Kontent i Pravo v. Masterhost

Presidium of the Supreme Arbitration Court of the Russian Federation, Judgment of 23 December 2008, Nr. 10962/08.

Translation and Comment

by **Stefan Labesius,** Berlin,
M.A., Member of ifrOSS

Abstract: This Judgment by the Presidium of the Supreme Arbitration Court of the Russian Federation can be considered as a landmark ruling for Internet Service Provider's (ISP) liability. The Court stipulates for the first time concise principles under which circumstances an ISP shall be exempt from liability for transmitting copyright infringing content. But due to the legislation on ISP liability in the Russian Federation it depends on the type of information which rules of liability apply to ISP. As far as a violation of intellectual property rights is claimed, the principles given now by the Supreme Arbitration Court are applicable, which basically follow the liability limitations of the so called EU E-Commerce Directive. But, furthermore, preventive measures that are provided in service provider contracts to suppress a violation through the use of services should be taken into account as well. On the other hand, as far as other information is concerned the limitations of the respective Information Law might be applicable which stipulates different liability requirements.

This article gives a translation of the Supreme Arbitration Court's decision as well as a comment on its key rulings with respect to the legal framework and on possible consequences for practice.

Recommended citation: Stefan Labesius, Kontent i Pravo v. Masterhost, Presidium of the Supreme Arbitration Court of the Russian Federation, Judgement of 23 December 2008, Nr. 10962/08, Translation and Comment, 1 (2010) JIPITEC 179, para. 1.

Key Rulings:

1. An Internet service provider (here: hosting provider) shall not be liable for transmitted information if such provider does not initiate its transmission, select the recipient of the information, (and) affect the integrity of the transmitted information.

2. In this connection, preventive measures that are provided by contracts concluded between the provider and its customers to suppress a violation through the use of services granted by the provider should be taken into account.

Federal Law of the Russian Federation of 9.7.1993 (No. 5351-1)1 "On Copyright and Neighboring Rights" Articles 48, 492

Presidium of the Supreme Arbitration Court of the Russian Federation, Judgment of 23 December 2008, Nr. 10962/083 – Kontent i Pravo v. Masterhost

A. Judgment

(excerpt)

(...)

The Presidium of the Supreme Arbitration Court of the Russian Federation heard the motion of the Closed Joint Stock Company "Masterhost" on reviewing judgments of the Ninth Arbitration Appellate Court of 5.02.2008 and of the Federal Arbitration Court of the Moscow Circuit of 13.05.2008 (No. A40-644/07-5-68).

(...)

With a motion to the Supreme Arbitration Court of the Russian Federation on reviewing the decisions of the appellate and cassational instances in the procedure of supervision, the company "Masterhost" requests that these be overruled, referring to an unlawful application of Articles 48, 49 of the Law of the Russian Federation from 09/07/1993 (No. 5353-1) "On Copyright and Neighboring Rights" (hereinafter Copyright Act) by the courts, and that the decision of first instance be remain in force.

(...)

Upon examination of the validity of the evidences presented with the motion, the opinion on them, and the speeches of representatives of the parties being present at the oral hearings were considered, the Presidium takes the view that all such judgments are subject to overruling for the following reasons.

The company "Kontent i pravo" as the owner of the exclusive rights for using on the Internet the music works "Krylatye kacheli", "Kaby ne bylo zimy", "Prekrasnoe daleko" (author: E.P. Krylatov), "Aleksandra" (author: C.Ya. Nikitin) (exclusive rights for use of these works were acquired by the plaintiff through contracts dated 30.05.2005, No 0014/05/A (with its subsequent approval on 31.08.2006) and 13.07.2005, No. 0030/05/A (with its subsequent approval on 31.08.2006)), "Rano ili pozdno", "Polchasa", "Strannye tancy" (rights acquired from former rights holder - the limited liability company "Izdatel'stvo Dzhem" - on the basis of the contract dated 31.3.2005, No. 0001/05/A) sought protection of its rights because of illegal use by means of reproduction and making available for general knowledge4 of the said works on the Internet via the web site at http://www.zaycev.net.

(...)

