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New Technology Clauses Aren’t Broad Enough: Why A New Standard of Interpretation Must Be Adopted For Internet Distribution

by
LISA A. FLATE

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Introduction

The Internet is today's fastest growing content distributor and will soon be the major distribution system for information and entertainment. The Internet is dramatically changing the ways in which information is distributed and used and "in order [for copyright] to retain a central role in this new era, the fundamentals of copyright law will need to be rethought and revised." Soon everyone will have the ability to sell content globally from a single location. The ramifications of this are yet to be determined.

This Note focuses on the multi-territorial distribution right of independent films which were created before Internet distribution was foreseeable. This Note will solely focus on independently made films because the major studios (i.e. 20th Century Fox, Disney, Universal, Paramount and MGM) self-distribute and retain their own copyright. This practice of retaining all of their copyright may lead to inter-company problems; however, the issues discussed in this paper are not particularly relevant to that problem. The problem discussed herein lies primarily with independents because they grant exclusive licenses, generally by territory, to outside distributors. Internet distribution will violate these previously entered into agreements by infringing on other licensees' territories. The old work may not be available for Internet distribution (even if the nature of the contract suggests it is) unless the party had obtained worldwide rights, as the Internet has no geographic boundaries. This Note proposes a solution by examining new technology clauses and explaining why a new, universal standard of interpretation must be adopted in order

3. Id.
5. Presently filmmakers are retaining Internet rights or granting them exclusively to an independent distributor. The real problem lies with older contracts, in which neither party anticipated Internet distribution and a broad grant of rights was given.
7. The terms "new technology clause" and "future technology clause" will be used interchangeably throughout the article.
Granting Internet rights to a party who did not anticipate Internet distribution completely ignores the concept of ‘benefit of the bargain.’ An enormous windfall results to the grantee, who has benefited from a grant of rights which he did not foresee, while the grantor is not being compensated for Internet distribution.

After a brief introduction to the background of Internet distribution of entertainment and an explanation of the fundamental differences between the Internet and preexisting technologies, this Note turns to a discussion of new technology clauses before presenting an equitable solution which will make Internet distribution both possible and lucrative for all parties involved.

I

Background

The Internet is the world’s fastest growing and least regulated market and one of today’s most popular media. It is also “the world’s largest computer network,” providing instantaneous access to users worldwide. The primary reason people log onto the Internet is for entertainment. As broadband technology becomes widespread, the demand for video will be increased and motion picture distribution will be a major factor in the Internet’s continued success. Soon, we

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8. See e.g. Bartsch v. Metro-Goldwyn-Mayer, Inc., 391 F.2d 150 (2d Cir. 1968) (stating that broad new technology clauses have generally been interpreted in favor of the grantee). Note that this will not work for Internet distribution as it is qualitatively different than any other previously developed medium.


12. Broadband is “[a] transmission medium that supports a wide range of frequencies and can carry multiple signals. It does this by dividing the capacity of the medium into independent bandwidth channels; each channel accommodates a specific range of frequencies.” Gale Guide to Internet Databases xxxiii (Marc Faerber ed. 1999). Broadband is now available in three options: cable, Direct Service Line (DSL) and satellite. See Lou Doliner, Full Speed Ahead, Yahoo! Internet Life, Vol. 6, n. 4, 120 at 122-23.

will not have to drag ourselves to our local video store to rent our favorite film – which may not be in stock. “In time . . . the Internet window should cannibalize both pay-TV and video, [becoming] analogous to the current video window. [But] just as video, pay-TV, television, DVD, etc., have not spelled the demise of the movie theatre, neither will Internet distribution.” Eventually, Internet distribution will replace home video. In time we will “likely head to an integrated PC/TV solution for delivering movies online.”

“Netcasting” has become a reality and shortly it will have “the same revolutionary impact on the film industry as did the introduction of video in the ‘70s.” A few feature length films have already been transmitted over the Internet. In April 1999, sightsound.com rented the first feature length film, “Pi,” over the Internet. In 1998, MPAA discovered a pirated website, created by a 16-year-old, that offered “Armageddon,” “The Fifth Element,” “Reservoir Dogs,” and more. In 1999, the film “Matrix” was made available for free on the Internet. This Note proposes that what is now being done mostly illegally and on a small scale will soon become the most popular medium for film distribution. By the end of 1999, high-speed broadband connections were expected to replace dial-up connections in one third of homes in the United States. Such high speed connections can make watching a motion picture over the Internet as easy as downloading an MP3 song.

