; whether it be hosting or linking to online content. The bills propose amendments to the DMCA, allowing United States attorneys to prosecute those United States—registered websites outside of United States borders for copyright infringement, thus providing prosecutors with more enforcement powers. These bills also offer a new regulatory framework for Notice and Takedown procedures for websites and copyright owners. One of the proposed bills also amends the criminal copyright infringement statute to include infringement of the "public display" right as a felony, thus proposing harsher criminal sanctions for illegal public displays of content.

Current law prohibits illegal streaming and is punished as a misdemeanor. Under the proposed amendments, users who infringe as well as website owners who allow infringement could now face criminal felony

³ A rip is a copy of a DVD made with ripping software, which circumvents technical protection measures on a digital work and makes an illegal copy of a work. Discussed ahead, the exclusive copyrights of reproduction and public display are protected under the DMCA, which also prohibits the circumvention of TPM's "that control access to a work". 17 U.S. Code § 106 & 17 U.S. Code § 1201 (a)(1).

charges if they display copyrighted content without authorization, even if the sites are not dedicated to infringing copyrights. The proposed amendments do not distinguish between direct and secondary infringement, thus punishing anyone who displays a work more than ten times in one hundred and eighty days. This includes both users who upload as well as websites that host or link to the content, since no distinction is made between the two platforms under the proposed amendment definitions. This difference is a key element when analyzing current law and proposals to amend copyright law.

In order to be held liable for direct infringement, a person must commit an act that directly infringes on an author's exclusive copyright. When a user of a website posts an unauthorized copy or illegally displays a work, said user, and *only said user*, is in direct violation of copyright law. Secondary infringement is a term utilized to determine the liability of a website operator with regards to infringement that occurs on the platform without the operator's knowledge or consent. Under certain circumstances, a website owner is protected from liability under copyright law if infringement occurs on the site.

Courts that have seen cases of copyright infringement against a linking⁴ website operator have determined that it is not illegal to link to illegally uploaded content.⁵ The reasoning lies in the fact that the action of infringement has already occurred and that the person that links to infringing content did not perform an illegal act. These courts have ruled that websites that host user-generated content also operate legitimately and should not be held liable for the actions of their users.⁶ Website operators should not be held responsible for the user-generated content since websites merely provide the ability to display content.

It is impossible and too large of a burden for hosting and linking sites to eradicate all infringement uploaded by their users. Websites will continue

⁴ Two common ways websites connect to other sites are linking and framing. Most often, a website will connect to another in the form of a link (also known as a "hypertext" link), a specially coded word or image that when clicked upon, will take a Web user to another Web page. A link can take the user to another page within the same site (an "internal link"), or to another site altogether (an "external link"). *Website Permissions: Connecting to other websites, Copyright & Fair Use Overview*, Stanford University Libraries, available at:

http://fairuse.stanford.edu/Copyright_and_Fair_Use_Overview/chapter6/6-c.html.

⁵ See *ahead*, §4.2, *Crookes v. Newton*, (SCC, 2011), *ALIS v. Rotter*, (Tel Aviv-Jaffa District Court, August 2011), *Indice-web.com v. SAEG* (Audiencia Provisional de Barcelona, July 2011); *FTV v. Eyeworks Films*, (Court of 's-Gravenhage, The Hague, 2010).

See also, *Ticketmaster v. Tickets.com*, (C.D. Cal., 2000) ("[h]yperlinking does not itself involve a [direct] violation of the Copyright Act (whatever it may do for other claims) since no copying is involved."); *Arista Records, Inc. v. MP3Board*, (S.D.N.Y., 2002) ("linking to content does not implicate [the] distribution right and thus, does not give rise to liability for direct copyright infringement.").

⁶ See, §2.2, *Viacom v. YouTube*, (SDNY, 2010); *SOCAN v. CAIP* (SCC, 2004).

to provide hosting and linking services to the public and should not face liability for user-generated content. From the analysis presented ahead, it is clear that prosecuting all Internet users who commit infringement is a difficult task for any state attorney, but suing or prosecuting website owners is also legally incorrect. Even so, some copyright owners in North America are suing owners of streaming websites and *not* users, for *allowing* alleged infringement or secondary infringement on their sites.⁷ Even more troubling, owners of linking websites have been arrested in the past year by United States federal authorities and over one hundred websites have been shut down as a result of investigations into streaming websites that publicly displayed copyright-protected content.⁸

After examining both legal and illegal streaming, section 2 will establish the current state of the law regarding online public displays of digitally recorded content in the United States and in Canada. The analysis includes the copyright issues Hollywood is facing due to the unauthorized streaming of copyrighted content online and the implications of such streams for its viewers, users and operators. The applicable law of this technological advancement is provided in order to expose the legislative flaws that the current copyright laws should be protecting: digital video-recorded entertainment content.

Out of concern that the “illegal streaming of content” might not be covered by criminal law in the United States, the White House announced a reform to the DMCA. Federal law enforcement agencies have attempted to enforce laws against streamers that upload illegally. Hollywood studios are lobbying to amend the criminal copyright infringement statutes in order to allow federal prosecutors to incarcerate website owners who *allow* links or uploads of infringing content on their websites, when it is the users of such websites who infringe. Section 3 argues that a new criminal statute making “infringement by streaming” a felony is unnecessary and will not eliminate illegal streaming of entertainment content from the Internet.

Criminal copyright infringement statutes create an issue of whether or not the government should be enforcing *at all*, since copyrights are typically a matter of civil procedures by copyright holders. Providing attorneys in the United States with more enforcement powers in other jurisdictions is not appropriate copyright lawmaking. This mindset proposes harsher sanctions under criminal law which are not the correct path in the fight against illegal streaming and this is because of the difficulties that the government faces when enforcing criminal infringement laws and the prosecution of website owners outside of United States borders.

⁷ *Id.* See also, *Zuffa LLC v. JustIn.tv*, U.S. District Court for the District of Nevada, 2:2011cv00114, Filed January 21, 2011.

⁸ See *List of Government ICE seized domains*, DotWeekly.com, available at: <http://www.dotweekly.com/list-of-government-ice-seized-domain-names/>.

For a complete analysis of both streaming and the law, it is important to expose the elements and legal arguments of the various pending legal actions by copyright holders and of the United States government seizures of websites that link to and host infringing content. The case law under examination in section 4 will show the failure of the legal system to regulate illegal online streaming and will demonstrate the need for a new approach to a solution. Major studios should exploit the online market for entertainment content by offering online streaming licenses to individual Internet users in order for them to watch movies.

The recent United States government's seizures of alleged copyright infringing websites is also proof that copyright laws need to provide agencies and judges with more guidance so that copyright enforcement can be appropriate and constitutional. Suing every user that infringes might be impossible, and studios are clearly reluctant, but it is nonetheless the legal remedy available to copyright owners. Instead of punishing Internet users who entertain themselves illegally, studios should focus on alternatives, such as educating said public, providing better products online or eliminating DRM technology, a tactic some argue might actually reduce infringement. The issue of illegal streaming is not one to battle in courts and, it would be both irrational and foolish for Hollywood to wait for movie piracy to be the Internet norm before addressing the market shift and the change in users' digital needs.

II. STREAMING THE INFRINGEMENT

According to the *Glossary of Data Definition Related Terms* in the Structural Metadata Dictionary of the United States' Library of Congress, "the opposite of 'streaming' is 'downloading'; streaming is a "method of 'playing' animated/motion picture or audio data received over a network."⁹ The transmitted data file is played in real time as it arrives at the recipient's end.¹⁰ The United States Patent and Trademark Office defines streaming as "technology that permits 'live' or scheduled on-line distribution of digital media, where the user views the media via an interactive session with a host server."¹¹

⁹ *Streaming, Glossary of Data Definition Related Terms*, Version 1.02, Structural Metadata Dictionary, National Digital Library Program, Digital Repository Development Project, Library of Congress, Revised April 29, 1999, available at: <http://lcweb2.loc.gov/ammem/techdocs/repository/gengloss.html#streaming>.

¹⁰ *Streaming, Glossary of Data Definition Related Terms*, Id.

¹¹ *Streaming, Piracy Glossary, United States Patent and Trademark Office (USPTO)*, available at: <http://www.uspto.gov/web/offices/ac/ahrpa/opa/kids/kidantipiracy02.htm>.

Streaming media online is “video and/or audio data transmitted over a computer network for immediate playback rather than for file download and [offline] playback.”¹² In the case of a computer connected to the Internet, to access media streams “users open their audio or video players on their computers and initiate a connection to a server system. On the Internet these media servers can be Web servers or special-purpose devices set up specifically for high-performance streaming.”¹³ It is true that a user can pause a stream, wait for it to load and watch it later, but the temporarily downloaded data files to play the content will disappear from the computer once the user closes, refreshes or redirects the browser window to another web address.

Both definitions above have one thing in common: regardless of the pausing capabilities of a particular computer, streaming requires an interactive session between two networks with data transmission and played in real time. Streaming websites are not platforms for data or content distribution or reproduction, but rather displays of entertainment content. The fact that a user of the platform can make illegally obtained content available to other users with a link does not mean the website infringed on a copyright holder’s exclusive rights to display the work. Rather, it means that the user infringed a copyright when he or she used a hosting website to illegally upload a file or illegally display the work, and only said user may be held responsible.

2.1 Illegal streaming: clearing the air

Online “illegal streaming” is when a user provides copyrighted material in video/data format over a host or network website, without a license or express authorization from the owner. For example, YouTube temporarily removed performer Lady Gaga’s page¹⁴ because a performance from a Japanese television show was uploaded without express authorization from the owner.¹⁵

¹² *What is Streaming Video (Media)?*, Bradley Mitchel, About.com Guide: Consumer Electronics, available at: <http://compnetworking.about.com/od/consumerelectronicnetworks/f/streaming-video.htm>.

¹³ *What is Streaming Video (Media)?*, *Id.*

¹⁴ *Lady Gaga YouTube Account Suspended, Restored*, Jake Coyle, HuffingtonPost.com, July 14th, 2011, available at: http://www.huffingtonpost.com/2011/07/15/lady-gaga-youtube-account-suspended_n_899722.html.

¹⁵ Note: YouTube’s *Terms of Service*, 7(A), states “YouTube will terminate a user’s access to the Service if, under appropriate circumstances, the user is determined to be a repeat infringer.” Available at: <http://www.youtube.com/static?gl=US&template=terms>.

The online viewing by an Internet user of illegally streamed copyrighted content, on the other hand, is legal. It may be argued that users who knowingly view illegally streamed content online are violating the *Terms of Service* which usually prohibit infringing content, resulting in a breach of said contract. Yet, under the current state of the law, if a user stumbles upon the 2011 Stanley Cup Final between the Vancouver Canucks and the Boston Bruins through JustIn.tv through a simple Google search of “Stanley Cup”, and watches said game for free through a stream that infringed on NHL or CBC copyrights,¹⁶ said user is not in violation of Canadian or United States law.

There are different types of online streaming feeds including YouTube, uStream, sporting events, vlogs¹⁷, live news coverage, as well as movies and television shows. Most of the big Hollywood studios are starting to stream their content, and using the Internet to display their works has proven successful.¹⁸ The big studios usually own various subsidiary companies in the different entertainment industries, each owning their respective copyrights. Time Warner, the corporation that owns CNN, HBO, Cartoon Network, Warner Bros., CastleRock, amongst others, streams content through each of their channel’s websites, and legally provides the public with, some of, their productions. Time Warner, however, does not stream recently released movies on Warner Bros’ website; only certain episodes of television shows after the original airdates are available on hbo.com or cartoonnetwork.com, and certain live or pre-recorded news reports on cnn.com.¹⁹ Here is where illegal streaming comes into play.

There are many websites used for streaming entertainment content and, as determined by the Department of Homeland Security, they exist in two different platforms: linking and hosting, and cyberlocker websites. The latter are websites that offer video-recorded playback online by either providing accounts with storage space for users to upload files and store content they own, or by allowing users to use the platform for a live or recorded video transmission. Linking websites, on the other hand, work like public forums, a space for registered users to upload links to other websites. Unfortunately, many times these include links to content uploaded or copied by Internet users without the owner’s authorization.

According to a complaint filed on December 2010 in the United States Federal Court for the Southern District of New York by U.S. Attorney Preet Bharara, “[i]n 2010, members of U.S. Department of Homeland Security and the Immigration and Customs Enforcement (ICE) conducted an investigation

¹⁶ The Canadian Broadcasting Company owned the rights in Canada to broadcast the 2011 National Hockey League Stanley Cup Finals.

¹⁷ Popular term for blogs that mostly composed of video-recorded content.

¹⁸ See, www.hulu.com, www.abc.com, www.hbo.com, www.cnn.com.

¹⁹ See, www.WarnerBros.com.

into websites that illegally distributed copyright-protected content, particularly, first-run movies, over the Internet.”²⁰ During the investigation, ICE agents found that many of the websites involved in the illegal distribution of copyright-protected content over the Internet “may be divided into two classes: “linking” and “cyberlocker” websites.”²¹ Linking websites

[g] enerally collect and catalog links to files on third-party websites that contain illegal copies of copyrighted content, including movies, television, shows, and music. A user of a linking website simply clicks on a link to begin the process of downloading or streaming an illegal copy of a movie, a television show or music file from the third-party website to their own computer. Linking websites also often allow users to post links to infringing content.²²

Third-party websites on which illegal copies of movies and television shows are stored for later downloading or streaming are sometimes referred to as cyberlocker websites.²³ According to court filings following the 2010 investigation and seizures, ICE agents identified the seven websites to be both linking and cyberlocker websites “amongst the most popular [sic] such websites on the Internet for distributing illegal copies of movies, television shows and music files.”²⁴ The complaint states:

[c] yberlockers allow users to upload infringing content and often feature high-capacity data connections that allow users conveniently to download or stream that content relatively quickly. Cyberlocker websites also may allow users to search for and download specific content directly without first going through a linking site. Finally, a cyberlocker may use different servers to host its webpage, receive uploads, and handle downloading or streaming content.²⁵

Linking and cyberlocker or hosting websites are service platforms that function by linking or hosting the content uploaded by Internet users who sign up for their services. They do not provide for the downloading of content as the complaint incorrectly states, only the streaming display or a

²⁰ *United States of America v. The Following Domain Names: TVShack.net, Movies-Links.tv, ZML.tv, Now-Movies.com, ThePirateCity.org, PlanetMoviez.com, and FilesPump.com*, U.S. District Court for the Southern District of New York, 10 C.V. 9203, at p. 2, available at: <http://www.scribd.com/fullscreen/46252958>.

²¹ *United States of America v. The Following Domain Names*, *Id.*

²² *United States of America v. The Following Domain Names*, *Id.*, at p. 3.

²³ *United States of America v. The Following Domain Names*, *Id.* at p. 3.

²⁴ *United States of America v. The Following Domain Names*, *Id.* at p. 4.

²⁵ *United States of America v. The Following Domain Names*, *Id.* at pp. 2-3.

link to it. These websites generally allow non-subscribers access to view other users' streams but have a subscription fee for their premium services which include large data storage, unlimited bandwidth speed or ad-free premium services. They are also known for being platforms on which some users upload content considered to be infringing on copyrights held by Hollywood studios for movies that were either recently released on DVD or recently started playing in theaters. The Department of Justice incorrectly states that streaming websites often allow users to post links to infringing content, as they do not knowingly allow infringement. The user (not the website) though, uploads or posts the links to the content.

Canadian and United States law are clear with regards to infringement of all exclusive rights afforded to an author. In both countries an artist has exclusive rights over his work, including the right to publicly perform, display, or present the work to the public. Section 106 of the Digital Millennium Copyright Act (DMCA) holds the exclusive rights authors have with regards to what they can do and authorize others to do with their work.²⁶ Canada's Copyright Act is a little more extensive than Section 106 of the United States legislation, and states in Section 3 that "copyright" includes the sole right to, among others, to "reproduce or perform a work, adapt and publicly present the work or communicate the work to the public by telecommunication".²⁷ The DMCA does not provide for the exclusive right to communicate the work to the public by telecommunication, a right that should be added to the statute.

The law states that "to 'perform' a work means to recite, render, play, dance, or act it, either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible."²⁸ The Act also

²⁶ "[s]ubject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission."

Digital Millennium Copyright Act, U.S. Code Title 17, Chapter 1, Section 106.

²⁷ Canadian *Copyright Act*, R.S., 1985, c. C-42, s. 3; R.S., 1985, c. 10 (4th Supp.), s. 2; 1988, c. 65, s. 62; 1993, c. 23, s. 2, c. 44, s. 55; 1997, c. 24, s. 3.