The court of first instance denied satisfaction of the rights holder's request for protection of its exclusive rights to the musical works of E.P. Krylatov and C.Ya. Nikitin from unlawful copying and making available for general knowledge by means of placement on the web site www.zaycev.net by recognizing: the company "Masterhost" represents a network operator that provides data transmission services in a network of public communication in the Moscow City area, and it cannot be responsible for the content of its customer's stored and disseminated information. The court, however, though it mentioned that the plaintiff had rejected any claims against the other defendants, did not finish the process at this stage and did not refuse the suit against them.

The court of appellate instance did not concur with the conclusions of the court of first instance and considered the company "Masterhost" – a hosting provider, on its server the web site www.zaycev.net was hosted – using musical works without permission of the rights owner, to be an infringer of the exclusive rights of the company "Kontent i pravo", and had to pay 140,000 rubles in damages.

The court of appellate instance rejected evidence presented by the company "Masterhost" on the ownership of the site in question to a third person, and decided that the company did not prove the fact of placing the web site on its server by a third person, but not by itself. The court of cassational instance agreed with the findings of the court of appellate instance.

However, the courts of appellate and cassational instance did not determine whether the company "Masterhost" knew or could have known about the unlawful dissemination of the named works, therefore, they unlawfully laid the burden of proof for the absence of the fact of use of these works on the company.

The fact of unauthorized use of the works by means of making them available for general knowledge, i.e. placing of works on the Internet by the company "Masterhost", has to be proven by the rights holder that claims protection of its exclusive rights.

The materials of the case confirm that the company "Masterhost" is a company that offers services in connection with providing Internet web sites on its own servers or of stationing client's hardware in its own site.

According to the contract dated 19.12.2004 Nr. 0413-c/04c and its Annex Nr. 2, the company "Masterhost" was obliged toward the company "MetKom" (customer) to grant services of placing hardware (servers, hardware for telecommunication and other means) at a technical site in the data center, i.e., for the purpose of providing Internet access to informational resources of the company "MetKom" its hardware was placed in the rooms of the company "Masterhost's" data center, which was obliged

to ensure twenty-four-hour technical support, monitoring and availability of this hardware.

An analysis of the contract concluded between the company "Masterhost" and the company "MetKom" shows: the company "Masterhost" is a hosting provider that solely carries out a technical function – the placement of hardware for a customer and technical support (given service, to be understood as the placement of servers at an Internet provider's site commonly is named with the term "co-location"). By granting of such type of service, the provider generally has no access to the customer's hardware. Therefore, in the named contract (clause 5.4), it is stipulated that the customer is fully responsible for compliance of the stored information on the hardware with the applicable legislation. In the event of obtaining grounded complaints or reliable information by a third person concerning a violation of a law or contract due to the fact of storing any information by the costumer in connection with the use of services, the company "Masterhost" is entitled to suspend the rendering of the respective services for the customer.

Thus, a provider shall not be responsible for information transmitted if it does not initiate its transmission, select the recipient of the information, affect the integrity of the transmitted information. In this connection, preventive measures that are provided by contracts concluded between the provider and its customers to suppress a violation through the use of services granted by the provider should be taken into account.

Such circumstance was to evaluate by the Court that the rights holder did not appeal to the hosting provider with a complaint to suspend the rendering of services for the customer due to the unauthorized use of the above-mentioned works on the Internet, as well as such, that the company "Masterhost" took measures to reveal the person who had placed the disputed music works on the computer network, and reported on that on the first complaint, whereas the company "Kontent i pravo", notwithstanding the information given by the provider, did not lay a claim on protection of copyrights to that person.

As well, the company "Masterhost" is not the owner of the IP address under which the website with the musical works was available in September 2006. In the materials of the case, there is discrepant information found about the ownership of this address at the time of the reviewed infringement. The courts did not examine the question about the owner of the site and the coincidence of it with the owner of the domain name.

The courts of appellate and cassational instance unreasonably rejected the contracts presented by the company "Masterhost", which give evidence that the company rendered services for the company "MetKom", on whose site, possibly, the mentioned musical works were made available.

Due to the circumstances listed above, there has to be recognized: notwithstanding the requirements of Article 48 Copyright Law, a person (company "Masterhost") was recognized as an infringer of copyrights which itself did not carry out actions concerning the use of the objects of copyright; in relation to the other defendants the dispute was not reviewed, however the process in relation to them was not finished within the established procedure.