Independent filmmakers must look at the potential problems of Internet distribution before it becomes widespread, because more often than not Internet users assume that any information on the

14. See id.
15. Dennis Barker, Back to Film’s Future, Access Magazine 8 (Feb. 27, 2000).
16. Id.
17. “‘Netcasting’ is akin to broadcasting except that the Internet is the means of transmission, not signals broadcast over the air.” Mark Litwak, Let The Moviemaker Beware . . . How to protect your Internet rights, MovieMaker Magazine, date?, at 44.
19. See Marc Graser, Distribs mull sale of Internet film rights, Daily Variety, Special Section (July 30, 1999).
20. A pirated website is one that transmits films, or other content, without permission. Amy Wallace, The Film Industry Loves The Buzz Generated Online. But Negative Reviews And A Boom In Pirated Copies Reveal The Beast Within, Los Angeles Times, Calendar 3 (May 16, 1999).
21. Id.
22. See Bruce Haring, Films illegally hit Net, but it’s slow going, USA Today, LIFE 1D (May 19, 1999).
23. See Doliner, supra n. 12, at 121.
Internet is public domain and therefore free.\textsuperscript{24} Letting pirates set the precedent for free content will hurt the motion picture industry, as users will become accustomed to viewing films for free and will not want to start paying for them later. Accordingly, the government must enact laws now, to prevent more piracy and infringements in the future – threats currently facing the film industry.\textsuperscript{25}

By the time Internet transmission of films becomes popular, it will be too late to decide how the distribution rights should be allocated. Distributors around the world will claim, quasi-legitimately, that they have Internet rights, because they were given a broad grant of rights in the initial agreement. The Internet enables worldwide distribution from a single source, which makes it qualitatively different from any other "new" technology.\textsuperscript{26} Presumably, there will be major problems with films that had previously been distributed by multiple distributors in limited territories and which are now put up on the Internet, because any distributor who transmits a film across the Internet will infringe on the rights of distributors in other territories.\textsuperscript{27}

The Internet will present an even greater change in the industry than the VCR, due to its boundless nature. It is essential, therefore, to address the extra-territorial ramifications of netcasting immediately to prevent the mass damage that will otherwise result. Just as the VCR was initially considered a threat to the film industry, but in fact revolutionized it, the Internet will do the same.\textsuperscript{28} The Internet's immense popularity will owe much of its success to the ease and low costs of Internet distribution and digital filmmaking.\textsuperscript{29} "The ability of

\textsuperscript{24} See The Intellectual Property Mess, supra n. 13, at 2.

\textsuperscript{25} See Doliner, supra n. 12, at 121.

\textsuperscript{26} Mark Belinsky, Senior Vice President Business Development, MacroVision, Panel Remarks, Update on Digital Entertainment Piracy and Copyright Infringement, (Digital Hollywood Conference) (Sept. 30, 1999). MacroVision is a company that creates copy protection technology and digital rights management systems. (Author's notes on file with Comm/Ent.)

\textsuperscript{27} This may not be true if technology is developed that can effectively prevent content from going across borders, or at least prohibit access by unauthorized users. However, there will always be hackers and loopholes that will prevent technology from working 100\% effectively. As the technology stands now, once a film is put up on the Internet there is no way to prevent it from going into other territories. The law must be in place to prevent those who intend to infringe and punish those who actually do. Chairman & CEO, Cyveillance©, Brandy Thomas, Panel Remarks, Update on Digital Entertainment Piracy and Copyright Infringement, (Digital Hollywood Conference) (Sept. 30, 1999).

\textsuperscript{28} See The Intellectual Property Mess, supra n. 13, at 7.

\textsuperscript{29} "Delivering a series of ones and zeros is cheaper and faster than amassing an inventory, warehousing, and transporting goods. Independent filmmaker Todd Lincoln posted his short, 'The Honey Pot,' on iFilm.com free of charge, and 3,000 people screened
consumers to pay to see the film of their choice at any time will have profound implications for the film industry. At a minimum, the value of film libraries should skyrocket, just as they did with the introduction of video.” With the Internet’s capability to distribute films instantaneously around the world, old contractual language needs a new interpretation and a new business model for Internet distribution must be created.