²⁸ 17 U.S.C. §101.

defines “public performance” stating that to perform or display a work “publicly” means:

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.²⁹

United States law defines copyright infringement in Section 501(a) of Title 17 which states that

“[a] nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122³⁰ or of the author as

²⁹ 17 U.S.C. §101.

³⁰ §106. Exclusive rights in copyrighted works;

§106A. Rights of certain authors to attribution and integrity;

§107. Limitations on exclusive rights: Fair use;

§108. Limitations on exclusive rights: Reproduction by libraries and archives;

§109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord;

§110. Limitations on exclusive rights: Exemption of certain performances and displays;

§111. Limitations on exclusive rights: Secondary transmissions;

§112. Limitations on exclusive rights: Ephemeral recordings;

§113. Scope of exclusive rights in pictorial, graphic, and sculptural works;

§114. Scope of exclusive rights in sound recordings;

§115. Scope of exclusive rights in non-dramatic musical works: Compulsory license for making and distributing phonorecords;

§116. Negotiated licenses for public performances by means of coin-operated phonorecord players;

§117. Limitations on exclusive rights: Computer programs;

§118. Scope of exclusive rights: Use of certain works in connection with noncommercial broadcasting;

§119. Limitations on exclusive rights: Secondary transmissions of superstations and network stations for private home viewing;

§120. Scope of exclusive rights in architectural works;

§121. Limitations on exclusive rights: reproduction for blind or other people with disabilities.

§122. Limitations on exclusive rights; secondary transmissions by satellite carriers within local market.

DMCA, U.S. Code Title 17, Chapter 1, §§106-122.

provided in section 106A(a)³¹, or who imports copies or phonorecords into the United States in violation of section 602,³² is an infringer of the copyright or right of the author, as the case may be.”³³

Section 506(a)(1) provides the criminal copyright infringement provisions, making copyright theft a crime.³⁴ This law has three sections and punishes the three main types of criminal infringement, starting with punishing anyone who willingly infringes and profits from the act.³⁵ The first section is controversial due to online advertising and the fact that many sites profit from advertisement and not from the infringed work itself. Section B prohibits the reproduction or distribution of a work by the use of one or more copies of the work.³⁶ This section of the law refers mostly to peer-to-peer (P2P) networks and the act of downloading copyright-protected works.

The third section (C) punishes anyone who makes available a copyrighted work to the public on a computer network when such work is being prepared for commercial distribution.³⁷ This last section addresses

³¹ “[s]ubject to section 107 and independent of the exclusive rights provided in section 106, the author of a work of visual art —

(1) shall have the right — (A) to claim authorship of that work, and (B) to prevent the use of his or her name as the author of any work of visual art which he or she did not create;

(2) shall have the right to prevent the use of his or her name as the author of the work of visual art in the event of a distortion, mutilation, or other modification of the work which would be prejudicial to his or her honor or reputation; and

(3) subject to the limitations set forth in section 113(d), shall have the right — (A) to prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation, and any intentional distortion, mutilation, or modification of that work is a violation of that right, and (B) to prevent any destruction of a work of recognized stature, and any intentional or grossly negligent destruction of that work is a violation of that right.”

DMCA, U.S. Code Title 17, Chapter 1, §106A(a).

³² *DMCA*, U.S. Code Title 17, Chapter 6, Section 602 (a) prohibits the “[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106 [17 U.S.C. 106], actionable under section 501 [17 U.S.C. 501].”

³³ 17 U.S.C. §501(a).

³⁴ “[a]ny person who willfully infringes a copyright shall be punished as provided under section 2319 of title 18, if the infringement was committed—” *DMCA*, U.S. Code Title 17, Chapter 5, §506(a)(1).

³⁵ Subsection (A): “for purposes of commercial advantage or private financial gain,” 17 U.S.C. §506(a)(1)(A).

³⁶ Subsection (B): “by the reproduction or distribution, including by electronic means, during any 180-day period, of 1 or more copies or phonorecords of 1 or more copyrighted works, which have a total retail value of more than \$1,000.” 17 U.S.C. §506(a)(1)(B).

³⁷ Subsection (C): “by the distribution of a work being prepared for commercial distribution, by making it available on a computer network accessible to members of the public, if such

infringement by punishing people who record movies with digital camcorders in a theater and distribute the illegal copies online, or people who obtain movies before they are released, copy them and make them available to the public on P2P networks.

Copyright infringement is a serious criminal offense under both Canadian³⁸ and U.S.³⁹ law and can result in punishment of fines, jail, or both. Canadian law also strongly prohibits infringement, providing in section 27(1) that it is an infringement of copyright “for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.”⁴⁰ With a much broader prohibition of infringement, Canadian copyright law seems to be one step ahead of U.S. copyright law.

The consequences of infringing copyright laws by streaming illegally can be civil or criminal, and vary depending on the copyright legislation enacted in each country. A civil court in the U.S. may decide that money be

person knew or should have known that the work was intended for commercial distribution. 17 U.S.C. §506(a)(1)(C).

³⁸ The Copyright Act of Canada provides for a maximum fine of \$1,000,000 where the offense is a serious one. According to §42(1), subsections (c) & (d) “[e]very person who knowingly: (c) distributes infringing copies of a work or other subject-matter in which copyright subsists, either for the purpose of trade or to such an extent as to affect prejudicially the owner of the copyright

(d) by way of trade exhibits in public an infringing copy of a work or other subject-matter in which copyright subsists,

is guilty of an offence and liable

(f) on summary conviction, to a fine not exceeding twenty-five thousand dollars or to imprisonment for a term not exceeding six months or to both, or

(g) on conviction on indictment, to a fine not exceeding one million dollars or to imprisonment for a term not exceeding five years or to both. *Copyright Act*, R.S., 1985, c. C-42, s. 42; R.S., 1985, c. 10 (4th Supp.), s. 10; 1997, c. 24, s. 24.

³⁹ The *DMCA* provides for a maximum fine of ten years imprisonment if the offense is a felony and a second and subsequent offense. 18 U.S.C. §2319 (b)(2). “Any person who violates section 506 (a) of Title 17 shall be punished as provided in subsections (b), (c), and (d) and such penalties shall be in addition to any other provisions of title 17 or any other law. 18 U.S.C. §2319 (a). Subsection (b) states that “any person who commits an offense under section 506 (a)(1)(A) of title 17—

(1) shall be imprisoned not more than 5 years, or fined in the amount set forth in this title, or both, if the offense consists of the reproduction or distribution, including by electronic means, during any 180-day period, of at least 10 copies or phonorecords, of 1 or more copyrighted works, which have a total retail value of more than \$2,500;

(2) shall be imprisoned not more than 10 years, or fined in the amount set forth in this title, or both, if the offense is a felony and is a second or subsequent offense under subsection (a); and

(3) shall be imprisoned not more than 1 year, or fined in the amount set forth in this title, or both, in any other case. 18 U.S.C. §2319 (b).

⁴⁰ *Copyright Act*, R.S., 1985, c. C-42, s. 27; R.S., 1985, c. 1 (3rd Supp.), s. 13, c. 10 (4th Supp.), s. 5; 1993, c. 44, s. 64; 1997, c. 24, s. 15.

paid as compensation for damages caused by making an unauthorized copy of a copyright work, seeing as compensation for damages is the most commonly sought remedy in copyright infringement cases. Compensation is not the only remedy available to copyright owners. Another remedy available is an injunction to stop or prevent further infringing activities. A court can also order the infringing party to account for the profit made from infringing activities and make it so that all infringing copies become the property of the copyright owner.

Linking and cyberlocker streaming websites are two types of platforms that do not copy or distribute films over the Internet. These types of websites host or link to content as uploaded by each and every one of the users of the platform. Excluding websites whose *main purpose* is to infringe on copyrights, these types of service platforms do not provide or upload the content being displayed to the public. Even if “public performance” is added to the list of felonies under U.S. copyright criminal infringement laws (making many streaming websites illegal) it would continue to be legally incorrect to say that linking to, or hosting infringing copyrighted video-recorded content *alone* constitutes direct infringement. The content is not posted by the websites but by their users, and the cases analyzed ahead will show that *linking to* or *hosting* copyrighted material is not the same as *infringing* on copyrighted material.

2.2 Exemption from infringement: a necessary loophole

The *Online Copyright Infringement Liability Limitation Act of 1998* (“OCILLA”) is a United States federal law that created a “safe harbor” for online service providers (OSPs).⁴¹ The law added section 512 to the DMCA to protect service providers who are passive conduits for liability from copyright infringement, even if infringing traffic is transmitted through their networks.⁴² OCILLA provides several statutory copyright infringement protections intended for Internet service providers (ISPs), which also protect online streaming services such as hosting and linking websites *not dedicated* to infringement.

For an online service provider to be exempt from copyright infringement liability, the safe harbor requires that the service provider “not

⁴¹ Online Service Provider (OSPs) comprises a group of service providers, which include Internet service providers (ISPs) and other Internet intermediaries. The cases analyzed ahead will show why streaming sites like YouTube are considered OSP’s and are exempt from infringement liability for user-generated content.

⁴² In 1998, the *Online Copyright Infringement Liability Limitation Act* added section 512 to the DMCA, Pub. L. No. 105-304, 112 Stat. 2860, 2877, *available at*: <http://www.copyright.gov/title17/92chap5.html>.

receive a financial benefit attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.”⁴³ The law protects OSPs as long as they do not receive financial benefit from infringing activity. Most streaming websites that link to or host copyright infringing content, whose profits are not attributable to a particular infringing activity, are and should be protected under the “safe harbor” provision as long as they meet the other requirements of the law.

The 1998 amendment to the DMCA provides limitations on liability stating that “[a] service provider shall not be liable [...] for infringement of copyright by reason of the provider’s transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider.”⁴⁴ The “right and ability to control” the activity requires knowledge of it, which must be item-specific; (...) [t] he provider must know of the particular case before he can control it”.⁴⁵

The safe-harbor provision of the DMCA includes two requirements for OSPs; first, the OSP must “adopt and reasonably implement a policy” of addressing and terminating accounts of users who are found to be “repeat infringers.”⁴⁶ Second, the OSP must accommodate and not interfere with “standard technical measures.”⁴⁷ The protection under section 512(c) of the DMCA of storage of infringing material is the most common because it immunizes OSPs, such as YouTube, that might inadvertently host infringing material uploaded by users. YouTube is an automated service, has no human interaction and does not profit from infringing content uploaded, so the transmission of infringing content through their servers to users worldwide does not make them liable for the action of the user that infringed.⁴⁸ The act also protects the provider of a service when a user is infringing copyright law by stating,

[a]service provider is not liable (...) for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider does not have actual knowledge that the material or an activity using the material on the system or network is infringing.⁴⁹

⁴³ *Supra* note 7 at p. 25, citing DMCA 17 U.S.C. §512 (c)(1)(B).

⁴⁴ 17 U.S.C. §512 (a)(1).

⁴⁵ *Supra* note 7 at pp. 25-26.

⁴⁶ 17 U.S.C. §512 (i)(1)(A).

⁴⁷ 17 U.S.C. §512 (i)(1)(B).

⁴⁸ *Supra* note 7.

⁴⁹ 17 U.S.C. §512 (c)(1)(A)(i).

An OSP that fulfills the requirements for protection under the safe harbor is not liable for monetary damages, but may still be ordered by a court to perform specific actions such as disabling access to infringing material.⁵⁰ This law represented a positive step for Internet-related industry groups over powerful copyright interests that want service providers to be held strictly and directly liable for the acts of their users.

If the service provider has no knowledge of the infringing material or activity on the system as uploaded, it is exempt from liability. Due to the nature of the services rendered to the online public, OSPs and ISPs are exempt from copyright law infringement for hosting infringing content. Rightfully so, they are not posting infringing content, but administering a service, the nature of which should render legal protections against infringement. Like social networks and blogs, streaming website operators are required to take down infringing content upon request or the copyright infringement liability exemption will be inapplicable and the website will be held responsible for copyright infringement.

In 2007's *Viacom v. YouTube*, Viacom alleged that over 150,000 unauthorized clips of Viacom's programming, such as *SpongeBob SquarePants* and *The Daily Show*, had been made available on YouTube.com, and these clips had collectively been viewed more than 1.5 billion times. The judge ruled in favor of Google's YouTube and exonerated the company of all copyright infringement claims by stating it was protected under the safe harbor exemptions of the DMCA because it removed infringing content after it was asked to do so by plaintiff Viacom.⁵¹ Citing the Ninth Circuit decision *Perfect 10, Inc. v. CCBill LLC*, which declined to shift the burden of policing copyright infringement from the copyright owner to the service provider⁵², the judge said,

That makes sense, as the infringing works in suit may be a small fraction of millions of works posted by others on the service's platform, whose provider cannot by inspection determine whether the use has been licensed by the owner, or whether its posting is "fair use" of the material, or even whether its copyright owner or licensee objects to its posting.

The DMCA is explicit: it shall not be construed to condition "safe harbor" protection on "a service provider monitoring its service or

⁵⁰ 17 U.S.C. §512 (g)(2)(C)(i).

⁵¹ *Supra* note 7.

⁵² Note: "The DMCA notification procedures place the burden of policing copyright infringement—identifying the potentially infringing material and adequately documenting infringement—squarely on the owners of the copyright." *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, (9th Cir. 2007).

affirmatively seeking facts indicating infringing activity..." *Id.* §512 (m)(1).⁵³

New York's Southern District court decided that YouTube is in fact a service provider under OCILLA because "presently, over 24 hours of new video-viewing time is being uploaded to the YouTube website every minute", making it both a "provider of online services or network access, or the operator of facilities as defined in 17 U.S.C. §512 (k)(1)(B)" and a service provider under 17 U.S.C. §512(c) of the DMCA, the safe harbor provision used in the YouTube case.⁵⁴ "[I]t was uncontroverted that all the clips in suit are off the YouTube website, most having been removed in response to DMCA takedown notices." As such, the question for the court was,

[w]hether the statutory phrases "actual knowledge that the material or an activity using the material on the system or network is infringing," and "facts or circumstances from which infringing activity is apparent" in §512 (c)(1)(A)(i) and (ii) mean a general awareness that there are infringements (here, claimed to be widespread and common), or rather mean actual or constructive knowledge of specific and identifiable infringements of individual actions.⁵⁵

The judge affirms from his analysis regarding both phrases in the law that "mere knowledge of prevalence of such [infringing] activity is not enough".⁵⁶ After discussing the Legislative History of the copyright law, the court analyzes the facts and goes as far as saying that "the present case shows that the DMCA notifications regime works perfectly".⁵⁷

⁵³ *Supra* note 7 at p. 26.

⁵⁴ "A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider... (A) (i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing; (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material; (B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and (C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity." 17 U.S.C. §512 (c).

⁵⁵ *Supra* note 7 at p. 7.

⁵⁶ *Supra* note 7, at p. 15.

⁵⁷ *Supra* note 7 at p. 16.

OCILLA protects online service providers and host websites from direct copyright infringement and from secondary liability for the infringing acts of others. The law strikes a balance between the interests of copyright owners and digital user by exempting Internet intermediaries from copyright infringement liability.

You Tube is exempt from direct liability from copyright infringement because it has millions of uploads every day, and cannot possibly have knowledge of the legality of each and every one of the uploaded files. The service removes infringing material per copyright holders request, and “has implemented a policy of terminating a user after warnings (...) that the user has uploaded infringing matter (a three strikes repeat-infringer policy.)”⁵⁸ As a hosting-streaming website, YouTube and others are legally exempted from liability if their users upload illegal copies or stream illegally in the aforementioned circumstances. As a platform that provides access to the Internet by collecting hyperlinks, Google.com should be considered an online service provider and should not be held liable for linking to infringing content either.

The Supreme Court of Canada ruled in *SOCAN v. CAIP* –also known as the *Tariff 22* case that “Canadian copyright law *can* apply to material hosted on foreign servers, as long as there is sufficient connection between the communication of that material and Canada”. However, Canadian ISPs are not liable for copyright infringement unless they “give approval to, sanction, permit, favour or encourage” the infringing content.”⁵⁹ *SOCAN v. CAIP* is a case about the compensation of copyright holders for music downloaded in Canada from foreign countries and foreign hosts, where the court stated that “knowledge that someone might be using neutral technology to violate copyright (...) is not necessarily sufficient to constitute authorization [of infringement]”, but “notice of infringing content, and a failure to respond by “taking it down” may in some circumstances lead to a finding of “authorization””.⁶⁰ This interpretation is most reasonable, as the determination of secondary liability for infringement must encompass the behavior of online service providers when notified of infringing content.