Thus, the decision of the court of first instance and the decisions of the courts of the appellate and cassational instance are subject to repeal for violating the uniformity of interpretation and application by the Arbitration Courts according to Article 304 para. 1 Arbitration Process Code of the Russian Federation. The case is remanded to the court of first instance for new review.

(...)

B. Comment

I. Introduction

1 The cited judgment5 given by the Presidium of the Supreme Arbitration Court of the Russian Federation6 can be considered a landmark ruling for the framework of an Internet Service Provider's (ISP) liability. With this decision as one of the first resolved cases regarding the liability of ISPs for copyright infringements, the court has taken a standpoint that is founded on the classical situation of rights infringements on the Internet concerning web hosting. A web host provides its own web servers or its data center for setting up servers for its customers. On these servers, copyright-infringing content is made available via the Internet, and now the rights owner wants to make a claim against the web host. In the present case, the defendant did not provide its own web space, but it allowed a customer to store its hardware in the defendant's data center and only ensured maintenance and operation services for the customer's hardware and technical access to public communication networks (called co-location).

2 But obviously important technical questions remained unanswered when the courts of lower instance assessed the technical assignment of the disputed web site. Hence, considering the evidence submitted, the Supreme Arbitration Court asserted that it was not even clear whether the defendant was the owner of the IP address in question under which the relevant content was made available on the In-

ternet. Furthermore, the lower courts should have addressed which person was the actual owner of the site and whether this person was identical with the owner of the Internet domain.

II. Findings of the Court

3 In the beginning of its decision, the Court deals with the question of burden of proof for the alleged infringement and states that such an infringement has to be proven by the rights holder. This was of fundamental importance for this decision because only copyright damages were claimed by the plaintiff, and these require a corresponding guilt for the alleged violation. The Court states that the lower instance courts did not resolve whether the defendant knew or could have known about the illegal making available and dissemination of copyright-protected content. Because this question was left open, the Supreme Arbitration Court ruled that the defendant incorrectly had to bear the burden of proof that the defendant did not use the works.

4 This statement of the Supreme Arbitration Court is unclear in two aspects. First, based on the fact that the lower courts did not examine the requirement of guilt, the conclusion cannot be mandatorily drawn that a party facing a claim has to bear the burden of proof if the courts fail to assess such a requirement. Second, the conclusion of the Court seems to stand in contradiction to the statutory burden of proof rule pursuant to Article 401 para. 2 CC RF. According to this rule, a person accused of a violation of obligations has to prove the absence of his guilt (intention or negligence).7 The answer given by the Supreme Arbitration Court can therefore probably be interpreted to the effect that, because of a lacking allocation of the infringer's IP address, a violation of obligation of the defendant toward copyright could not have been proven in the first place.

5 In the following section, the Court comments on the distribution of responsibility according to the hosting contract between the defendant as the web host and its customer. Here it points to the customer's contractual obligation to comply with the laws and the customer's complete legal responsibility for the content on its web servers according to the contract. Despite the defendant's contractual obligation to ensure server hosting and access to communication networks, the Court allows the defendant to disconnect or interrupt its services to its customer if the web host obtains grounded claims of rights infringement by its customer. Therefore, the Court basically seems to favor a "notice-and-take-down" approach. However, it remains unclear why the Presidium only considers an entitlement rather than an obligation to (temporarily) interrupt such a connection or to suspend services in case of rights infringements and what requirements need to be fulfilled for such a notification of the ISP. For instance, a clearer "notice-and-take-down" approach is favored by the Presidential Administration. The Council at the President of the Russian Federation for Codification and Development of Civil Law in its interpretation of existing laws assumes that providers are already obliged to respond if they are informed of copyright infringements by the rights holder.8

6 In the course of the judgment, the Court names fundamental requirements which in principle oppose claims against an ISP. A provider shall not be liable for transferred information if it does not initiate its transmission, select the recipient of the information (and) affect the integrity of the transmitted information.9 First, an ISP shall not initiate the transmission of information. A definition of the term "initiation" is not given by the Court. A mere provision of access to a public communication network as it was also stipulated in the hosting contract cannot be seen as an act of initiation by any means. In this respect, an access provider should fall under this exception as well. Second, selection of information shall not be carried out by the provider. Such a selection could be, for instance, technical filtering of information with regard to the transmitted content. And finally, an ISP is not allowed to affect the integrity of the information during transmission. This is the case if the provider carries out any modification or rearrangement of transmitted information. But it remains open whether these prerequisites need to be laid down on a technical or on a legal – e.g., contractual – basis. Therefore, it is might be recommendable that providers stipulate contractually that such actions are not carried out during transmission.