Multi-territorially distributed films will be the single most problematic aspect of licensing Internet rights, because copyright is territoriality based and cyberspace is not. The problem of extraterritorial rights can best be dealt with by changing the standard interpretation of new technology clauses and adopting a universal model, and using technology to help overcome the burdens the law will not be able to handle.

The new media and technology being invented today are unlike any other advancement of the past. New technology clauses cannot continue to be interpreted as they have been and new laws must be created to protect copyright owners in this era of rapidly advancing technology. This is the beginning of a technological revolution. It requires a complete rethinking of the film business, including new ways of interpreting old language.

II
What is Internet Distribution?

The question “what is Internet distribution?” is currently a subject of debate in the motion picture industry. The most likely means of distribution will be “Video On Demand,” a technology which allows a viewer to access any film, anytime, via the Internet.

it in five days. To get that same audience off-line, he would have had to pay for entry fees to 20 film festivals, a film-to-tape transfer with dubs, and travel expenses. The ROI on his intellectual property? An audience—at no cost.” Id. at 17.

30. Id. at 7.
31. Haring, supra n. 22.
34. Moore, supra n. 13.
35. Jonathan Taplin, Co-CEO Intertainer, Panel Remarks, Update on Digital Entertainment Piracy and Copyright Infringement (Digital Hollywood Conference) (Sept. 30, 1999). Intertainer is an Internet company that delivers “entertainment on demand.” Unlike pay-per-view, which restricts viewing to certain times and unlike videocassette
Video distributors argue that Video On Demand is merely an extension of existing video or pay-per-view technology and the party with video rights owns Internet rights as well. On the other hand, broadcasters consider it television, because video-on-demand is much like broadcast or cable television. If the Internet is determined to be a mere extension of either video or broadcast technology, then the distributor with that right should be granted Internet rights as well.

This Note argues that it is neither, but rather an entirely new medium. There are two basic, but not exclusive, differences between netcasting and broadcast and video: 1) A personal computer may be used rather than a television screen, and 2) the viewer has the ability to schedule programming at will, and is not dependent upon networks or cable stations.

A comparison of the definitions of television, video and the Internet also supports the assertion that the Internet is an entirely new medium, and not merely an extension of an already existing medium. The Oxford Dictionary defines television as a “system for reproducing on a screen visual images transmitted by radio waves;” video is defined as “relating to the recording, reproducing, or broadcasting of visual images, and usu[ally] sound, on magnetic tape;” and the Internet is a “communications network enabling the linking of computers worldwide for data interchange.” In addition, distribution companies are defining the Internet as “exploitation of the Picture (or any portion thereof) over the facilities of a communications system of one or more computer networks . . . that allow the user to engage in two-way transmissions over the system.”

Obviously, the Internet, being a two-way transmission, is unlike television or video. No other medium offers interactive transmissions or the capability for worldwide, instantaneous distribution. Based on the definitions of the words in question, it is clear that neither “television” nor “video” adequately defines the scope of the Internet.

rentals, which you have to go out and physically get, video-on-demand gives the viewer the best of both worlds, and more – any film at anytime, without leaving home. It is also projected that in the near future, the viewer will be able to stop the film during play.

36. See id.
37. See Litwak, supra n. 17.
38. See Taplin, supra n. 35.
40. Id. at 670.
41. Id. at 311.
42. Memo. from Wayne Levine, Gen. Counsel, VP Legal Affairs, Lions Gate Pictures, Potential Contract Language for Motion Picture Internet Distribution (Nov. 16, 1999) (on file with Trimark Pictures, Business Affairs).
Internet rights are separate rights; therefore, no one can claim them until they have been expressly granted. Accordingly, if Video on Demand rights were expressly granted, the grantee should retain Internet rights, as that was what the parties most likely bargained for. In addition, Video on Demand rights were probably granted for worldwide distribution and the problem posed in this paper is therefore a non-issue.

In sum, a broad new technology clause cannot be interpreted to include Internet rights, as the Internet is qualitatively different than any other medium previously developed. Granting the rights to distribute old works via this new means of exploitation ignores the concept of “benefit of the bargain.” Accordingly, even if the contract grants rights for all technologies “now known or hereafter developed,” Internet distribution must be excluded to adequately protect the rights of the filmmaker.