In the 2005 case *Metro-Goldwyn Mayer Studios v. Grokster*, the U.S. Supreme Court analyzed a free peer-to-peer software service and the circumstances under which the distributor of a product capable of both

⁵⁸ Note: “YouTube assigned strikes only when the rights holder manually requested the video to be removed. Requiring the rights-holder to take that position does not violate §512 (i)(1)(A).” *Supra* note 7 p. 27.

⁵⁹ *Society of Composers, Authors and Music Publishers of Canada v. Canadian Assn. of Internet Providers*, 2 S.C.R. 427, 2004 SCC 45.

⁶⁰ Supreme Court rules on ISP liability and copyright jurisdiction, CIPPIC, June 29th, 2004, available at: <http://www.cippic.ca/en/news/2/54/Supreme-Court-rules-on-ISP-liability-and-copyright-jurisdiction>.

lawful and unlawful use is liable for acts of copyright infringement by use of the product by third parties. The court decided that a person “who distributes a device *with the object of promoting its use to infringe copyright*, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”⁶¹

Websites that provide users with space to upload streaming feeds to content, do not break the law by *having* infringing traffic. A hosting website with legitimate, non-infringing uses, that does not market the service as one that allows infringement and also actively removes infringing content through the Notice and Takedown procedures should be protected under the safe-harbor provision of the law. A hosting website that *promotes* infringement and whose *main purpose* of operation is to violate copyright laws, on the other hand, should not operate legally and should be held liable for direct infringement. A host website with administrators that directly upload illegally obtained content and make it available to the public is also directly infringing on copyrights.

When facing an infringement lawsuit, linking websites can also find legal protection in the exemption provided by OCILLA. Various courts have considered linking websites to be service providers and intermediaries to copyright infringement, as long as they meet the requirements in the statute. Linking sites are not generally sites that link solely to copyrighted infringing content. Like hosts, linking sites are used for legal purposes, to communicate online. Unless a website is dedicated to infringing, or fully aware that the overwhelming majority of its posts link to infringing content *and* they do not take down any of it, a reasonable judge will conclude that the website is protected by the safe harbor exemption.

It is also significant to note that, while the DMCA limits remedies against service providers, it does not limit the rights of copyright owners or exclusive licensees to pursue a service provider's users, subscribers, or account holders for liability resulting from their direct acts of copyright infringement. Nor does the Act exempt service providers for acts of infringement that fall outside the four specified functions or prevent copyright owners or exclusive licensees from pursuing the service provider for damages caused by such acts.⁶²

⁶¹ *Metro-Goldwyn Mayer Studios v. Grokster*, 545 U.S. 913 (2005).

⁶² *A Look Back at the Notice-Takedown Provisions of the U.S. Digital Millennium Copyright Act One Year After Enactment*, Batur Oktay & Greg Wrenn, World Intellectual property organization (WIPO), Workshop on Service Provider Liability, OSP/LIA/2, Geneva, December 9 and 10, 1999, available at:

http://www.wipo.int/edocs/mdocs/mdocs/en/osp_lia/osp_lia_2.doc.

Note: “To qualify for the linking limitation, a service provider must meet the four requirements of the hosting limitations. [...] Specifically, (1) a service provider must not have

A court facing the OSP exemption in a copyright infringement case against a hosting website should interpret the statute as a protection to video-streaming websites from direct and secondary liability for copyright infringement, if the requisites are met. Linking websites, generally serve a legal purpose, linking to content online as posted by users. There is no reason for the government of the United States of America *or* copyright owners to sue linking websites for the user postings of hyperlinks to infringing content; they should sue the user.

Since the exemption has already been interpreted by United States' courts to include protection for Internet intermediaries such as hosting websites, in *Viacom v. YouTube*, and in light of recent court cases related to illegal streaming analyzed ahead, a court is in position to determine that the safe harbor provision protects website owners from the illegal actions of their users. In general, streaming websites like host JustIn.tv or linking site AtdheNET.tv make users agree to their *Terms & Conditions*, usually including provisions against the hosting of copyrighted content.⁶³

Liability for hosting copyright infringing content would end YouTube the same way that Facebook could not exist if linking to infringing content were illegal. Hosting and linking websites should be considered legal online service providers and should be exempt from civil and criminal copyright infringement for user-generated content. These platforms should *only* be held responsible in the case of willful, profit-driven, direct infringement by the operators or alternatively, under secondary liability grounds for user-generated infringement if the conditions of OCILLA are not met.

The online viewing of copyrighted content uploaded illegally *is* legal. A person can Google a link to a stream for a live football game, be redirected to a linking website that contains the hyperlink, and subsequently to the hosting website that provides the stream and watch the game on the illegal stream without infringing on copyrights. It is outrageous though, to punish websites that provide online hosting or linking services for having traffic of

actual knowledge or awareness of the infringement or, if it has either, it must promptly remove or disable access to the infringing material; (2) where a service provider has the right and ability to control the infringing activity, it must not receive a benefit financially directly attributable to the infringing activity [...]; (3) the service provider must remove or disable access to infringing material upon receipt of proper notification; and (4) designate an agent upon whom proper notification may be served." *A Look Back at the Notice-Takedown Provisions of the U.S. Digital Millennium Copyright Act One Year After Enactment*, Id.

⁶³ "We *DO NOT* host any videos on this website. All videos found on our site are found freely available around the web on sites such as JustIn.tv, Ustream.tv, Selfcast, etc. We make no guarantees or promises in our service and take no liability for our users actions. We are not affiliated nor claim to be affiliated with any of the owners of videos/streams played on our site. All content is copyright of their respective owners." AtdheNET.tv *Terms of Service*, available at: <http://atdhenet.tv/terms.html>.

both legal and illegal content simply because the users who *actually* infringe are too many, it is too expensive, or are too hard for studios to find.

III. LEGISLATIVE AMENDMENTS

The right to public display and the copyrights of distribution and reproduction are two legally different rights in United States and Canada laws when it comes to streaming. The first right refers mostly to a display—i.e. movie theaters—and the second to the particular action of distributing, or selling copies of the work—i.e. DVD's. Unlike reproducing and distributing a work without a license, which are serious criminal offenses, the unauthorized streaming or public display of a work is not a felony.

Under United States law, only distributing and reproducing copyrighted works are felonies, targeting P2P network transfers and web downloads of pirated movies and other copyrighted work, since they constitute illegal reproductions of a work. The nature of streaming as a display or presentation of a work, on the other hand, is not statutorily included in the list of felonies under the criminal copyright infringement statute, which is why publicly presenting a work without authorization is a misdemeanor.

The current legislative regimes in the United States and Canada do not punish streaming as a criminal felony and they should not. If a person is found to be infringing copyrights of public display or presentation of a work, they face a civil infringement suit or a fine if prosecuted. If a site is dedicated to content infringement through streaming, it should face liability or seizure, but such liability cannot be equal to selling bootleg DVDs or sneaking a camera to a movie theater; the profit is generated from advertisement and not the particular work on display. The action of posting or displaying a work does not mean the user made illegal reproductions or distributions. Criminal laws should be proportionate to the crime and illegally streaming a movie should not constitute the same crime as the criminal offenses of distribution or reproduction of copyrighted works.

Online streaming sites have not been held responsible for linking to or hosting infringing content. Linking websites will not be held responsible for the actions of their users because they have not copied the content; they merely provide a link. In fact, several courts in Canada, Spain, Netherlands, and Israel have found linking to infringing content to be legal, as no copies of the infringing content are being made, and no profit is generated from the

action of linking.⁶⁴ Having traffic of illegally obtained movies cannot make a third-party responsible for hosting the site, especially if operators have a filtering policy and remove infringement when requested.

The exclusive rights of public display and distribution are *negative rights*, upheld by a court of law if the plaintiff proves that he is the owner and that there was actual infringement or a copy of the work, not a link, promotion or ad to infringing content. Cyberlocker websites host user-generated content, so the action of hosting infringing content cannot make such a site liable for infringement, not to mention criminal infringement. This section will expose the different elements of proposed amendments to the copyright legislation in Canada and the United States and discusses the need for a different approach to a solution that does not criminalize streaming.

3.1 Vague regulations: what not to do

During the Bush administration, the United States Congress passed the PRO-IP Act of 2008⁶⁵ to increase civil and criminal penalties for infringement of copyrights, trademark and patents, and to establish a new government office in the executive branch called the *United States Intellectual Property Enforcement Representative*. The Act also provides jurisdiction for the Department of Justice to conduct civil lawsuits for infringement on behalf of copyright owners by providing them with funding and other resources. Attorneys in the United States were also given the authority for civil asset forfeiture, in which any computer or network used for copyright crime may be seized and auctioned off.⁶⁶ As of 2008, copyright owners have more protections since, either the owner or the U.S. government, can litigate infringement in a civil court.

Under Obama's administration, proposals for additional amendments to the DMCA are aimed at including harsher sanctions for unauthorized public displays and for more enforcement powers for United States attorneys attempting to prosecute United States-registered websites in other jurisdictions. In March of 2011, the United States Intellectual Property Enforcement Coordinator, Victoria Espinel, suggested changes to United States criminal copyright infringement laws in the *Administration's White Paper on Intellectual Property Enforcement Legislative Recommendations*. The

⁶⁴ See *§, Indice-web.com v. SAEG* (Audiencia Provisional, Barcelona, July, 2011); *FTV v. Eyeworks Films*, (Court of 's-Gravenhage, The Hague, 2010), *ALIS v. Rotter*, (Tel Aviv-Jaffa District Court, August 2011).

⁶⁵ *Prioritizing Resources and Organization for Intellectual Property Act of 2008* (PRO-IP), S. 3325, 110th Congress, available at: <http://www.gpo.gov/fdsys/pkg/BILLS-110s3325enr/pdf/BILLS-110s3325enr.pdf>.

⁶⁶ *Prioritizing Resources and Organization for Intellectual Property Act of 2008*, *Id.*

White Paper suggests that online streaming of copyrighted content, or illegal streaming, should be amended to a felony. The paper states, “[p]iracy and counterfeiting in the online environment are significant concerns for the Administration. They cause economic harm and threaten the health and safety of American consumers. Foreign-based and foreign-controlled websites and web services raise particular concerns for U.S. enforcement efforts.”⁶⁷ The main problem with the *White Paper* and all three of the suggested amendments to the DMCA is that they are vague and poorly written, undoubtedly encompassing both hosting and linking websites not dedicated to infringing activities, but whose traffic includes user-generated copyright infringing content.

3.1.1 *Commercial Felony Streaming Act*

On May 12, 2011 United States Senators Amy Klobuchar, Chris Coon and John Cornyn presented Senate Bill 978, known as the *Commercial Streaming Felony Act* “[t]o amend the criminal penalty provision for criminal infringement of a copyright” and other purposes.

The text of the bill was so vague it encompassed a wide-array of “rogue” websites and by doing so, it included many hosting and linking websites with a legitimate business model that is not based on infringement. The current criminal infringement provisions of the DMCA do not place streaming under the definition of a copy or reproduction of a work for a specific reason. Streaming is the temporary display of a work on a website and it does not entail reproduction *or* distribution of copies.

By adding “public performance” to the list of felonies, Senate Bill 978 provides precisely the same remedies as the White House is suggesting, criminalizing streaming by equating the action of the public display to that of an illegal reproduction or distribution of a work. The ambiguity of the text would mean that streaming website owners that host infringing content could face up to five years in prison for allowing a user to stream a movie because the website knew that infringement occurs. Michael O’Leary, head of government affairs at the Motion Picture Association of America said in a statement:

Criminals are stealing, trafficking, and profiting off the investment that our workers devote to creating the quality films and TV shows that entertain a worldwide audience and bolster the American economy. We thank Senators Klobuchar and Cornyn for introducing

⁶⁷ *Administration’s White Paper on Intellectual Property Enforcement Legislative Recommendations*, U.S. Intellectual Property Enforcement Coordinator’s Office, March 2011, p. 1, available at: http://www.whitehouse.gov/sites/default/files/ip_white_paper.pdf.

this important legislation to *standardize the legal treatment of online content theft* and helping ensure that federal law keeps pace with the changing face of criminal activity.⁶⁸

The main legislative flaw of this bill lied precisely in its intention to “standardize the legal treatment of online content theft”. Streaming cannot be labeled as piracy. Prohibiting all unauthorized public displays of content on a website without taking into consideration the many factors that contribute to a site having infringing content and ignoring a site owner’s efforts to deal with infringement, is irresponsible lawmaking.

The bill also undermined the current legislative regime of Notice and Takedown established by the DMCA by authorizing United States law enforcement agencies to arrest website owners on allegations of infringement before the merits of the copyrights are argued in court. There are serious constitutional concerns regarding obtained warrants for search and seizures of websites when criminalizing an activity so vaguely defined, as well as First Amendment issues when shutting down a forum or linking site on allegations of copyright infringement.

Watching an illegally copied or uploaded movie online is not a crime. Streaming video is not a reproduction or a copy of the work and the audience of an illegally uploaded stream does not infringe the rights of a copyright holder. Under the proposed statute, viewing an illegally uploaded stream would not become illegal. Internet users that stumble upon movies can watch them at ease regardless of what law was broken to make that stream available online. That being said, the bill is focusing on criminalizing the hosting of and linking to infringing content, instead of the act of infringement itself.

The failed amendment to the criminal copyright statute in the United States shows that the law is clear with regards to the sanctions users may face when posting and streaming infringing copies of movies online. Hosting user-generated infringing content, on the other hand should not be criminalized. It is currently legal to watch infringing content online, and a misdemeanor to display such a work publicly. Yet, as soon as a reproduction or a copy of illegal content is made, the user who made the illegal content available is responsible for copying it illegally and faces criminal sanctions. Under the proposed framework, a website that hosts infringing content may face the same criminal liability as a user for the actions attributable only to the user. Illegal reproductions have to take place before the content is uploaded. Therefore, the current criminal statutes already cover the illegal

⁶⁸ *New bill upgrades unauthorized Internet streaming to a felony*, Nate Anderson, ArsTechnica.com, April, 2011, available at: <http://arstechnica.com/tech-policy/news/2011/05/new-bill-upgrades-unauthorized-internet-streaming-to-a-felony.ars>.

acts of infringement; hosting infringing content does not need to be classified as a felony.

3.1.2 *Stop Online Piracy Act*

The most recently proposed amendment to copyright law in the United States was the H.R. Bill 3261, titled *Stop Online Piracy Act* (from now on "SOPA"). The bill was introduced in the House of Representatives on October 26th, 2011 and was heavily criticized due to the proposed restructuring of Internet governance in direct conflict with the DMCA. The language of SOPA was supposedly directed only towards "rogue" websites and it intended to punish sites that are "dedicated to the theft of US property". Yet, as the EFF points out, it is not hard to get that label and be held liable for copyright theft. "Some portion of your site, *even a single page*, must (1) be directed toward the United States, and either, (2) allegedly "engage in, enable or facilitate" infringement *or* (3) allegedly be taking or have taken steps to "avoid confirming a high probability" of infringement."⁶⁹ At the very least, "this means that any service that hosts user-generated content is going to be under enormous pressure to actively monitor and filter that content."⁷⁰

The bill also proposed to authorize the DOJ to obtain court orders against websites outside United States jurisdiction accused of infringing on copyrights or "enabling" or "facilitating" copyright infringement. Legislative ignorance was made clear, as many sites on the Internet *have* infringing content, which could be considered as enabling or facilitating infringement to occur on a platform.

Under the proposed statute, if a rights holder thought they were being harmed by infringement, both the rights holder and United States attorneys could send a notice to the payment processors and advertisement services of the website in question, effectively stopping all economic activity for the site. Once that notice was received by PayPal for example, the service had five days to cut off financial support in order to be protected under the law, and the payment processors and ad networks would not be able to fine-tune their response so that only the allegedly infringing portion of your site was affected, which means your whole site would be under assault."⁷¹

⁶⁹ *SOPA: Hollywood finally gets a chance to break the Internet*, Corynne McSherry, EFF, October 28th, 2011, available at: <https://www.eff.org/deeplinks/2011/10/sopa-hollywood-finally-gets-chance-break-internet>.