7 Accordingly, the Court also takes a look at the contractual relations between the ISP and its customer as the alleged rights infringer. Hence, in estimating how a claim can be drawn on an ISP, preventive measures that are provided by contracts concluded with a provider's customers to suppress a violation through the use of services granted by the provider should also be taken into account. From the rights holder's point of view, this seems disadvantageous, because in general the rights holder has neither insight in nor influence on the liability stipulations and contractual measures within the hosting provider contract. But considering the contractual situation between the customer and provider, it is notable that the Court refers to the fact that the provider is not granted access to the hardware of its customer. In addition, it remarks that the rights holder has to inform the ISP about the alleged infringement, which in turn is entitled to provide information about the (alleged) infringer and to interrupt the continued violation of rights. However, the Court suggests that an ISP's liability for compensation comes into question only if the provider does not comply with its obligation to reveal the identity of the infringer.

III. Legal Classification

8 Classifying the cited decision with respect to copyright obligations toward ISPs necessitates keeping in mind that the question of liability for copyright infringements was based on the former Copyright Law. In its Articles 48 and 49, a liability for compensation of damages was stated only in the case of guilt, but without any cease-and-desist obligation in the absence of guilt. Such an obligation is now stipulated in Article 1250 para. 3 CC RF for infringement of intellectual property rights, which orders a strict duty of elimination in case of a continuing violation.

9 Furthermore, it should be noted that indeed the Russian legislation provides a regulation for the limitation of ISP liability. Such limitations for intermediaries are stated in Article 17 para 3 of Federal Law on Information, Information Technologies and Protection of Information.10 According to this – and similar to the legislation of other countries11 – if the distribution of certain information is limited or prohibited by federal laws, a person who renders the following services shall be exempt from civil liability: first, transmission of information received from another person, provided that this transmission does not involve modification and correction of the information; or second, storage of information and facilitating access thereto, provided that the person was not aware and could not have been aware of the illegal character of distributing such information.12 These requirements, therefore, are applicable for any type of ISP services such as hosting-, accessing- or other providing services.

10 But these limitations explicitly do not apply to rights of so-called results of intellectual activity and measures of individualization,13 thus intellectual property including copyright-protected works.14 As a result of this exception, the type of information determines which rules of liability apply to ISPs. If a violation of intellectual property rights is claimed, the principles given now by the Supreme Arbitration Court are applicable; otherwise, the limitations of the Information Law apply. This raises the question whether there are differentiations between the requirements of limiting the ISP's liability. Considering the principles given by the Court that a liability is excluded if the ISP does not initiate its transmission, select the recipient of the information, and affect the integrity of the transmitted information, this rule obviously follows the first alternative of Article 17 para. 3 Information Law. But additionally, the Supreme Arbitration Court introduces the requirement of the absence of any type of initiating the information transmission and the requirement of selecting the recipient that both in principle follow those requirements provided in Article 12 para. 1 of Directive 2000/31/EC.

11 In addition, the Court considers the contractual situation between an ISP and its customer, and the factual situation of accessibility of the infringing content for the provider. There it points toward a full responsibility of the customer for its content according to the service provider contract and the inaccessibility of this content for the ISP. Hence, compared with the limitations of liability for other information according to the Information Law, the principles given by the Court in general ease the liability for ISPs due to additional limitation requirements.

IV. Conclusion

12 The decision of the Supreme Arbitration Court deserves credit for identifying for the first time the type and scope of ISP liability for avoiding claims for the infringement of its customers. However, this judgment raises more questions than it answers. The issue of burden of proof is joined by the question to what extent the principles given by the Supreme Arbitration Court apply to the liability of ISPs in general. Besides that, the relation of different approaches for establishing a limitation of liability – liability for intellectual property rights infringements on the one hand and liability for distribution of information on the other hand – needs to be clarified. In practice, therefore, it should be very carefully assessed whether information is protected by intellectual property rights as well. In connection with the assessment of the actual infringer, the Court itself pointed to the necessity of determining the assignment of IP address and domain name and their respective owner.