III

How to Interpret New Technology Clauses

Courts have been interpreting new technology clauses since the early part of this century. With the transition from plays to silent pictures, silent pictures to talking pictures (“talkies”), talking pictures to television, and film and television distribution to home video distribution, interpretation of new technology clauses is not new. The challenge now is creating an equitable and reasonable interpretation of broad contractual language entered into before Internet distribution was feasible.

Constructing a modern interpretation for new technology clauses is vital to proper allocation of Internet rights. In the past, courts have adopted dramatically different interpretations of very similar contractual language, with the Ninth and Second Circuit approaches

43. See e.g. Harper Bros. v. Klaw, 232 F. 609 (S.D.N.Y. 1916) (holding that the contract at issue was ambiguous and neither party owned the motion picture rights, until a new bargain was made).
44. See e.g. Frohman v. Fitch, 164 A.D. 231 (N.Y. App. Div. 1914).
45. See e.g. Kirke La Shelle Co. v. Paul Armstrong Co., 188 N.E. 163, 164 (N.Y. 1933).
46. See e.g. Bartsch v. Metro-Goldwyn-Mayer, Inc., 391 F.2d 150, 150 (2nd Cir. 1968).
47. See e.g. Cohen v. Paramount Pictures Corp., 845 F.2d 851 (9th Cir. 1988).
48. Although a form of the Internet was developed in 1969, using the Internet as a medium for motion picture distribution was not feasible until the introduction of Broadband.
49. See Gordon, supra n. 6, at 114.
representing either side of the chasm.\textsuperscript{50}

Melville B. Nimmer describes the two principal approaches to the problem of interpreting future technology clauses. In one, "a license of rights in a given medium . . . includes only such uses as fall within the unambiguous core meaning of the term . . . and exclude any uses that lie within the ambiguous penumbra."\textsuperscript{51} In the second, "the licensee may properly pursue any uses that may reasonably be said to fall within the medium as described in the license."\textsuperscript{52} Although Nimmer's second view (adopted by the Second Circuit) is more popular, it has also been criticized for begging the question. "'Reasonably' if it is to mean anything, must have some external referent – either the parties' actual intentions, which the [Bartsch] court acknowledged were obscured by the passage of time, or some objective signpost which the court did not seek. Absent either referent, the term is little more than an ipse dixit that offers no guidance to parties in planning their transactions or years later, in evaluating the merits of litigation."\textsuperscript{53}

Not only do the holdings of the courts vary; courts also differ in how they reach those holdings. Some courts look more to the type of use that has been contracted for, while others look to the contractual language.\textsuperscript{54}

Extensions of technologies that only represent an evolution of an existing distribution method . . . have generally been held by the courts to be encompassed in the grant of rights to make the original product. On the other hand, technological developments that require new consumer behavior . . . are rarely allowed by courts without new compensation to the authors of the underlying works.\textsuperscript{55}

In regard to the ownership of Internet distribution rights, a case by case approach, that encourages differences between the courts does not work. No previously adjudicated issue anticipated copyright infringement by honoring a new technology clause (a repercussion that Internet distribution entails).\textsuperscript{56} Nor did the courts (or anyone

\textsuperscript{50} See id.; infra Parts IV & V.

\textsuperscript{51} Boosey & Hawkes Music Publishers, Ltd. v. The Walt Disney Co., 145 F.3d 481, 486 (2d Cir. 1998) (quoting Nimmer on Copyright, § 10.10[b] at 10-90). This interpretation has been adopted by the Ninth Circuit.

\textsuperscript{52} Id.

\textsuperscript{53} Kenneth A. Linzer, New Media and Old Contracts on Collision Courses: Making Sense of Future Technology Confusion, Avoiding Future Shock Symposium, 164 (quoting Goldstein, Multimedia: Law & Practice § 4.6.3 at 4:111).

\textsuperscript{54} See Gordon, supra n. 6, at 112.

\textsuperscript{55} See id. at 4.

\textsuperscript{56} If a distributor has distribution rights in only one territory and puts the film up on the Internet, he will not be able to honor the boundaries of his territory. The Internet's
else) anticipate a medium so qualitatively different from any other medium previously developed.