⁷⁰ *Id.*

⁷¹ "It makes no difference that no judge has found you guilty of anything or that the DMCA safe harbors would shelter your conduct if the matter ever went to court. Indeed, services

Through this procedure SOPA would have changed the DMCA Notice and Takedown regime to remove copyright infringing content from websites without providing adequate procedures for websites to defend themselves from the alleged infringement in a reasonable manner before a court. It would also require websites to take affirmative pro-active steps towards eliminating infringement on their sites which can be a huge burden for any website that hosts user-generated content.

Criticizing the bill's economic sanctions to websites that host infringement, the EFF wrote, "the new law would allow the Attorney General to cut off sites from the Internet, essentially "blacklisting" companies from doing business on the web." The article explains how under proposed section 102 of the bill, the United States Attorney General "can seek a court order that would force search engines, DNS providers, servers, payment processors and advertisers to stop doing business with allegedly infringing websites."⁷² The proposed amendment also allowed for copyright holders to seek relief in what section 103 of the bill calls a "market-based system", "allowing individuals and companies to cut off financial support from websites —both foreign and domestic— simply by sending a notice to their payment providers or ad networks."⁷³

The language of the bill was "vague enough that if a website d [id] not proactively monitor its user-generated content [...], an individual or corporate rights holder could claim this lack of monitoring as "taking deliberate actions to avoid confirming a high probability of the use of the site to carry out acts that constitute a violation."⁷⁴ Kim Smith, spokesman for Rep. Lamar Smith, sponsor of the act stated,

This bill does not make it a felony for a person to post a video on YouTube of their children singing to a copyrighted song. The bill specifically targets websites dedicated to illegal or infringing activity. Sites that host user content —like YouTube, Facebook, and Twitter— have nothing to be concerned about under this legislation.⁷⁵

that have been specifically found legal, like Rapidshare, could be economically strangled via SOPA." *Id.*

⁷² *The Stop Online Piracy Act: A blacklist by any other name is still a blacklist*, Trevor Timm, EFF, November 7th, 2011, available at: <https://www.eff.org/deeplinks/2011/11/stop-online-piracy-act-blacklist-any-other-name-still-blacklist>.

⁷³ Here, the EFF used three examples of legitimate business websites like Flickr, Vimeo and Etsy being put at risk or prosecution and legal action under SOPA even if the websites have always complied with DMCA Notice and Takedown procedures. See *What's on the Blacklist? Three sites that SOPA could put at risk*, Parker Higgins, November 15th, 2011, available at: <https://www.eff.org/deeplinks/2011/11/whats-blacklist-three-sites-sopa-could-put-risk>.

⁷⁴ *Id.*

⁷⁵ *Internet giants oppose bill that could make posting online videos a crime*, Jack Minor, November 18th, 2011, available at: <http://www.greeleygazette.com/press/?p=11974>.

Many in the technology industry disagree with this statement and some critics say the bill will indeed include non-commercial streaming by subjecting legitimate websites to liability for user-generated content, not solely criminalizing the intentional theft of copyright protected content. Lateef Mtima, Director of the *Institute for Intellectual Property and Social Justice* at the Howard University School of Law, said,

Perhaps the most dangerous aspect of the bill is that the conduct it would criminalize is so poorly defined. While on its face the bill *seems* to attempt to distinguish between commercial and non-commercial conduct, purportedly criminalizing the former and permitting the latter, in actuality the bill not only fails to accomplish this but, because of its lack of concrete definitions, it potentially criminalizes conduct that is currently permitted under the law.⁷⁶

Senior policy counsel at the Center for Democracy and Technology (CDT) in Washington, D.C. David Sohn said in a statement,

[SOPA] is a bill that would eviscerate the predictable legal environment created by the DMCA, subjecting online innovators to a new era of uncertainty and risk. It would force pervasive scrutiny and surveillance of Internet users' online activities. It would chill the growth of social media and conscript every online platform into a new role as content police. And it would lay the groundwork for an increasingly balkanized Internet, directly undercutting U.S. foreign policy advocacy in support of a single, global, open network."⁷⁷

In a letter to Congress, several other legal scholars said SOPA is a dangerous bill. "It threatens the most vibrant sector of our economy – Internet commerce. It is directly at odds with the United States' foreign policy of Internet openness, a fact that repressive regimes will seize upon to justify their censorship of the Internet. And it violates the First Amendment."⁷⁸

3.1.3 PROTECT-IP Act

⁷⁶ *Id.*

⁷⁷ *SOPA puts Internet in the crosshairs*, November 16th, 2011, available at: http://www.cdt.org/pr_statement/sopa-puts-internet-crosshairs.

⁷⁸ *Professors' Letter in Opposition to "Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act of 2011"*, July 5, 2011, available at: http://cdt.org/files/pdfs/SOPA_House_letter_with_PROTECT_IP_letter_FINAL.pdf.

Senate Bill 968 is the third of the DMCA amendments proposed by the United States' Congress concerns about intellectual property protection, and, possibly, the first and only step in the right direction. *Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act of 2011*, also known as the PROTECT IP Act or PIPA, would provide the US government and copyright holders with additional tools to identify "rogue websites dedicated to infringing or counterfeit goods", paying particular attention to sites registered outside the United States.

Similar to its twin in the House of Representatives' SOPA, the senate bill included a private right of action for copyright owners. Under the bill both IP owners and the government can seek injunctions against websites "dedicated to infringing activities", in addition to the aforementioned court orders against third parties providing services to those sites, like advertisement or payment services. "The act includes language that says it is not intended to "enlarge or diminish" the DMCA's safe harbor limitations on liability, but make no mistake: rights holders will argue that safe harbor qualification is simply immaterial if a site is deemed to be dedicated to infringement."⁷⁹

At first, it seems that PROTECT IP will provide adequate due process for website operators running streaming sites by recognizing that "lawsuits should be brought against those responsible, rather than just focusing on taking down the site (in legal terms, it requires an *in personam* action – against the person– be filed before an *in rem* action –against the property)."⁸⁰ It is also an argument against due process criticisms that the bill "would require that the Attorney General (or the copyright holder) send notice to those impacted "upon commencement" of such actions."⁸¹ Also, the bill "no longer includes the ability to go to domain registers and registrars and require them to remove domains or hand them over to the government."⁸² Yet, "when you dig into the actual text, nearly all of these "good" changes are either not really true, or are greatly limited by other aspects."⁸³

First, the requisite for an *in personam* action, "which in theory would allow for a court hearing and the individuals or companies who operate sites targeted by this bill to get a fair hearing before the site is taken down or otherwise blocked or limited, [...] has a big loophole."⁸⁴ If either the Attorney

⁷⁹ *The PROTECT-IP Act: COICA Redux*, Abigail Phillips, EFF, May 12th, 2011, available at: <https://www.eff.org/deeplinks/2011/05/protect-ip-act-coica-redux>.

⁸⁰ *Full text of the PROTECT IP Act released: The Good, the bad and the horribly ugly*, Mike Masnick, TechDirt, May 11th, 2011, available at: <http://www.techdirt.com/articles/20110511/00115314234/full-text-protect-ip-act-released-good-bad-horribly-ugly.shtml>.

⁸¹ *Id.*

⁸² *Id.*

⁸³ *Id.*

⁸⁴ *Id.*

General or the copyrights holder is not able to find the registrant or owner of the site or, when the person who is not found, has an address within a judicial district of the United States, “they can skip the whole *in personam* action and jump straight to the *in rem* action, against the website itself. That's a pretty big loophole”⁸⁵ which would result in website seizures. As for the promise that it does not expand secondary liability, that's nice to say but it is simply untrue.”⁸⁶

By its very nature, *the entire purpose of the bill is to extend secondary liability to third parties that had previously been almost entirely immune from such liability*: ad networks, payment processors, search engines and ISPs now face liability if they do not disconnect service from certain websites. That is, without a doubt, a pretty massive expansion of secondary liability, no matter how many times the drafters of this Act insist it's not.⁸⁷

Thirdly, this bill defines infringement as “distribution of illegal copies, counterfeit goods or anti-Digital Rights Management technology” and states infringement occurs if “facts or circumstances suggest [the site] is used, primarily as a means for engaging in, enabling, or facilitating the activities described”.⁸⁸ What seems to be a step in the right direction for copyright enforcement, the new definition establishes a new parameter for determining DOJ jurisdiction over hosting websites, by requiring an Internet site be “dedicated to infringing activities” as broadly defined in the proposed bill.

Under the current definitions of the bill, hosts would fall within the term “dedicated to infringing activities” because of the traffic these types of websites receive on a daily basis. Entities “enabling or facilitating” activities as prohibited by PIPA would face the same liability as those entities actually engaging in infringing activity, a definition that undoubtedly includes hosting and web hosting companies. “Hosts, many of which are new startups or small businesses, will be required to absorb the legal and administrative costs associated with many years of litigation designed to attempt to define this term.”⁸⁹

While hosts empathize with the difficulties faced by owners of intellectual property, these same owners have demonstrated that they believe Internet infrastructure providers, like hosts, are responsible for

⁸⁵ *Id.*

⁸⁶ *Id.*

⁸⁷ *Id.*

⁸⁸ PROTECT IP Act of 2011, S. 968, 112th Congress, § 6, *available at*:

<http://leahy.senate.gov/imo/media/doc/BillText-PROTECTIPAct.pdf>.

⁸⁹ Save Hosting Coalition's *Letter to U.S. Congress' Committee on the Judiciary*, November 1st, 2011, *available at*: <http://savehosting.org/wp-content/uploads/2011/11/PIPAletter1.pdf>.

infringement taking place on their servers.⁹⁰ Today these entities simply use the threat of litigation to get hosts to stop doing business with their targets. PIPA will add additional ammunition to these threats, providing yet another avenue to apply pressure on hosts to terminate customers to avoid litigation expenses.⁹¹

In a letter to bill sponsor Patrick Leahy arguing the litigation costs to the hosting industry, the Save Hosting Coalition wrote:

Simply put, hosting providers make the Internet work. They are the engines that make the Internet available to consumers, and they facilitate almost all Internet business transactions. As necessary parties to the operation of the DMCA, and now PIPA, hosts are squarely in the middle of the large amount of litigation that will inevitably result from the Act's passage and the undermining of the DMCA.⁹²

PIPA would change the process required to respond to a complaint of copyright infringement, and "would likely absorb an average small host's entire yearly profit. Given the small business nature of the hosting industry, hosting businesses are not in a position to absorb the litigation costs associated with PIPA."⁹³

The letter continues by addressing a very important constitutional concern of the proposed amendment; "PIPA is a "guilty until proven innocent" statute, in which assets may be taken offline without due process. Indeed, recent seizures of domain names by the Department of Homeland Security have cast significant doubt on the ability of the U.S. legal system to provide due process rights."⁹⁴

Many customers of hosting businesses use new and novel technologies that disrupt current businesses and business models. YouTube and Twitter are clear examples of this. Innovators like these would be threatened by PIPA, which would allow sites to be shut down without traditional due process, even if a court order is issued due to a complete misinterpretation of the site's intentions or activities.

Because PIPA does not provide the targets of actions the ability to defend their businesses prior to entry of an order, it will have an undoubtedly stifling effect on innovation. Courts will not have the ability to

⁹⁰ Statement of RIAA President Cary Sherman, *RIAA: US Copyright isn't working*, cNet News, August 23rd, 2010, Declan McCullagh, available at: http://news.cnet.com/8301-13578_3-20014468-38.html.

⁹¹ *Supra*, note 94.

⁹² *Id.*

⁹³ *Id.*

⁹⁴ *Id.*

thoughtfully consider how a new technology fits into existing intellectual property law. For many new businesses, terminating their ability to access the Internet, even for a month, is tantamount to the death penalty.⁹⁵

Regulating secondary infringement through any of these bills is the equivalent to holding phone companies responsible for the conversations made using their lines. “[A] lthough the threats that [the bill] seeks to address are real and tangible, the lack of robust provisions for the protection of free speech and due process will dilute further our understanding in the Internet’s law making process.”⁹⁶ What seems like a positive approach to piracy is undermined by the bill’s inoperable vagueness and sustained by little to no research on how to effectively legislate piracy on the Internet. “Much of the legal basis of the PROTECT Act is based on ambiguous terms whilst its procedural design continues to challenge due process and justice.”⁹⁷ The bill’s definition of infringement is vague and the protections from liability offered to legitimate hosting and linking websites are non-existent.

3.2 Critics everywhere are raving

SOPA and PROTECT IP have been heavily criticized for the vague, ambitious and unequivocally dangerous proposals.⁹⁸ On November 15th, 2011 several tech giants placed a full page advertisement in the New York Times in the form of a letter to Congress titled *We stand together to protect innovation*, signed by Google, Facebook, Mozilla, Zynga, eBay, Twitter, Yahoo, LinkedIn, and AOL. As technology websites they “support the bills’ stated goals of providing additional enforcement tools to combat foreign “rogue” websites that are dedicated to copyright infringement or counterfeiting.”⁹⁹

Unfortunately, the bills as drafted would expose law-abiding U.S. Internet and technology companies to new and uncertain liabilities, private rights of action, and technology mandates that would require monitoring of websites. We cannot support these bills as written and ask that you consider

⁹⁵ *Id.*

⁹⁶ *Supra* note 93.

⁹⁷ *PROTECT Act 2011: An Internet governance perspective*, Konstantinos Komaitis, May 14th, 2011, available at: <http://www.komaitis.org/1/post/2011/05/protect-act-2011-an-internet-governance-perspective.html>.

⁹⁸ For a list of organizations and individuals expressing concern with SOPA and PROTECT IP in the form of letters to Congress, in the press, on blogs, and in long-form analysis, see *Growing chorus of opposition to “Stop Online Piracy Act”*, November 15th, 2011, available at: <http://www.cdt.org/report/growing-chorus-opposition-stop-online-piracy-act>.

⁹⁹ *Internet giants place full-page anti-SOPA ad in NYT*, Cory Doctorow, BoingBoing, November 16th, 2011, available at: <http://boingboing.net/2011/11/16/internet-giants-place-full-pag.html>.

more targeted ways to combat foreign “rogue” websites dedicated to copyright infringement and trademark counterfeiting.

One issue merits special attention. We are very concerned that the bills as written would undermine the effective mechanism Congress enacted in the DMCA to provide a safe-harbor for Internet companies that act in good faith to remove infringing content from their sites.¹⁰⁰

It has been argued SOPA is directed to “foreign rogue websites,” but the definition of “website dedicated to theft of U.S. property” in the statute does not directly target foreign or rogue sites. “Rather, U.S. companies that fully comply with the DMCA would be subject to SOPA’s remedies. Similarly, sites that have not violated any copyright or trademark laws could be targets for “enabling or facilitating” some third party’s misdeeds.”¹⁰¹

PROTECT IP includes a private right of action subject to abuse by allowing copyright holders to “make use of some of the aspects of the Act, which are completely unnecessary, considering they *already* have reasonable options under existing laws.”¹⁰² “The idea of a private right of action that would allow rights holders to enforce directly violations of their intellectual property rights is abhorrent to U.S. law.”¹⁰³ It is imperative for United States laws to include the jurisdiction of the courts and a private right of action with no court involvement to determine infringement is a legal blunder. “That’s precisely what both SOPA and PROTECT IP are proposing: remedies to copyright violation that never come under the scrutiny of the legal system.”¹⁰⁴ If it is not scary enough, this bill extends to cover search engines:

[W]hen the Attorney General uses the law, one of the things that can be done is obtaining an order saying search engines must no longer link to certain sites. This seems like a massive form of meddling in how a search engine operates. I also can’t see how it could survive

¹⁰⁰ *Id*, *Internet giants place full-page anti-SOPA ad in NYT*.

¹⁰¹ *Id*, H.R. 3261, “Stop Online Piracy Act” (“SOPA”) *Explanation of Bill and Summary of Concerns*.

¹⁰² Note: “This is yet another case of regulatory capture, in which a private industry is being granted additional, extraordinary and unnecessary powers to stifle new technologies and innovation, because in their estimation it infringes on their copyrights. Remember the long list of new innovations that the entertainment industry has so deemed, including (but not limited to): player pianos, radio, cable TV, the photocopier, the VCR, the DVR, the MP3 player, YouTube, etc. Haven’t we learned by now that every time the industry screams that it’s being harmed by infringement, the reality is almost always something entirely different?” *See Supra*, note 93.

¹⁰³ *An open response to Sen. Blumenthal on PROTECT IP and SOPA*, Mike Loukides, O’Reilly Radar, November 30th, 2011, available at: <http://radar.oreilly.com/2011/11/an-open-response-to-sen-blumen.html>.