13 On the other hand, the limitation of ISP liability is – in principle – geared to the principles of the EU E-Commerce Directive, and the cited decision gives rough guidelines for a limitation of ISP liability in cases of intellectual property rights infringements. On a contractual basis between the provider and its customer, it should be stipulated that the customer is legally responsible for information and that, in case of an infringement based on grounded facts, the provider is entitled to give information that will enable the customer's identification. Therefore, a rights holder can only draw claims against a provider if the provider does not in turn contribute to the identification of its customer.

14 In the near future the Court will have the opportunity to answer these questions again. After the initial case was referred back to the trial court, the plaintiff appealed to the Supreme Arbitration Court, whose decision of 7 June 201015 rejected to entrust the Presidium of the Court once again with the case referring to the rulings of the said decision. It might not be unlikely that the Supreme Arbitration Court will follow the interpretation of the Council to the Pres-

ident of the Russian Federation on the Codification and Development of Civil Legislation and clearly establish a "notice-and-take-down" approach.

■

1 Rossiiskaya Gazeta, Nr. 147 of 3.8.1994.

2 See now Article 1250-1253, 1301, 1302 of the Civil Code of the Russian Federation (hereinafter CC RF).

3 Judgment of the Supreme Arbitration Court of the Russian Federation of 23.12.2008, (Nr. 10962/08), (Postanovlenie Prezidiuma Vysshego Arbitrazhnogo Suda RF ot 23.12.2008, Nr. 10962/08) (VAS), Vestnik VAS RF, 2009, Nr. 5.

4 Note: See for legal definition of the right of making available for general knowledge now Article 1270 para 2 Nr. 11 CC RF.

5 This judgment as well as the lower courts' decisions can be found at: http://www.arbitr.ru/index.asp?id_sec=386&id_ac=1&s=0&a=1&id=1a1ec4d8-e984-474c-94f4-7e105e9917e1 (Last visited: 7.12.2010).

6 Notwithstanding the name, Arbitration Courts act as state courts and not as bodies of alternative dispute resolution. They predominantly deal with economic disputes.

7 Within the liability for damages in connection with copyright infringements pursuant to the respective Articles 1250-1253 CC RF, Article 401 CC RF is now applicable; see Joint Resolution of the Plenum of the Supreme Court and the Plenum of the Supreme Arbitration Court of the Russian Federation "On some questions raised in connection with the introduction of the Fourth Part of the Civil Code of the Russian Federation" (Nr. 5/29), Nr. 23 para. 2, (Postanovlenie Plenuma Verchovnogo Suda RF i Plenuma Vysshego Arbitrazhnogo Suda RF ot 26.3.2009 „O nekotorych voprosach, voznikshich v svyazi s vvedeniem v deistvie chasti tchetvertoj Grazhdanskogo kodeksa Rossiiskoy Federacii), Vestnik VAS RF, 2009, Nr. 6.

8 See "Concept for Developing the Civil Law Legislation of the Russian Federation" by the Council at the President of the Russian Federation for the Codification and Development of Civil Law (Koncepciya Razvitiya Grazhdanskogo Zakonodatel'stva Rossiyskoy Federacii, Sovet pri Prezidente RF po Kodifikacii i Sovershenstvovaniyu grazhdanskogo zakonodatel'stva), Vestnik VAS RF, Nr. 11, 2009, pp. 6 et seq, Nr. 2.5.

9 Obviously these requirements basically follow those of the limitation of liability pursuant to Article 12 para. 1 of Regulation Nr. 2000/31/EC of the European Union (so called E-Commerce Regulation).

10 Federal Law of 27.7.2006 (Nr. 149-FZ) "On Information, Information Technologies and Protection of Information" (Federal'nyi Zakon ot 27.7.2006 (N 149-FZ) "Ob informacii, informationnych technologiyach i o zashtshite informacii"). hereinafter: Information Law.

11 For instance: Articles 12-15 Directive 2000/31/EC, §§ 7-10 Telemediengesetz (Germany) or U.S.C. 17, Chapter 5, § 512 (USA).

12 See as well: Article 14 para. 2000/31/EC.

13 See Article 1 para. 2 Information Law.

14 See Article 1225 para. 1 CC RF. In this connection it is notable that also so called Know-How, i.e. commercial secrets (see Articles 1465 CC RF et seq.) are also governed by the rules on intellectual property.

15 VAS, Decision of 7.6.2010 (Nr. VAS-10962/08).