The Internet is novel in that “it makes possible with unprecedented ease, world-wide, instantaneous distribution of material.” This fundamental difference between the Internet and all other media demands a fresh look at old contractual language. The future of technology is unclear. “The only certainty is that media undoubtedly will evolve in ways we cannot now envision.” The legislature must act now to prepare the world for this technological revolution.

The major question with independent films that have been distributed multi-territorially is “Who owns the Internet rights?” Although a case by case analysis may seem appropriate, this Note argues that “existing grants of rights clauses will have to be examined anew in the digital age.” A universal consensus on the interpretation of broad new technology clauses is imperative to provide consistency in an area where inconsistency is fatal.

Territorial restrictions are relatively straightforward and easy to administer when dealing with a tangible medium. However, intangible Internet distribution will make it much more difficult and perhaps impossible to respect territorial boundaries, as cyberspace has none. Existing satellite broadcasting transmissions demonstrate this same problem. Satellite broadcasting “footprints” “cannot be adjusted to remain within the borders of a single country” and copyrighted materials are unavoidably broadcast into adjacent territories. This territorial problem is even more prevalent with Internet distribution as the word “territory” becomes meaningless. “Anyone with a computer anywhere in the world can log onto the

uniquely global distribution scope will cause the distributor to infringe on other distributor’s rights, by displaying the film, perhaps unintentionally, in another territory.

58. Scott, supra n. 1, at § 18.01.
59. Brown, supra n. 4, at 132.
60. Internet law must be consistent around the globe, as any transaction on the Internet is capable of being transmitted worldwide. If one party does not conform, it can cause chaos.
61. Supra n. 1, § 18.14[B][2].
62. Id.
63. Id.
64. Id. For a brief explanation of the satellite broadcasting “footprints” problem see Leon T. Knauer, L. Andrew Tolin, Kathryn A. Zachem & M. Veronica Pastor, Beyond the Telecommunications Act 146-47 (1998).
65. Moore, supra n. 17, at 46.
Internet and download data from computer servers wherever they are located. Because of these fundamental differences Internet distribution demands a new interpretation of new technology clauses.

Contrary to Nimmer’s more popular approach to interpretation of future technology clauses, the Internet must not be considered to be within the scope of future technology clauses, except where expressly provided, as its ramifications are unlike those of any other technology. If the contract has limiting language, then “the parties’ knowledge or lack thereof of the new technology is of little significance,” and one must look to the specific wording of a contract to determine the rights retained and granted. This is not where the problem lies.

The problem occurs when there is a broad grant of future rights without any limiting language. This Note suggests that a universal interpretation of new technology clauses must be adopted that is unique to Internet distribution, to avoid the inevitable problem of extraterritoriality and inequitable windfalls. Although courts cannot simply rewrite agreements, Congress can adopt a universal interpretation of new technology clauses to avoid a case by case determination of what the language means in each individual contract.

As the Internet is substantially different from any other medium, one must not only look to the “popular” methods of interpretation, but must look to all legislative and judicial history to come up with the most equitable interpretation of new technology clauses. Some courts have held that the new technology right was not within the broad grant of rights because of ambiguous language, or because neither of the parties contemplated the new medium, or because the contract granted a specific right that did not encompass the new medium. But looking at contracts on a case by case basis is no longer feasible with Internet distribution because distribution is worldwide and interpretation must be uniform.

66. Id.
67. See supra nn. 51-53 and accompanying text.
68. See supra nn. 26-27 and accompanying text.
69. See supra n. 6, at 116. (stating that the “presence of a reserved rights clause will prevent a new use”).
73. Rey v. Lafferty, 990 F.2d 1379, 1390 (1st Cir. 1993) (holding that “television viewing” and “videocassette viewing” are not coextensive terms).
A. Broad Construction of New Technology Clauses (The Second Circuit Approach)

The Second Circuit has adopted Nimmer's broad approach in interpreting new technology clauses. This approach, sometimes called the "most reasonable reading" construction rule, favors a "plain meaning" application of the words as they appear in the contract. These courts have generally held that if a party has agreed to a broad future technology clause (i.e., for use in any medium which is now known or hereafter devised), "which may fairly be read as extending to media developed thereafter, the other party can hardly avoid the contract's application to such media by establishing that the precise nature of the advance was not anticipated." Even if the new use was unknown at the time the contract was entered into, the licensor should be "bound... by the natural implications of the language [it] accepted."