¹⁰⁴ *An open response to Sen. Blumenthal on PROTECT IP and SOPA, supra*.

First Amendment scrutiny. It's a blatant case of the government telling a search engine what it can and cannot link to in its index.¹⁰⁵

Both SOPA and PROTECT IP would have allowed the United States Department of Justice to issue court orders to websites "dedicated to infringement" and seize or eliminate these sites from the Internet by cutting off financial support and advertising payments and by seizing the website. The *Commercial Streaming Felony Act* provides vague definitions of infringement as well as poor guidance to federal authorities investigating copyright infringement. All three of these amendments as proposed are unreasonable and would render ineffective if signed into law because all three would affect legitimate Internet commerce.

With bills like SOPA and PROTECT, IP website operators will think twice before launching a product or continue rendering a service online because nobody wants to be held responsible for the actions of others. Launching a website that *could* get seized is not an attractive business. Online streaming is not a simple problem for producers of entertainment content and will continue to be a legally complex copyrights issue. Content owners have lobbied to expand copyright protections and used courts to shut down streaming websites they argued violated copyright laws for allowing copyright infringement on their sites, because suing the individual users who illegally provide the stream for due compensation is not the most productive course of legal action. Why *should* websites be held responsible for the actions of their users?

Copyright owners may argue "[d]espite the breadth of the public performance right, civil lawsuits against individuals alleged to have infringed [the right] online are rare."¹⁰⁶ Also, "the standard for establishing criminal copyright liability is much higher than civil liability, making prosecutions for criminal copyright infringement under existing law [...] rare."¹⁰⁷ While some

¹⁰⁵ *Supra*, note 93.

¹⁰⁶ *Fears of Felony Streaming Bill Overblown*, Terry Hart, CopyHype, June 7th, 2011, available at: http://www.copyhype.com/2011/06/fears-of-felony-streaming-bill-overblown/#identifier_1_265.

¹⁰⁷ The Department of Justice's *Prosecuting IP Crimes Manual* lists several considerations for US Attorneys to keep in mind when deciding whether to bring criminal charges for Intellectual Property crimes:

Federal criminal prosecution is most appropriate in the most egregious cases.

Limited federal resources should not be diverted to prosecute an inconsequential case or a case in which the violation is only technical.

Federal prosecution is most appropriate when the questions of intellectual property law are most settled. Victims have a broad range of civil remedies that include restitution, damages, punitive or quasi-punitive damages, injunctions, court costs, and attorneys' fees.

The sources or manufacturers of infringing goods and services are generally more worthy of prosecution than distributors."

say “[t]he worry that [the *Commercial Streaming Felony Act*] will lead to prisons overflowing with people for sharing online videos that happen to be infringing is overblown,”¹⁰⁸ the public performance right under the law is not specific and would compromise many legitimate websites. It might also be true that there “are many other considerations that limit the application of criminal copyright infringement laws to only the most egregious pirates,”¹⁰⁹ but the fact remains the text of the amendment does not directly target “rogue” websites dedicated to infringement.

A key element to consider when legislating copyright infringing-related activities under criminal law is to establish the difference between websites that dedicate to and profit directly and solely from infringement from other websites that admittedly carry infringing content on the platform. None of these bills establish this difference or even propose a guided approach towards eliminating illegal streaming feeds online. All three bills will place undue legal and operational burdens on many websites operating legitimately.

Neither PROTECT IP nor SOPA establish guidelines to determine if a site is dedicated to infringement by allowing content owners to directly access the financial companies that provide payments to the sites without prior determination of infringement by a court of law. By changing the existing Notice and Takedown regime for infringing content the United States, the bills proposed sanctioning websites that host infringing content and leave out the most important element of copyright lawsuits or prosecutions, identifying the copyrighted content and punishing the actor(s) who committed the infringement. Canadian Bill C-11 discussed ahead is a great example to follow as it proposes numerous factors for a judge to consider, making their proposed amendment clearly about “rogue” websites dedicated to infringement.

The proposed amendments to the *Commercial Streaming Felony Act* attend Hollywood’s need to establish that streaming copyrighted content online is theft and should be punished with jail time, without establishing a course of action, factors to consider or even a framework for judges to apply. The lack of guidance results in a statute that may apply to both the users who post on a website and the operators who run it and where infringing content lies. Criminalizing streaming, as a whole, does not address the core of illegal streaming as Hollywood intends.

Prosecuting IP Crimes Manual, Department of Justice, available at:

<http://www.justice.gov/criminal/cybercrime/ipmanual/09ipma.html>.

¹⁰⁸ *Fears of Felony Streaming Bill Overblown*, *supra* at note 113.

¹⁰⁹ *Id.*

3.3 Canada saves the day?

In Canada it is legal to watch content online even if obtained, copied or uploaded illegally by another user of the Internet. An important distinction made in the country's legal system is that certain websites provide a service, like hosting a cloud (storage space), yet other sites are dedicated solely to the business of making copyrighted content and counterfeit goods available to all users. Canada's Parliament enacted Bill C-11 on copyright reform on November 7, 2012. Using what can be called a "main purpose test", a the amendment to the Canadian Copyright Act exposes the importance of differentiating between website owners who rely on uploaded copyright protected content, and those who do not.

Bill C-11 has a particularly relevant statute regarding streaming that should be included in Bill S. 978 in the United States and would address the legislative holes that could negatively affect legally operating streaming websites like YouTube, MegaVideo, PutLocker, amongst thousands of others websites. Subsection (2.3) of Bill C-11 specifically prohibits online streaming websites whose main purpose is to infringe copyrights, and who use their networks to promote infringement. This can include websites or networks not only allowing infringement by their users but also promoting it or posting infringing content as webmasters. The suggested text states it is an infringement of copyright for a person

[T] o provide, by means of the Internet or another digital network, a service that the person knows or should have known is designed primarily to enable acts of copyright infringement if an actual infringement of copyright occurs by means of the Internet or another digital network as a result of the use of that service.¹¹⁰

The bill adds various factors for a court to keep in mind when considering whether or not a person has infringed copyright under subsection 2.4, including:

(a) whether the person expressly or implicitly marketed or promoted the service as one that could be used to enable acts of copyright infringement;

(b) whether the person had knowledge that the service was used to enable a significant number of acts of copyright infringement;

¹¹⁰ Bill C-11, An Act to amend the Copyright Act, presented *available at*: <http://www.parl.gc.ca/HousePublications/Publication.aspx?Docid=5144516&file=4>.

(c) whether the service has significant uses other than to enable acts of copyright infringement;

(d) the person's ability, as part of providing the service, to limit acts of copyright infringement, and any action taken by the person to do so;

(e) any benefits the person received as a result of enabling the acts of copyright infringement; and

(f) the economic viability of the provision of the service if it were not used to enable acts of copyright infringement.¹¹¹

The six factors jointly applied make up a concise and ideal test for identifying the online businesses whose main purpose is to infringe on copyrighted content, weeding out the repercussions and legislative flaws of SOPA and PIPA. If the website promotes or markets itself as a medium to obtain copyrighted streams of content it should not be allowed to operate. The same applies to a website that allows a significant number of acts of infringement or illegal streams online when compared to the number legal uploads or streams.

A website's main purpose of operation needs to be analyzed in relation to all acts of streaming that the website owner allows on the platform. Important elements to consider are under subsection 2.4, identifying the other uses of a particular online streaming service, tied to its main purpose of operation, as well as (d) the actions taken to limit infringement should be a part of any analysis tied to a website's modus operandi.¹¹² These last two factors consider the economic benefits resulting from infringement and the economic viability of the service if it was not used to infringe. Directly related to the purpose and business model of a website by allowing a court to consider the economic benefits and value of the service with regards to infringing content are two factors that address "rogue" websites.

It is reasonable to think that a court facing a case against a big hosting website should consider the service as a whole as well as how the economic model behaves with the infringement that occurs. Bill C-11 deals with precisely this, to analyze the website through business and commercial factors, an important reasonable step in the fight against piracy that U.S. amendment proposals have not addressed. Keeping in mind the six factors that relate both to the possible services offered by a website as well as to the

¹¹¹ *Id.*

¹¹² *Id.*

actual use subscribers give to the website, will put a court in the best position to make a more factual determination when facing an infringement lawsuit.

Along with Bill C-11, the Government released Fact Sheets¹¹³, an FAQ¹¹⁴, and a Backgrounder¹¹⁵. The Government background documents describe this new right as follows:

The Bill gives copyright owners the tools to pursue those who willfully and knowingly enable copyright infringement online, such as operators of websites that facilitate illegal file-sharing.

It recognizes that the most effective way to stop online copyright infringement is to target those who enable and profit from the infringements of others. By allowing copyright owners to pursue these “enablers”, such as illegal peer-to-peer file sharing sites, this Bill supports the development of significant legitimate markets for downloading and streaming in Canada. This supplements existing criminal punishments for those who aid and abet infringement.¹¹⁶

Section 27(2.3) of Bill C-11 created a new cause of action referred to in the Bill as “enablement”.¹¹⁷ The Government background documents also state that the “legislation will ensure that services that enable infringement will not benefit from the liability limitations afforded to ISPs and search engines.”¹¹⁸

While the new enablement right could be a very useful tool in fighting online pirate sites and services, it has some technical drafting deficiencies that need to be fixed to ensure that the new cause of action can be used as intended. Perrin Beatty of the Canadian Chamber of Commerce [...] stated that the concept of “designed primarily to enable infringement” needed to be clarified and that this clarification is an “essential technical amendment to ensure that the bill in fact achieves the purpose for which it was intended.”¹¹⁹

¹¹³ *What the Copyright Modernization Act Means for Business Innovation*, Balanced Copyright: Fact Sheets, available at: <http://www.ic.gc.ca/eic/site/crp-prda.nsf/eng/rp01187.html>.

¹¹⁴ *Questions and Answers: The Copyright Modernization Act*, Balanced Copyright: FAQ, available at: http://www.ic.gc.ca/eic/site/crp-prda.nsf/eng/h_rp01153.html.

¹¹⁵ *Copyright Modernization Act –Backgrounder*, Balanced Copyright, available at: http://www.ic.gc.ca/eic/site/crp-prda.nsf/eng/h_rp01237.html.

¹¹⁶ *Some observations on C-11: The Copyright Modernization Act*, Barry Sookman, October 3rd, 2011, available at: <http://www.barrysookman.com/2011/10/03/some-observations-on-bill-c-11-the-copyright-modernization-act/>.

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ *Id.*

Other efforts have been made by politicians to stop online piracy, like French President Sarkozy in 2009, who introduced a 'graduated response' approach to copyright infringement, whereby users are issued with warnings before any further action is taken. If they continue they will eventually get to a sanction which could consist of a temporary account suspension".¹²⁰ More countries are taking action as both Taiwan and South Korea have enacted new laws and legislation is going through parliament in the United Kingdom and New Zealand.¹²¹ "Meanwhile a landmark ruling in Italy at the beginning of February this year blocked Italian access to the infamous bit torrent service 'The Pirate Bay' – a site that facilitates access to a large amount of copyright infringing material."¹²²

The approach to copyright protections is not simple; it is an aggregate result of an analysis of facts and the foreseeable future consequences of ever-changing technology. In order to protect copyrights of digital entertainment content online, legislation must encompass more than lazy descriptions of public display, and should address the actual problems copyright holders face. If the law provides a Notice and Takedown procedure for copyright holders to protect their property from infringement, legislative changes should facilitate this procedure instead of increasing the criminal sanctions for a vaguely defined group of websites.

It should not be about blocking ThePirateBay from Italy because it contains infringement, but about writing Italian copyright legislation that understands how the website operates and provides elements for a court to consider when the website is sued for infringement. If a court determines the website is mostly used for copyright infringement, then it should not be allowed to operate, making it a reasonable determination based on facts and evidence.

IV. HOLLYWOOD'S TAKES AT COPYRIGHT ENFORCEMENT

Copyright infringement is a negative course of civil legal action available to copyright owners for the protection of their exclusive rights under the U.S. and Canadian Copyright Acts. When faced with an infringement lawsuit under 17 U.S.C. §501(a), "[p]laintiffs must satisfy two requirements to present a prima facie case of direct infringement: (1) they must show ownership of the allegedly infringed material and (2) they must demonstrate that the alleged infringers violate at least one exclusive right

¹²⁰ *Piracy problems overshadow rising digital music sales*, Sarah Stolarz, DeutscheWelle.com, February 27th, 2010, available at: <http://www.dw-world.de/dw/article/0,,5272948,00.html>.

¹²¹ *Id.*

¹²² *Piracy problems overshadow rising digital music sales*, *Id.*

granted to copyright holders under 17 U.S.C. §106.”¹²³ In Canada the question asked by a court is whether the plaintiff owns a copyright, and if infringement occurred over that copyright.¹²⁴

Since 2009 the MPAA has been working with United States federal agencies in an attempt to eliminate infringing content from streaming websites by criminally prosecuting website owners for user-generated content. These efforts go hand in hand with proposed legislation to amend copyright laws and civil lawsuits by Hollywood studios against streaming websites. This section will analyze the unnecessary criminal prosecutions and seizures of streaming websites, as well as the court’s decisions ruling that linking platforms that provide a space for user-generated content are not infringing copyrights in the United States or abroad.

Lawsuits and prosecutions against hosting *and* linking site owners are Hollywood’s attempt at placing both types of streaming platforms under judicial scrutiny in order to make the argument that, regardless of who uploads the content, linking to it or hosting it should be illegal. Although a smart legal strategy, if linking to copyrighted content were illegal, hosting the content certainly would be as well, a dangerous legal scenario for many hosting sites operating online. Linking websites provide the hyperlink to a stream by redirecting a user to a third-party website where the content is located. This technological relationship makes it harder to establish liability for infringement for linking, since no illegal act is performed.

In *Viacom v. YouTube*, the judge exonerated Google because “the infringing works in suit may be a small fraction of millions of works posted by others on the service’s platform”.¹²⁵ The judge said the Notice and Takedown regime of the DMCA “works perfectly” and there is no secondary liability for hosting infringing content when the website follows the safe harbor provision in the law. When facing a notice for takedown, YouTube “cannot by inspection determine whether the use has been licensed by the owner, or whether its posting is “fair use” of the material, or even whether its copyright owner or licensee objects to its posting.”¹²⁶

In the United States, government seizures of linking sites like TVShack or Movie-Links.tv presented ahead, the Department of Homeland Security finds it problematic to follow up on their enforcement plan, particularly due to specific rulings from other jurisdictions allowing some of these websites to continue operating. If a court actually decided linking is illegal and lowered the threshold for infringement liability to include hyperlinking, sites like YouTube, MegaVideo or Justin.tv, three different platforms for hosted video-recorded content, would be liable for user-generated content without a

¹²³ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir.2001).

¹²⁴ *Copyright Act of Canada*, s. 42(1).

¹²⁵ *Supra* note 7.

¹²⁶ *Id.*

single act of direct infringement. Prosecution of streaming website operators, speedy and vague amendments to copyright laws, and enforcement powers abroad are not going to eliminate illegal streaming feeds.

4.1 Operation In Our Sites: unfounded prosecutions

Do not link to a video stream anywhere on the Internet; it could be your last. The Department of Homeland Security (DHS) partnered with the MPAA to criminally prosecute users linking to copyrighted material. Homeland Security stated, “[i]t is unlawful to *reproduce* copyrighted material, such as movies, music, software or games, without authorization.”¹²⁷ That is legally correct, it is unlawful to reproduce copyrighted material without authorization, but the investigations have focused on seizing sites for illegal reproductions of copyrighted works, when streaming constitutes a public display.

The main problem with the United States government prosecuting streamers online though, as discussed before is that websites owners do not infringe on copyrights when they link to or host content, both legal and illegal. Unless the website is dedicated to infringement or the owner uploads infringing content, the platform should not be held liable for its users’ actions, as long as the owner follows the requirements for protection under the “safe harbor” provisions. Blogger Aaron Thalwitzer makes a great point:

Let me be crystal clear: profiting from someone else’s copyrighted work without their permission is not okay. My gripe is with DHS’ law enforcement strategy and the arbitrary nature of this prosecution. That’s akin to saying, “breaking the law is illegal.” But of course it’s unlawful to reproduce copyrighted material. This is a new level of prosecution – the Feds aren’t going after those who merely reproduce content, but rather someone who showed others where to find it, and put him away for 5 years for doing so.¹²⁸

In Our Sites is an ongoing investigation by the United States Department of Justice in collaboration with Immigration and Customs Enforcement and the U.S. National Intellectual Property Rights Coordination Center under the authority of the Department of Homeland Security.¹²⁹ Court filings from the 2010 seizures state the investigation consisted of ICE agents

¹²⁷ *Link to a copyrighted video, get five years*, Aaron Thalwitzer, TacticalIP.com, March 25th 2011, available at: <http://tacticalip.com/tag/channelsurfing-net/>.