Historically, Second Circuit courts have interpreted contracts in favor of the grantee. Unless there is limiting language in the contract, such as "for broadcasting by television or any other similar device," courts have found in favor of the party seeking to exploit the broad language of the contract. To illustrate, Bartsch v. Metro-Goldwyn-Mayer held that an agreement containing a future technology clause included broadcasting on television because "[d]uring 1930 the future possibilities of television were recognized by knowledgeable people in the entertainment industries, though surely not in the scope it has attained." The court further states that there are no cases "holding that an experienced businessman... is not bound by the natural implications of the language he accepted when he had reason to know of the new medium's potential."

Courts following the Second Circuit approach generally agree

74. Mark F. Radcliffe, Old Content In New Bottles: Interpreting Pre-Existing Agreements in the Online World, 17 No. 8 Ent. L. Rep. 3, 4 (Jan. 1996); see supra nn. 51-53 and accompanying text.
75. Gordon, supra n. 6, at 113.
79. Tele-Pac, 168 A.D.2d at 13 (holding that the term "broadcasting" in the agreement did not grant video rights as they are entirely different devices and entirely different concepts).
80. 391 F.2d 150.
81. Id. at 154.
82. Id.
that the “windfall” should go to the grantee, taking the view that if the grantor wanted to reserve future rights he could have expressly done so.83 “If the words are broad enough to cover the new use, it seems fairer that the burden of framing and negotiating an exception should fall on the grantor.”84

Boosey & Hawkes Music Publishers, Ltd. adopts Nimmer’s broad approach, which is standard in the Second Circuit, and holds that licensees may pursue any medium that reasonably falls within the wording of the license.85 Bourne v. Walt Disney86 is another example of typical Second Circuit reasoning.87 In this case the court broadly constructed an agreement including video cassette rights as included within a grant of “motion picture” rights, as the fundamental character of the two are basically the same.88 This approach was acceptable when all that was at stake was who would get the benefit of the windfall; however, this is no longer the case.89

Under the Second Circuit approach a future technology clause generally includes media that may have been unforeseeable at the time of drafting. Therefore, it is safe to assume that these courts will grant Internet rights under a general new technology clause, unless, of course, there is limiting language in the contract. However, this interpretation will cause serious ramifications not experienced with past technologies, due to the nature of the Internet and its capability of instantaneous, worldwide distribution.90 Second Circuit courts will need to reexamine their reasoning for interpreting new technology clauses so broadly. Although it worked in the past, Internet distribution is a whole new game and new rules must be established. Courts should not fear rethinking old precedent in this age of rapid technological change.

83. Id. at 155.
84. Id.
85. 145 F.3d 481, 486 (2d Cir. 1998).
86. 68 F.3d 621 (2d Cir. 1995).
87. See Radcliffe, supra n. 75.
88. Id. at 4.
89. Bartsch, 391 F.2d at 155.
B. Strict Construction of New Technology Clauses (The Ninth Circuit Approach)

The Ninth Circuit has adopted a strict-construction approach that leans in favor of the grantor.91 This construction is exemplified in *Cohen v. Paramount Pictures Corp.*,92 which held that a film synchronization license between Cohen and Paramount did not include the right to include the grantor's song on videocassette.93 The agreement between the parties contained restrictive language,94 which led the court to interpret the contract in favor of the grantor,95 recognizing the fundamental differences among different media96 (an essential concept for Internet distribution). Other courts have held that “silence about an unknown media was the equivalent of a ‘reservation of rights.’”97

Some Ninth Circuit courts have held that simply including the phrase “by any means or method now known or hereafter developed” may not be sufficient to ensure that all newly developed technologies are covered.98 Even the broadest grant of rights does not guarantee a licensee the right to exploit a new medium.99 In *Subafilms, Ltd. v. MGM-Pathe Communications Co.*,100 the contract included a broad grant of rights clause.101 However, extrinsic evidence was admitted102 and the court determined that the intent of the parties was not to include videocassettes (the medium in dispute).103 The court reasoned that “the ‘actual video cassette market value of the Picture would likely be realized over time and thus that the interest on the entire amount of damages would be a ‘windfall’ for plaintiffs.”104 Obviously,

91. Gordon, *supra* n. 6, at 112.
92. 845 F.2d 851.
93. *Id.* at 855.
94. *Id.* at 853 (“Although the language of the license permits the recording and copying of the movie with the musical composition in it, in any manner, medium, or form, nothing in the express language of the license authorizes distribution of the copies to the public by sale or rental.”).
95. Gordon, *supra* n. 6 at 114.
96. *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 854 (9th Cir. 1988).
97. *Supra* n. 75, at 5.
98. *Id.* at 7.
100. 75 No. 91-56248, 1993 LEXIS 4068 (9th Cir. Feb. 17, 1993), *reh'g granted*, 5 F.3d 452 (9th Cir. 1993), *vacated in part*, 34 F.3d 1088, 1099 (9th Cir. 1994) (vacated on other grounds).
101. *Id.* at *12.
102. *Id.* at *10.
103. *Id.* at *25.
104. *Id.*
the court felt that this windfall was unjust and imposed a narrow interpretation on the broad grant of rights. Courts frequently find in favor of the author ("the creative force behind the work") or grantor, when faced with the decision of who should benefit from the windfall. "Spafilms signifies that once a court looks beyond the four corners of the contract, Future Technology clauses are doomed to fail." Looking to the intent of parties who entered into distribution agreements before Internet distribution was foreseeable, it will become evident that neither party intended the agreement to include Internet rights. Because there has been no "bargain for the benefit," Internet rights must be excluded.

Rey v. Lafferty suggests that courts generally look to the intent of the contracting parties. However, in a case when a medium is completely unknown the intent of the parties cannot be taken into account. This problem is prevalent when discussing Internet rights. Ten years ago, almost no one imagined film distribution via a medium like the Internet.

Where the original intent of the parties was to grant exclusive rights to a particular territory, Internet distribution must be excluded. Including the Internet would be contrary to the intent of the parties for two reasons. First, distribution over the Internet would infringe someone’s territorial grant of rights because the entire world would have access to the film. Second, if the grant is an exclusive right in that territory (which it probably is) others would infringe on that exclusive right by distributing the film from their own territories on the Internet and having it accessed by users in someone else’s territory. This obviously runs counter to the contracting parties’ intention.

Kirke La Shelle Co. v. Paul Armstrong Co. held that because talking pictures were unknown to the parties at the time the agreement was entered into and "were, therefore, not in contemplation of the parties," it cannot be said that the talking picture rights were within the rights granted. Although it was later

105. Linzer, supra n. 53, at 159.
106. Supra n. 6.
107. 990 F.2d 1379, 1387 (1st Cir. 1993).
108. See id.
109. See supra n. 22.
110. 188 N.E. 163 (N.Y. 1933).
111. Id. at 165.
112. See id. at 166.
HASTINGS COMM/ENT L.J.

stated that this holding should be interpreted narrowly, it is still good law and must be considered when dealing with the problem of Internet distribution. This holding is clearly relevant because the facts are substantially similar to what is happening currently with the Internet. Talking pictures were unknown to the parties at the time the contract was entered into and both the grantor and grantee claimed they had those rights. Similarly, Internet distribution would have been unknown to the parties at the time the contract was entered into if they contracted before the technology to transmit films on the Internet was commercially available, and both parties will likely claim they retain Internet rights. The grantors will claim they never intended to transfer Internet rights because they were not in contemplation at the time of the agreement, and the grantees will argue the broad language in the contract gives them these rights.

What is the right solution? The courts in Kirke La Shelle and Harper Bros. prohibited either party from exercising the disputed right until a new bargain was made between the parties. Legislation embodying Ninth Circuit thinking needs to be enacted now. If a new technology clause is too broad or general to enable a court to comfortably determine whether or not Internet rights are granted, and the result of a standard broad-rights interpretation would be inequitable, a new bargain must be made between the two parties, following the standard interpretation to be adopted by Congress – this is the equitable solution.

The distinction between a “technological breakthrough” and a “new means of distribution,” is important. Some new technologies merely extend existing distribution systems, while others truly create new marketplaces and means of distribution. The Internet is unquestionably a technological breakthrough as it will create a new economic market and filmmakers and distributors will benefit from


114. See Kirke La Shelle, 188 N.E. at 166; Harper Bros. v. Klaw, 232 F. 609, 610 (S.D.N.Y. 1916) (stating that the “contract was made [when] moving picture art was . . . in its infancy. There were moving pictures, but it was then completely beyond the known possibilities of the art to produce a series of pictures representing such and so spectacular and elaborate a play or performance as is the Ben Hur of Klaw & Erlanger.”).