¹²⁸ *Id.*

¹²⁹ *United States of America v. The Following Domain Names*, *supra* note 21, at p. 4.

monitoring the websites by using computers located in the Southern District of New York.¹³⁰ On multiple occasions, while monitoring the Defendant's websites, the agents were able to stream and/or download multiple illegal copies of copyrighted or first-run motion pictures.¹³¹ For purposes of the investigation, streaming and downloading are treated equally, and it does not take into consideration the technological factors that make up each product or service by also equating streaming to illegal copies and alleging the linking websites made the copies.

Under the authority of the PRO-IP Act, without the need for any other legislation, many websites operators whose platforms *contain* infringing content have been charged with criminal copyright infringement for alleged inducement of infringement. In the hundreds of website seizures by both the Department of Homeland Security (DHS) and Immigration and Customs Enforcement (ICE), with the cooperation of the MPAA, cyber property was seized before adversarial hearings were held. Some of the sites were allegedly selling counterfeit goods, but without a hearing "how does ICE know that these sites did not believe they were selling legitimate products?"¹³² Other seized websites were operating legitimately by providing platforms to store data or operated as linking sites, mere conduits of information; only users of these websites can infringe copyrights directly. In those cases, no adversarial hearing was held either, and direct infringement has never been proved in a court of law.

The affidavit used to obtain a warrant for the 2010 seizure of Torrent-Finder¹³³ was published online and shows a disturbing level of legal ignorance of the federal authorities with regards to what constitutes infringement of a copyright. The federal agent stated he believed that each of these websites were "actively facilitating" the distribution of pirated content. "Based on the investigation, it appears that website administrators and/or representatives from each of these five websites supply access to, and

¹³⁰ *Id.*

¹³¹ *Id.*

¹³² "What's wrong with going through an adversarial hearing in which the site's operators are allowed to defend themselves? At the very least, considering the widespread questions about the legality of these seizures, wouldn't it make sense for Homeland Security and ICE to wait until the legality of such seizures is reviewed by a court?" *Homeland Security seizes another 18 domain names, with no adversarial hearings or due process*, Mike Masnick, February 15th, 2011, available at:

<http://www.techdirt.com/articles/20110214/16451913091/homeland-security-seizes-another-18-domain-names-with-no-adversarial-hearings-due-process.shtml>.

¹³³ Affidavit available online at: <http://www.scribd.com/doc/45473003/ICE-affidavit-partial>.

advertising for, the pirated content via their websites and/or provide access for any Internet users to download such pirated content.”¹³⁴

The proof utilized to seize the websites is ambiguous and relies on incorrect interpretations of copyright law. “Advertising infringement” on a website is very different from “supplying access” to infringement, which in turn is very different from “providing access for any user to download” and from “actively facilitating the distribution” of illegal content. It is easy for any judge to get confused when seeing so many different ways to infringe. Neither supplying access nor advertising infringement is a violation of copyright law. Providing access for any user to download can be interpreted as linking to copyrighted content, and is neither illegal nor constitutes direct or even secondary copyright infringement if the content is taken down. “Actively facilitating” the distribution *may* be considered secondary liability but the affidavit does not explain any of these terms. TechDirt.com wrote about the incident stating there is a problem with how the federal agent categorized the site.

First of all, he calls it a “linking” and a “bit torrent website.” Earlier in the affidavit, these terms are defined loosely – without any indication of the unsettled nature of the legal question concerning whether or not simply linking to potentially infringing content is, itself, infringing. Instead, it's simply assumed that linking is not just infringement, but potentially criminal infringement. That's scary. And wrong.

Meanwhile, a “bit torrent website” is defined is a “website through which illegal copies of movies and television shows are shared and transferred.” The problem here, of course, is that Torrent-Finder is not, in fact, a “bit torrent website.” It hosts no tracker. It hosts no infringing content. It's a search engine. That distinction is entirely ignored. Anyone [...] who understands how the Internet works should be horrified by this. It's like saying that Google is liable for everything and anything that people can find by doing a search on Google. Think about that for a second.¹³⁵ It is clear from reading the affidavit that Hollywood's lobbyist, that the Motion Picture Association of America, was closely involved with the seizures.

In the December 2010 seizures ICE took legal action against other torrent search sites including Canadian site IsoHunt but those actions have resulted in lengthy civil litigation. “Even when the MPAA won in December 2009, IsoHunt still had the right to appeal the ruling, and it has continued to operate throughout the years-long legal battle. By engaging Customs and Homeland Security officers to seize web-domain names, the MPAA has found

¹³⁴ *Homeland Security presents 'evidence' for domain seizures; Proves it knows little about the internet – or the law*, Mike Masnick, December 17th, 2010, Tech Dirt, available at: <http://www.techdirt.com/articles/20101217/01190512310/homeland-security-presents-evidence-domain-seizures-proves-it-knows-little-about-internet---law.shtml>.

¹³⁵ *Id.*

a shortcut to what might have otherwise been a drawn-out and expensive legal battle.”¹³⁶

The United States attorney that filed the 2010 complaint against hosting websites said in a statement that Movies-Links.tv had about 3.3 million visitors per month.¹³⁷ Immigration and Customs Enforcement said that as part of the action, authorities had seized assets from 15 banks, the e-commerce service PayPal and from investment and advertising accounts and four residential search warrants had been carried out.¹³⁸ The websites under investigation were seized and when accessed, users are now greeted with a warning that reads:

This domain has been seized by U.S. Immigration and Customs Enforcement, Special Agent in Charge of New York Office in accordance with a seizure warrant obtained by the United States Attorney's Office for the Southern District of New York and issued pursuant to 18 U.S.C. §§981 and 2323 by the United States District Court for the District of New York.

It is unlawful to reproduce or distribute copyrighted material, such as movies, music, software or games, without authorization. Individuals who willfully reproduce or distribute copyrighted material, without authorization, risk criminal prosecution under 18 U.S.C. §2319. First-time offenders convicted of criminal felony copyright laws will face up to five years in federal prison, restitution, forfeiture and a fine.¹³⁹

In March 2011, Bryan McCarthy, owner and operator of streaming website ChannelSurfing.net was arrested as part of ICE operation *In Our Sites*. McCarthy's site was seized and the site was replaced with an ICE logo and

¹³⁶ *The details behind the government's recent domain-name seizures*, Joe Mullin, Paid Content, December 16th, 2010, available at: <http://paidcontent.org/article/419-documentsoffernew-detailsaboutgovernmentsdomain-name-seizures/>.

¹³⁷ *U.S. authorities seize websites over pirated movies*, Alex Dobuzinskis, Reuters, June 30th, 2010, available at: <http://www.reuters.com/article/2010/06/30/us-piracy-idUSTRE65T6OR20100630>.

¹³⁸ *Id.*

¹³⁹ Note: After that warning is displayed, users that access any of the websites seized as part of the proceedings are redirected to an Anti-piracy Public Service Announcement uploaded to YouTube by the ICE. An anti-piracy announcement like that can make the legitimate, paying customer of a streaming site paranoid of possibly facing legal action. It seems to be placed for educational purposes, but the announcement is blunt and exaggerated. It goes so far as to imply that a user that accesses the stream (or free movie) from a movie pirate has no soul. This PSA is not the right way for Hollywood to convey a message. See *Antipiracy Public Service Announcement*, Uploaded by YouTube user wwwICEgov, Uploaded: March 22nd, 2011, http://www.youtube.com/watch?v=cx8obpx4844&feature=player_embedded.

explanation that it now belongs to the United States government. A news report stated the operation “seizes domain names, often of foreign websites, without an adversarial hearing,”¹⁴⁰ The same article pointed out something important about McCarthy’s site; it is a linking website.

McCarthy had just been arrested for “criminal infringement of a copyright” even though his site only links to other content (that is, it doesn’t host the infringing sports broadcasts itself). ICE doesn’t care; McCarthy is still charged with “reproduction and distribution” over Channelsurfing.net, from which he allegedly made at least \$90,000 over the last five years by framing the streamed content with his own ads.¹⁴¹

In Our Sites focused not only on those websites that directly host or stream infringing material, but also on ones that simply provide links to it elsewhere. Back in 2007, TV-Links founder and some of the site’s staff were arrested and the site was shutdown by British Metropolitan police.¹⁴² TV-Links was also a linking website which was found to be legal by British courts in subsequent legal proceedings against the founder of the site.¹⁴³ Critics argue that if linking to illegal content is itself illegal, much of the internet, including Google and YouTube, would be much more reasonable targets.¹⁴⁴

While [.com or .org] web addresses are traditionally seen as global, all their connections are routed through VeriSign, an Internet infrastructure company based in Virginia, which the agency believes is sufficient to seek a US prosecution.¹⁴⁵ “There remains considerable doubt as to whether [linking to copyrighted content] is even illegal in Britain – the only such case to be heard before a British court, involving a site called TV-Links, was dismissed by a judge.”¹⁴⁶

Illegal streaming makes it difficult to track and pursue website owners once they change to another jurisdiction, not to mention tracking and pursuing individual users that upload infringing streams. In a report on the 2010 seizure of TV Shack, TechCrunch’s journalist stated that “it only took a few days for at least one of the seized websites to reappear at a different domain” and using an Australian-located address, TVShack.com became

¹⁴⁰ *Illegal TV streamers, here’s how the feds will hunt you down*, Nate Anderson, ArsTechnica.com, March 2011, available at: <http://arstechnica.com/tech-policy/news/2011/03/illegal-tv-streamers-heres-how-the-feds-will-hunt-you-down.ars>.

¹⁴¹ *Id.*

¹⁴² *TVLinks Founder Arrested For Illegal Linking*, Mark Kirkpatrick, RedWriteWeb.com, October 22, 2007, available at: http://www.readwriteweb.com/archives/tv_links_founder_arrested.php.

¹⁴³ *Id.*

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

TVshack.cc to escape seizure from ICE.¹⁴⁷ In November 2010 Tech Crunch reported *again* on illegal streaming and website seizures. This time ICE seized precisely the “.cc” domain along with over 70 websites in another effort to eliminate illegal streaming from the Internet.¹⁴⁸ “Moving to a new domain may buy the websites some time, but as the TVShack.cc seizure proves, it is not clear what exactly is safe.”¹⁴⁹

Piracy is global, and if the rules and precedents cannot be fully enforced in all countries, jurisdiction will be a continuous barrier for copyright holders’ enforcement of their rights in court with regards to linking sites. The TVShack case proves enforcement has been an issue for the U.S. Department of Justice and the seizure of streaming websites cannot be a way for the U.S. government to disregard jurisdictional concerns or follow legal procedures. Streaming hosting and linking websites do not have to be forced to move to another domain or jurisdiction to avoid legal action. With clear legislation and a prosecution-free linking and hosting marketplace, the studios and the service providers can intertwine and adapt their business model to address the change in their users’ digital needs.

Criminal copyright infringement statutes are heavily criticized regarding the Internet and digital content precisely because the rights are not easily enforceable. Civil copyright infringement actions and prosecutions across the border carry complex jurisdictional issues. There have been some critics of the U.S. government seizures¹⁵⁰, some even going as far as saying they violate due process and are unconstitutional.¹⁵¹

¹⁴⁷ *Id.*

¹⁴⁸ While assigned to the Cocos (Keeling) Islands, an Australian territory, the “.cc” top-level domain is controlled by the US based VeriSign and therefore was always at risk of a takedown. There seems to be some confusion surrounding whether a TLD registrar like Verisign or Afilias or ICANN is the ultimate decider in whether to comply with an ICE takedown request. Global DNS coordinator ICANN is U.S. based, it cannot technically force a foreign registrar to do anything. Any international ICE cooperation is going to be done with the blessing of the country the registrar is based in, even though it’s likely most will comply with US Homeland Security. *See Id.*

¹⁴⁹ *Id.*

¹⁵⁰ Silicon Valley Representative Zoe Lofgren has recently voiced her criticisms of the domain name seizures by Intellectual Property Enforcement Coordinator Victoria Espinel. *See Silicon Valley Congresswoman: Web seizures trample due process (and break the law)*, Nate Anderson, available at: <http://arstechnica.com/tech-policy/news/2011/03/ars-interviews-rep-zoe-lofgren.ars/>.

Chris Greenwood, of the Phoenix Independent Examiner, compares the arrest of Bryan McCarthy — one of the first individuals arrested in connection with Operation in Our Sites — to Muammar Gaddafi’s brutal crackdown on his own people. *Suppression of site links protects copyrights, threatens free speech*, Chris Greenwood, Phoenix Examiner, March 5th, 2011, available at: <http://www.examiner.com/independent-in-phoenix/suppression-of-site-links-protects-copyrights-threatens-free-speech>.

¹⁵¹ SitesandBlogs.com writer David Makarewicz wrote five reasons why the domain name seizures are unconstitutional. March 9th, 2011, available at:

Others critics have differentiated ICE's actions in operation *In Our Sites* from seizures by pointing out they are legal forms of forfeitures.¹⁵² The question of whether the statutes used to seize these domain names requires a pre-seizure hearing has been answered.¹⁵³ In *U.S. v. E-Gold*, the District Court of DC held that "the circumstances giving rise to the seizure of assets upon probable cause that the assets were used in violation of specified criminal statutes meets the 'extraordinary circumstances' three-part test for seizure without a pre-deprivation hearing."¹⁵⁴

The Western District Court of Kentucky also acknowledged that exceptions to a pre-deprivation hearing "apply in civil forfeiture actions".¹⁵⁵ In *U.S. v. Bajakajian*, the Supreme Court heard an Eighth Amendment challenge to a federal forfeiture action, one that occurred without a pre-deprivation hearing, lending further credence to the lawfulness of the process under these laws.¹⁵⁶

Not surprisingly, the government does not seem to be following up charges in many of these criminal copyright infringement cases.¹⁵⁷ Thankfully so, since government attorneys do not know or seem to ignore the difference between the rights of public display and those of reproduction and distribution of a work. They also seem to treat linking and hosting sites equally, incorrectly attributing the same liability for infringement, even though the latter *actually has* infringing content, the former does not carry content at all, and both are online service providers.

The practice up to the present has been to simply seize the domains and hope the owner does not repeat the offense.¹⁵⁸ That's particularly true for the foreign cases, which would be hard to prosecute in any event. Whether or not the United States Immigration and Customs Enforcement follows up on the charges or is content with simply seizing the domains is yet to be known. With the U.S. government enforcing criminal copyright infringement in other jurisdictions, the MPAA or any Hollywood studio are a hearing away from alleging their distribution rights are being infringed because streaming websites link to the content or host the content, thus

<http://www.examiner.com/independent-in-phoenix/suppression-of-site-links-protects-copyrights-threatens-free-speech>.

¹⁵² *ICE Seizures Criticism: Magic Words*, Terry Hart, CopyHype.com, March 21, 2011, available at: http://www.copyhype.com/2011/03/ice-seizures-criticism-magic-words/#identifier_7_216.

¹⁵³ *ICE Seizures Criticism: Magic Words*, *Id.*

¹⁵⁴ *United States v. E-Gold*, 521 F.3d 411, 417 (D.C. Cir. 2008).

¹⁵⁵ *United States v. Content of Accounts*, 3:10-CV-228-H, United States District Court for the Western District of Kentucky, Louisville Division, (decided: June 21, 2010).

¹⁵⁶ *United States v. Bajakajian*, 524 U.S. 321 (1998).

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*

distributing or reproducing the content. Under any legal copyright analysis, this proposition is absurd.

The United States government should not continue with Operation *In Our Sites*, and should step down to allow content owners to assert their exclusive rights as authors. On the one hand, linking has been declared legal in other jurisdictions. On the other, hosting infringing content by an online service provider has been considered legal so long as the website removes infringing content. The Canadian government is doing just this; the government has not criminally charged website owners per a copyright owner's request to do so. Governmental interference is unnecessary because copyright owners have the right and the burden of proof of infringement. In the U.S. owners of content are already provided with two legal remedies, the Notice and Takedown procedure and suing for civil infringement of copyrights.

4.2 Linking legal everywhere

Linking websites have been declared legitimate business models, composed of links to content elsewhere online. These websites cannot physically infringe because they have no video-recorded content. There is an issue with the First Amendment and the right to free speech, which protects forums for having illegal content posted. Courts in the United States, Canada and abroad have repeatedly determined hyperlinks are not illegal because they are not content, only a reference to it. Links are not public displays, reproductions or distributions of copyrighted works. Even if an argument can be made that hosting websites show or physically display a work by allowing a user to stream a movie, linking websites should not be held liable for infringement because the platform does not even display a work.

The most important element to keep in mind to determine liability is who committed the act of infringement, and in the case of linking websites the infringing content was already posted somewhere else; the link enables access to it. The cases analyzed ahead are examples of civil lawsuits presented without making such analysis or distinctions. It seems it is not about identifying *who* infringed but about *who allowed others* to infringe. In these cases the question for the courts has been whether or not linking to copyrighted-content posted elsewhere is illegal.

In *Crookes v. Newton* the Supreme Court of Canada decided hyperlinks are, in essence, references, which are fundamentally different from other acts of "publication".¹⁵⁹ "Hyperlinks and references both communicate that something exists, but do not, by themselves, communicate its content. A

¹⁵⁹ *Crookes v. Newton*, 2011 SCC 47.

hyperlink, by itself, should never be seen as “publication” of the content to which it refers.”¹⁶⁰ In other words, posting it on your web page does not, by itself, make *you* liable for what might be displayed on another website when someone clicks through.¹⁶¹

The case was not about linking-to-streaming, but rather a defendant’s website containing hyperlinks to what the plaintiff thought was defamatory content on a third-party site. “By going after Newton who had simply hyperlinked to other sites, Crookes was effectively trying to get the courts to stop anyone from even learning those articles existed, to render them practically obscure, lost among the millions of web pages written and forgotten every day.”¹⁶² Hollywood studios argue linking sites are resources to infringement and have tried eliminating them from the Internet through lawsuits and legislation and, by doing so, risk the stability of free speech online.

Hyperlinks are simply references to other content and in essence are content neutral.¹⁶³ “They don’t express opinion, nor control the site to which they refer. In fact, the content can and often does change after the link is created.”¹⁶⁴ Linking sites have no control of either user-generated posts or the content to which the posts link. The majority of the court held that “a plaintiff concerned about mere hyperlinks should sue the publishers of the original articles, who made the material available to the public in the first place.”¹⁶⁵ Content owners need to focus on identifying the actors of infringement, the users that post links to infringing content online.

The court adequately found that, “when a person follows a hyperlink to a secondary source that contains defamatory words, the actual creator or poster of the defamatory words in the secondary material is the person who is publishing the libel.”¹⁶⁶ Hyperlinking requires a prior action of defamation or infringement and in both situations links are conduits of information, not publications of work or content. The case applies well to hyperlinks of infringing entertainment content because it establishes the purpose of a link and the effect it has online. Links are not content and by definition cannot constitute infringement.

In the Netherlands, a decision by the Hague Court of Appeals in the case of *FTV v. Eyeworks Film* is another ruling by a court of justice where

¹⁶⁰ *Id.*

¹⁶¹ *Supreme Court hyperlink decision a victory for free speech*, Daniel Henry, CBC, October 19th, 2011, available at: <http://www.cbc.ca/news/canada/story/2011/10/19/f-vp-henry-libel-law.html>.

¹⁶² *Id.*

¹⁶³ *Id.*

¹⁶⁴ *Id.*

¹⁶⁵ *Id.*

¹⁶⁶ *Supra* note 167.

linking is found not to constitute infringement of copyrights.¹⁶⁷ The court reversed an earlier decision by a lower Dutch court and ruled it is not illegal for a person to inform other Internet users where to find infringing, or illegal streaming content.¹⁶⁸ Eyeworks argued the FTV community was “making available” the locations of files on the Usenet because users were informing the community and linking to the content.¹⁶⁹

The court is initially of the opinion that this action is not inconsistent with Article 26d of the Copyright Law.¹⁷⁰ The uploaders [...] do not need the FTD application in order to be able to upload movies. Nor does the application make the action of uploading in itself any easier. It is therefore not the case that the uploaders make use of the FTD application to commit copyright infringement constituted by the illegal uploading, as required for the applicability of Article 26d of the Copyright Law. The mere encouragement and profiting from copyright infringement is outside the scope of that provision.¹⁷¹

FTV v. Eyeworks Film resembles a Catalan case in Barcelona, Spain that also established linking as a legal activity online. The act of linking to streaming feeds online has thus been found to be a legal non-infringing activity in various courts around the world when it relates to copyrighted material posted without authorization by users of these websites. Although a *sentencia* from Spain does not establish precedent in U.S. or Canadian courts, there is no reason for a judge to discard these decisions, as they are some of the few in the world and provide in-depth analysis of copyrights and linking. Linking to copyrighted material should not be considered illegal, just like it should not be defamation if a user posts links to a defamatory site on a personal Facebook page.

The *Audiencia Provincial de Barcelona* declared on *Indice-web.com v. SAEG*, that Peer-to-Peer index website *Indice-web.com* was acting legally.¹⁷²

¹⁶⁷ *FTV v. Eyeworks Films*, LJN: BO3980, Court of 's-Gravenhage, 200.069.970/01, The Hague, translation available at: <http://ipkitten.blogspot.com/p/ftd-v-eyeworks.html>.

¹⁶⁸ *Id.*

¹⁶⁹ *Id.*

¹⁷⁰ “The alternative application made by Eyeworks on the basis of Article 26d of the Copyright Law implies that FTD should be regarded as an intermediary whose service (the FTD application) is used by third parties to infringe the copyright held by Eyeworks. The second alternative basis implies that FTD has acted wrongly/unlawfully vis-à-vis Eyeworks on account of its facilitating and encouraging a structurally infringing act with its application. These bases can be involved in two possible alleged infringements of the copyright held by Eyeworks, i.e. the uploading (‘posting’) of the movie [...] on Usenet and the downloading of the same.” *FTV v. Eyeworks Films*, *supra*, at paragraph 4.1.

¹⁷¹ *Supra*, note 175 at paragraph 6.8.

¹⁷² *Indice-web.com v. SGAE*, Sentencia Número (Sentence Number) 301/2011, PROV\2011, 254296, Audiencia Provincial de Barcelona, 7 de Julio de 2011, pág. 7, available at: <http://www.legaltoday.com/files/File/pdfs/caso-bna-sgae-paginas-enlaces.pdf>. [Sentence

The Society of Authors and Editors (*Sociedad General de Autores y Editores*) sued linking website *índice-web.com* for “illegally publicly communicating (by making accessible) and reproducing musical works from SGAE’s repertoire, on the website [...] infringing by this on the rights of the plaintiff, by lacking the appropriate license or authorization.”¹⁷³ The court ruled in favor of the linking website and said,

[t] he website *índice-web.com* offers links exclusively for downloads on P2P networks –or other websites–, without storing any type of audiovisual content or interfering in the transmissions made in the P2P networks [...] and keeping in mind the legal concepts of reproduction and public communication, it can be said that the labor incurred in linking without intervening in the download does not fall within the scope of what constitutes reproduction.

The sued website facilitates or orients Internet users in the search of works that are later subject to exchanges on P2P networks, but in our legal system, this type of facilitation does not constitute neither reproduction nor the making available of the work.¹⁷⁴ (Translation Supplied).

A ruling from the Israel District Court stated that linking to copyright infringing content does not constitute a direct copyright infringement.¹⁷⁵ In *ALIS v. Rotter.net*, the Association for the Protection of Cinematic Works (ALIS), the Israeli equivalent of the MPAA, sued forum website Rotter.net with regards to user-generated content in two of its popular forums, “downloads” and “movies”. ALIS claimed that by providing links to infringing content, Rotter is liable for direct infringement.¹⁷⁶ The court recognized that notice and takedown is the correct way to handle user-generated content in

Number 301/2011, PROV\2011, 254296, Provisional Audience of Barcelona, July 7th, 2011, p. 7.]

¹⁷³ *Id.* at p. 2.

¹⁷⁴ Original text: “[e]l sitio web *índice-web.com* ofrece exclusivamente enlaces para descargas en redes P2P –u otros sitios web–, sin almacenar ningún tipo de contenidos audiovisuales y sin intervenir en las transmisiones realizadas en las redes P2P ...y de que, teniendo en cuenta el concepto legal de reproducción y de comunicación pública, puede decirse que la labor de enlazar sin intervenir en la descarga no entra dentro del núcleo de lo que constituye reproducción. El sitio web demandado facilita u orienta a los usuarios de Internet la búsqueda de obras que luego van a ser objeto de intercambios a través de las redes P2P, pero en nuestro derecho ese favorecimiento no constituye ni reproducción ni puesta a disposición de la obra.” *Índice-web.com v. SGAE*, *supra* note 180 at p. 7.

¹⁷⁵ *ALIS v. Rotter*, CA 567-08-09, Tel Aviv-Jaffa District Court, *available (in Hebrew) at*: <http://law.co.il/media/computer-law/alice-rotter.pdf>.

¹⁷⁶ *ALIS v. Rotter: Israeli District Court rules that linking is not direct infringement*, Jonathan Klinger, *Intellect or Insanity*, Jonathan Klinger’s blog, August 11th, 2011, *available at*: <http://2jk.org/english/?p=305>.

Israel and ruled that Rotter is not liable for any user-generated content as long as it removes the infringing content promptly.¹⁷⁷

The important question the court had to answer was whether directly linking to infringing content on another site constitutes direct infringement.¹⁷⁸ Clause 11 of Israel's *Copyright Act* includes the exclusive rights a copyright owner has with respect to the work and one of the rights afforded to copyright owners in Israel is "making a work available to the public".¹⁷⁹

[c]reating a link which transfers the user directly to the infringing site (either to the homepage or an internal page) is not "making a work available" [...] First, creating the link is not "performing an action in a work"; second, the link, by itself eases people from the public to locate the infringing work, but *it does not create the access*. In other words, the work has already been made available by the infringing site and therefore linking to that site cannot be deemed as "making a work available".¹⁸⁰

ALIS claimed "linking is making a work available to the public, defined as "performing an action in a work so that people from the public may have access from a place and time of their choice".¹⁸¹ However, the court rejected this claim.

In linking sites, the work referenced has already been made available to the public on another website. The hyperlink provides access but does not create access to such work. This opinion clearly reflects the technological reality of linking sites. Hosting websites like YouTube, MegaVideo and others *do* provide a space for uploading video-recorded content but the operators of YouTube are not dedicated to illegally copying or displaying copyrighted movies. The "safe harbor" provisions in the U.S. and Canada protect both types of websites from user-generated content that could prove infringing on Hollywood copyrights because, like links, hosts are conduits of information, third-party platforms where infringement might occur but not out of the websites' own initiative.

A "rogue" website dedicated solely to trademark infringement of fashion brands, for example, or to uploading theater-recorded movies or

¹⁷⁷ *Id.*

¹⁷⁸ *Id.*

¹⁷⁹ Clause 11, Israel's *Copyright Act of 2007*, Israeli Parliament (Knesset), November 19, 2007, as published in Hebrew in the 2007 Law Statutes of Israel, at p. 34, on November 25, 2007, *available at*:

<http://www.tau.ac.il/law/members/birnhack/IsraeliCopyrightAct2007.pdf>.

¹⁸⁰ *Supra* note 184.

¹⁸¹ *Id.*

posting copyright infringing links to movies streaming online, should be liable for those particular actions for *direct* infringement. If the users of YouTube or MegaVideo are uploading infringing content, content owners *have to sue those particular users* and they *should* be held liable for violations of the law. The host should not fear prosecution because users can or do infringe.

4.3 What the industry could do, instead

Legislation has proved many times to not be the efficient solution when it comes to technology in digital format. Courts continue to side with the lawyers of the streamers sued or charged and have found linking and cyberlocker websites to be operating legally. Yet, major Hollywood studios have sued online streaming websites and U.S. federal authorities have seized many others. Most of these sites are hosted in jurisdictions outside the United States, some have even been found to be operating legally in their local jurisdictions. Hollywood studios are not being productive when suing illegal streaming websites, spending millions of dollars on lawyer's fees. Instead, they could focus their attention on educating the public, eliminating DRM technology, or improving their distribution practices to provide for the online market.

Streaming allows for viewing content that does not require making copies of the works. This fact makes it harder for prosecutors and lawyers in the entertainment industry to meet the requirements of both civil and criminal infringement. Courts undoubtedly waste time identifying each user of a website directly infringed. It is easier to sue the website for allowing infringement to occur, even if the website administrator did not actually infringe *at all*. As long as people are still watching movies online, Hollywood attorneys are going to have a difficult time fighting illegal streamers in court.

After identifying and removing infringing copies of motion pictures from the Internet, the question remains on whether or not to pursue the individual infringers. In addition to sending notices, motion picture companies have filed lawsuits and sought to identify and prosecute Internet infringers. "Since November of 2004, individuals who have infringed copyrighted motion pictures via the Internet have been sued in lawsuits across the country, many being ordered to pay upwards of \$6,000 for sharing a single motion picture on a peer-to-peer site."¹⁸²

¹⁸² *The Anti-Piracy Landscape in the Motion Picture Industry*, Karen Thorland, Volume 1, Issue 4, Fall 2007, available at: http://www.loeb.com/files/Publication/30f2b446-729d-4290-a135-1e0c3fa92d27/Presentation/PublicationAttachment/176b7ff4-f068-4eb5-8485-21f13c560ee6/ME_Insights_Article_Thorland.pdf.

It is clear that this campaign intends to inflict fear into the core of Internet hosting. These lawsuits serve the purpose of making infringers realize that there are severe consequences for infringing copyrighted material. "However, new technologies may make suits against at least some infringers more difficult in the future. For example, "onion routers" can mask the true location of an infringer by re-routing messages and the content they contain in an unpredictable path through a series of proxies."¹⁸³ The jurisdictional issues mentioned also create a problem for content owners if rogue websites dedicated to infringement simply ignore their notice and change the domain name to another jurisdiction.

There are a number of factors for copyright owners to consider in seeking out the assistance of law enforcement in connection with the piracy of their films on the Internet and through other means.¹⁸⁴ Criminal prosecution under intellectual property statutes requires *mens rea*, or willful infringement.¹⁸⁵ "Additionally, criminal statutes may include threshold dollar amounts that make them inapplicable to infringement of a limited magnitude. Moreover, content owners obviously give up control of the pacing and strategy of the prosecution when they hand a matter over to law enforcement."¹⁸⁶ However, when law enforcement is interested in pursuing criminal prosecutions, Hollywood studios will jump at the opportunity, avoiding legal costs and benefiting financially.

Even though copyrights are protected in most countries, the number of illegal online streaming feeds around the world has risen for both sports¹⁸⁷ and entertainment content¹⁸⁸. Hollywood's reactions to piracy, as noted with the MPAA partnering with law enforcement agencies and many studios suing hosting and linking websites, shows illegal streaming is a threat to the business model Hollywood has in place for the distribution of media content. Efforts by content owners to eliminate infringing streaming feeds by suing or prosecuting website owners have resulted in the opposite effect the industry desired. Courts are rightfully protecting websites determining there is no

¹⁸³ *Id.*

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

¹⁸⁶ *Id.*

¹⁸⁷ "At least 80,000 illegal streams have been removed in two years, according to Internet monitoring company NetResult." *Illegal online sports streaming of matches 'increases'*, Chi Chi Izundo, BBC.com, October 22nd, 2010, available at: <http://www.bbc.co.uk/newsbeat/11549979>.

¹⁸⁸ "The illegal streaming of motion pictures and television programming is as financially devastating for our industry as is illegal downloading," says *Independent Film & Television Alliance* (IFTA) President Jean Prewitt. "Stealing is stealing, regardless of the means in which the product is being received. *Senate Committee Votes to Make Illegal Streaming of Movies, TV a Felony*, Alex Ben Block, HollywoodReporter.com, June 16th, 2011, available at: <http://www.hollywoodreporter.com/news/senate-committee-votes-make-illegal-202503>.

liability for user-generated content when the website acts as an online service provider, and the number of streaming feeds is growing.

Neither a linking website nor a cyberlocker website has yet been found to be violating the copyrights of distribution, reproduction or the copyright of public display or presentation. Yet some website operators have been arrested in the past year by United States federal authorities, and their websites (and many others) have been shut down or seized as a result of investigations into websites that illegally distributed copyright-protected content.

Broadly alleging these websites promote the hosting of first-run movies over the Internet and, by doing so, they violated the right of distribution of the movie studios, the MPAA joined forces with ICE and the DHS to prosecute their owners. Content owners have used the courts to shut down streaming websites they argue violate copyright laws because suing the users (who illegally copy movies, upload the copy, and provide the streams) for due compensation is not the most productive course of action.

Using the enforcement powers for civil forfeitures under the PRO-IP Act, the federal agencies were granted court orders to seize the hundreds of websites in question in various ongoing operations. The seizure orders question the viability of both copyright amendments SOPA and PROTECT IP; if the government can already seize the websites before a court hearing, why is it necessary to involve payment and ad processors at such an early stage of the legal process? The court cases that have ruled streaming websites to be operating legally also beg the question, why are website operators getting arrested by the United States government for linking or hosting to infringing content, and their users are not? More importantly, considering the large amount of users that infringe online, is it even worth it to prosecute or sue?

It is certainly infringement to violate an author's exclusive public presentation or public display copyrights, but it should not constitute criminal infringement, even less a felony. Internet users who infringe on copyrights and use hosting sites to display infringing material, and websites that only post such content online, should face legal repercussions in a civil court. Instead of lawsuits, and because identifying individual Internet infringers is expensive, Hollywood studios decided to become part of the criminal investigations into "rogue" websites online that unfortunately included legal linking and hosting websites. The investigation lead to criminal prosecutions in the United States that considered that the criminal responsibility befalls on both hosting and linking website owners who allegedly "infringed copyrights by providing illegal online streams".¹⁸⁹

Suing or prosecuting the infringement of public display found in streaming websites contemplates the analysis of a great number of sites and

¹⁸⁹ *Supra* note 21.

their millions of users because, as established, suing or prosecuting the owners is legally erroneous. Civil actions are available to content owners for direct infringement, and the proposed criminal amendments are not appropriate punishment for a too broad range of websites. A civil court, and not a criminal court, should determine the liability of a user for infringing on copyrighted content. Criminal sanctions with broad terminology like that seen in the Commercial Felony Streaming Act would only create fear amongst Internet users, intermediaries, service providers, ISP's and law enforcement agencies themselves. Leaving aside the jurisdictional issues with enforcement of United States criminal copyright laws abroad, it is a matter of civil responsibility of infringement and the law should not punish illegal public displays of content like it does profit-driven illegal reproductions and distributions of content.

Piracy does not seem to have an end with technology's exponential growth, but the world should not have to be subject to illegal streaming and Hollywood deserves to get paid. Attempting to make websites responsible for user-generated content is not efficient or legal. Enforcement efforts have proven difficult across multiple jurisdictions throughout the world, and illegal infringing media content is easily accessible to all Internet users, which is why Hollywood should adapt to the market of their users and begin offering their content online.

Illegal streaming will not end with the criminalization of the act because of the difficulty agencies have encountered when identifying all online infringement and across multiple jurisdictions. Illegally obtained infringing media content is also easily accessible to any Internet user, and watching it is legal. Illegal streaming of video-recorded content is not an issue to battle in court as it takes too many resources to sue, find, fine or prosecute all the users that upload infringing content onto streaming websites. The legal system has failed to eliminate or even control illegal streaming online because it is simply impossible. Hollywood producers need to respond to its user's needs and begin offering their content online as well, or the industry will continue to, arguably, face significant losses from illegal streaming.¹⁹⁰ Producers should focus on how to change the business model and by doing so, profit from showing their movies online.

In terms of illegal online streaming of video-recorded content, the government and Hollywood remain concerned over live and recently aired television performances as well as recent movie openings. Internet users want to watch last night's episode and the movie that was released last Friday. Why can't all the Hollywood studios get together and provide a free

¹⁹⁰ Note: This paper cannot provide data on Hollywood studios' losses from piracy streaming. It only provides data from a study commissioned by the MPAA on movie piracy losses. Losses are also alleged in a lawsuit filed by 6 of the studios against movie-rental company Zediva. See, *Warner Bro's, v. WTV Systems*, (Zediva Complaint).

or subscription-based movie-streaming service online? The need for a few months between a movie's theater release and the distribution of the film on DVD-format due to movie adaptations and DVD special features is a popular argument in favor of the studios. Studios should still sell the DVD months later, incentivizing the sale of the copy with added footage or special commentary, and still offer a film through online streaming at the same time that it is playing in theaters.¹⁹¹ In addition to fighting pirates' recording inside movie theaters to avoid the dissemination of digital copies of movies online and aside from creating streaming websites with limited availability of content—e.g. Hulu—, copyright holders of video-recorded content have to focus their efforts towards providing a business solution to the problem.

Hulu is a great example of a model that works. Hulu.com is a joint venture of NBC Universal (Comcast/GE), Fox Entertainment Group (News Corp) and Disney-ABC Television Group (The Walt Disney Company) that offers movie and television-show streaming.¹⁹² Being a venture between three big networks, it developed a novel online distribution strategy for the content of these networks; they distribute video on the site, syndicate the hosting to other sites, and also allow users to embed Hulu clips on their [own] websites.¹⁹³

The online streaming venture has allowed for a more open-minded distribution practice for the big networks, showing their willingness to partner up to fight illegal streamers the right way. Hulu also carries shows from many other networks and in turn, each supplier of content receives fifty (50) to seventy (70) percent of the revenue that results from the advertising of such content.¹⁹⁴ In November 2009, the site also began to establish partnerships with record labels to host music videos and concert performances on the site, including EMI in November 2009,¹⁹⁵ and Warner Music Group in December 2009.¹⁹⁶ A step forward towards integration amongst studios, Hulu exemplifies why other networks should join forces; studios can make profits from online streams.¹⁹⁷

¹⁹¹ This paper is not a presentation of business alternatives for the distribution practices of Hollywood studios, but suggests the need for alternatives to legal solutions.

¹⁹² *About, Hulu.com*, available at: <http://www.hulu.com/about>.

¹⁹³ *Id.*

¹⁹⁴ *Id.*

¹⁹⁵ *Hulu, EMI Strike Deal For Music Videos, Concerts*, Chloe Albanesius, PC Magazine, November 18, 2009, available at: <http://www.pcmag.com/article2/0,2817,2356071,00.asp>.

¹⁹⁶ *Id.*

¹⁹⁷ *Id.* Note: Business Insider's Henry Blodget reported on "Hulu's economics as best they can determine them," and estimated Hulu making "70 million of annual net revenue is perfectly reasonable". *Hulu Turns Profitable, We Eat Crow*, Henry Blodget, BusinessInsider.com, available at: <http://www.businessinsider.com/henry-blodget-hulu-turns-profitable-we-eat-crow-2010-4>. He added, "In today's NYT, Hulu CEO Jason Kilar said Hulu has been profitable for the past two quarters, generated \$100 million of revenue in 2009, and will generate \$100 million of revenue in the first half of 2010." *Successes (and some Growing Pains) at Hulu*, Brian Stelter &

A hypothetical collective streaming website by the main Hollywood studios, for example, may diminish illegal streams of infringing entertainment content online which is what some would argue that Hulu has accomplished, as users see better alternatives to searching for pirated copies of their favorite television shows. It is not impossible to imagine a streaming website owned by the studios, where users could pay for individual or collective licenses to stream a studio's content for a subscription, a fee, or a reasonable per/movie rental or download price.

Illegal streaming and uploading of recently-released entertainment content exists in part due to the availability issues experienced by Internet users worldwide located in areas where distribution of a movie would take longer, or where a show is not available on television. An online streaming service is not only an expansion of viewership to a global market, it is also an idea that provides the appropriate incentive for users to avoid illegal streams online. If the studios are not willing or able to provide a movie once it comes out, illegal streamers will fill the gap in the market. The executives and producers that run television networks, movies studios, record labels, and news and media organizations have the power to decide how to best work on this goal.

V. CONCLUSION

Illegal online streaming of Hollywood movies is a problem for producers mainly because of how easily accessible copies of movies have become and because of how easy it is to manage digital files. Prosecutors in the United States and in Canada cannot prosecute website owners because they are not infringing, rather they are only linking to, or hosting, user-generated content. The legal system has failed to provide Hollywood copyright holders with adequate protection when tracking and arresting users who provide infringing content through online streaming websites because users are abundant. Most rules and precedents cannot be fully

Brad Stone, NYTimes.com, March 31st, 2011, *available at*:

<http://www.nytimes.com/2010/04/01/technology/01hulu.html?src=tw&tw=NYTimesAd>). That puts the company on track to do \$200-\$250 million of *gross* revenue this year. Of that gross revenue, one source with knowledge of the company's financials estimates that Hulu will keep about 35%-40%. (Hulu's deals with the big content providers yield a 20%-30% of net revenue split to Hulu, but the one-off deals with other content providers sometimes go as high as 50%-50%. So the aggregate net revenue is about 35% of the gross, or \$70-\$100 million in 2010.) On the cost side, Hulu has a couple of hundred employees, bandwidth and tech costs, and sales costs and commissions on the revenue that its sales-force sells. [...] Rolling up all the costs, a source familiar with Hulu's economics says profitability on ~\$70 million of annual net revenue is perfectly reasonable.

enforced in all countries since jurisdiction continues to be a substantive barrier for copyright holders' enforcement.

Hollywood is presently facing a legal conundrum regarding the viability of continuing legal actions against illegal streamers and the desired criminalization of hosting and linking to copyright infringing content. Studio lobbyists have continually tried to irresponsibly enact dangerously vague legislation to amend copyright laws like SOPA, PIPA and the Commercial Streaming Felony Act, without considering the effects of such legislation on legitimate businesses. A new federal criminal statute making infringement by streaming a felony is unnecessary, difficult to prosecute, and will not eliminate illegal streaming feeds of entertainment content online. The law should protect the copyrights of a movie studio, and should do it correctly by utilizing definitions that encompass the various types of "rogue" websites, those dedicated to infringement and solely benefiting from illegal actions.

It is too large of a burden to screen all uploaded hosted or hyperlinked content and, as long as websites monitor their services and follow Notice and Takedown procedures, they are not to be held liable for infringement. If a website is regulated by a Terms of Service agreement prohibiting infringing content, and takes down such content upon request by a copyright holder, maintaining a zero-tolerance copyright infringement policy with their users, they are not responsible for civil or criminal copyright infringement.

Legislation needs to directly consider and address the infringement problem created by websites dedicated solely to infringement, with operators who advertise infringement and illegally copy and upload infringing content. It seems reasonable to say that if a website owner takes down infringing content posted by a user, and because the website did not post the content, infringement liability should be limited to the user who directly infringed an exclusive copyright.

The Canadian *Tariff 22* case held that Canadian ISPs are not liable for copyright infringement unless they "give approval to, sanction, permit, favour or encourage" infringing content. The court said "knowledge that someone might be using neutral technology to violate copyright is not necessarily sufficient to constitute authorization [of infringement]", but that "notice of infringing content, and a failure to respond by "taking it down" may in some circumstances lead to a finding of "authorization"". Canada's Bill C-11 also requires merit due to the identification of "rogue" websites as those solely dedicated to infringement. If the DMCA is to be amended, it should be to target "rogue" websites directly and provide judges and prosecutors with a guide instead of providing confusing and vague definitions that can compromise the legal economic activity of hundreds of thousands of websites.

Courts have clearly stated that linking websites are not infringing copyrights because the action of linking to content uploaded and hosted

elsewhere is not copyright infringement; linking websites also do not copy or reproduce the content. Cyberlocker websites have also been found to be operating legally as they provide the service of hosting content and do not upload the content. OSPs are not responsible for the actions of their users who infringe on copyrighted content under the appropriate circumstances. As long as website owners take down infringing streams or hosted content upon being notified by the copyright holder, they can be protected under the "safe harbor" provisions in both United States and Canadian statutes.

The entertainment industry's attempt at enforcing the DMCA against illegal streams has backfired. Lawsuits and prosecutions have increased the number of streaming websites and unauthorized feeds, creating the opposite effect expected by Hollywood. The United States government seizures of alleged copyright infringing websites is also proof that copyright laws need to provide more guidance for agencies and judges so that enforcement efforts can be appropriate and constitutional. There are alternate ways for the movie industry to fight copyright infringement online that do not involve flawed legislation, unlawful criminal prosecutions or costly legal fees.

Music industry executives, movie and television show producers, theater owners, concert producers, and parades, festivals, and fairs organizers can all benefit from legal, copyrighted, profit-driven online streaming. It is a matter of designing a legal website, uploading the stream, and most importantly, getting the word out. As long as there is popular content, there will be people watching. The Internet revolutionized and changed the way we view, distribute, and access video-recorded content. Thus, producers and artists should take full advantage of the digitalization of art.

VI. APPENDIX

1. Computer screenshot of Google.com search for “Is it illegal”.

The screenshot shows a Google search interface. The search bar contains the text "is it illegal to download movies in canada". Below the search bar, a dropdown menu displays four suggestions: "is it illegal to download movies in canada", "is it illegal to download music in canada", "is it illegal to be high", and "is it illegal to carry a knife in canada". To the right of the search bar is a magnifying glass icon and a "SafeSearch off" button. On the left side, there is a "Search" button and a sidebar with various filters: "Everything", "Images", "Maps", "Videos", "News", "More", "Montreal, QC", "Change location", "The web", "Pages from Canada", and "More search tools". The search results are displayed on the right, starting with a link to "File sharing in Canada - Wikipedia, the free encyclopedia". Below this, there is a snippet of text about file sharing in Canada. The next result is a link to "Is streaming legal" from "www.teamliquid.net". Below this, there is a snippet of text about downloading content. The next result is a link to "Illegal downloading: How do you explain it to the kids? - The Globe ..." from "www.theglobeandmail.com". Below this, there is a snippet of text about illegal downloading. The next result is a link to "Is it illegal to download movies using Bit torrent in canada ..." from "answers.yahoo.com". Below this, there is a snippet of text about downloading movies using Bit torrent. The next result is a link to "Is it illegal to STREAM movies online?" from "answers.yahoo.com". Below this, there is a snippet of text about streaming movies. The next result is a link to "Is it illegal to download movies from youtube?" from "answers.yahoo.com". Below this, there is a snippet of text about downloading movies from YouTube. The next result is a link to "Is it illegal to download Movies off of the internet?" from "answers.yahoo.com". Below this, there is a snippet of text about downloading movies from the internet. The next result is a link to "Is it illegal to download movies & music in Canada?" from "answers.yahoo.com". Below this, there is a snippet of text about downloading movies and music in Canada.

Google

is it illegal to download movies in canada

is it illegal to download movies in canada

is it illegal to download music in canada

is it illegal to be high

is it illegal to carry a knife in canada

Search

SafeSearch off

Everything

Images

Maps

Videos

News

More

Montreal, QC

Change location

The web

Pages from Canada

More search tools

[File sharing in Canada - Wikipedia, the free encyclopedia](#)
[en.wikipedia.org/wiki/File_sharing_in_Canada](#)
File sharing in **Canada** relates to the distribution of digital media in that country. ...
movies, or software is **illegal** under the Act, the situation regarding music files is ...
Prior to 2004, some analysts believed that it was legal to **download** music, but ...
[Legality](#) - [Legal history](#) - [Criticism](#) - [See also](#)

[Is streaming legal](#)
[www.teamliquid.net](#) > [Forum Index](#) > [General Forum](#)
20 posts - 3 authors - Last post: 18 Nov 2008
And viewing a site requires you to **download** the contents first. ... The only **illegal** part
about **HAVING** mp3/**movies** on your computer is that you ...
You've visited this page 3 times. Last visit: 11-06-21

[Illegal downloading: How do you explain it to the kids? - The Globe ...](#)
[www.theglobeandmail.com/.../illegal-downloading.../article1570720/](#)
16 May 2010 - There's nothing wrong with listening to an **illegally** procured song now ...
downloads each night - a free version of digital cable for his family. ... In **Canada**,
downloading **movies**, video games and licensed software is **illegal**. ...

[Is it illegal to download movies using Bit torrent in canada ...](#)
[answers.yahoo.com](#) > ... > [Computers & Internet](#) > [Software](#)
5 answers - 12 May 2006
Top answer: Why should **Canada** be any different? Of course it's **illegal** to **download**
any, repeat ANY, copyright files, whether **movies**, music, software or whatever. ...

[Is it illegal to STREAM movies online?](#) - 4 answers - 18 Jan 2010
[Is it illegal to download movies from youtube?](#) - 2 answers - 22 Apr 2008
[Is it illegal to download Movies off of the internet?](#) - 8 answers - 24 Mar 2008
[Is it illegal to download movies & music in Canada?](#) - 3 answers - 19 Jan 2008