115. In February 1997, RealVideo, a technology that permits Internet video transmission, was introduced for modems as slow as 28.8Kbps. Andrea C. Basora & Bilge Ebiri, The Net Wave, Yahoo! Internet Life 104 (Apr. 2000).


117. Linzer, supra n. 53, at 160.
this new revenue.\textsuperscript{118} In addition, newly "made for Internet" content further shows that this is a breakthrough technology and not merely an extension of an existing technology.\textsuperscript{119} Courts ruling on extensions to existing media tend to enforce future technology clauses and permit the new use, while rarely doing so with breakthrough technologies.\textsuperscript{120}

Further, the use of Nimmer's alternative method of interpreting these clauses\textsuperscript{121} is appropriate as this "particular 'new use' was completely unforeseeable and therefore could not possibly have formed part of the bargain between the parties at the time of the original grant."\textsuperscript{122} The first computer network-type program was developed in 1969.\textsuperscript{123} However, the Internet as we know it today did not come into existence until 1994.\textsuperscript{124} Further, RealVideo, one of the programs which makes transmitting films on the Internet possible, was not commercially available until 1997.\textsuperscript{125} And finally, no feature length films were rented over the Internet until 1999.\textsuperscript{126} Internet rights cannot be said to have been part of the bargaining process if the agreement was entered into before Broadband was commercially available, as feature length films cannot be easily downloaded without such high-speed connections. In light of the quantitative differences between the Internet and other forms of distribution, broad interpretations of new technology clauses are simply inequitable. Congress should adopt the Ninth Circuit viewpoint, requiring new bargains be entered into before either party is free to distribute the

\textsuperscript{118} See id.

\textsuperscript{119} The reasons home video was determined to be a new means of distribution are analogous to why the Internet should be a new means of distribution. See id.

\textsuperscript{120} See id.

\textsuperscript{121} "[A] license of rights in a given medium . . . includes only such uses as fall within the unambiguous core meaning of the term . . . and excludes any uses which lie within the ambiguous penumbra. Thus any rights not expressly (in this case meaning unambiguously) granted are reserved." 3 Nimmer on Copyright § 10.10[B], 10-90 (1999).

\textsuperscript{122} Rey v. Lafferty, 990 F.2d 1379, 1388 (1st Cir. 1993).

\textsuperscript{123} Gale Guide to Internet Databases xxxi (Marc Faerber ed. 1999) (Advanced Research Projects Agency Network (ARPANET) was implemented in 1969 and used for networking research. It was an early backbone of the Internet).

\textsuperscript{124} The Dawn of E-Life, Newsweek 41 (Sept. 20, 1999). ("It's been . . . [a]bout five years since the Net became in effect the world's grandest public utility, driven by a combination of cheap, powerful PCs, a remarkably scalable infrastructure that sped up our connections . . . , and easy-to-use browsing software that took advantage of the Net's open rules.").

\textsuperscript{125} See supra n. 115.

film via the Internet.

VI
How Technology Will Help and Why It Won't Solve All the Problems

Technology will play a major role in preserving territoriality, as it is evident that the law alone cannot solve the problems of the digital domain. Technology is progressing at an astonishing rate and it is virtually impossible for the law to keep up. This will in turn leave copyright holders in "search of their own solutions" as Internet technology continues to outpace intellectual property law. The law must adjust to the rapidly advancing technology and attempt to keep up with this new technological age. However, technology will not slow down to allow the law to "catch up" and cutting edge technology requires cutting edge lawmaking.

The major technological advance that will help prevent extraterritorial infringement is the tracking of credit card numbers. When users log on to watch a film, and as micropayments begin to gain popularity, they will be required to pay by credit card. The credit cards can then be used to identify where the users are and will prohibit access to people in unauthorized territories. The problem is that almost anyone can easily get a "third country" credit card (i.e. one that effectively blocks the identification of the user's country) and circumvent this obstacle. And because there will always be hackers, we need the law in place to cover all the bases. Icravetv.com, a Canadian site which rebroadcasts television shows in a way which was legal in Canada, but illegal in the United States, attempted to use area codes to determine their users' locations. This method proved to be very easy to circumvent. The company claims that they have now developed a technology that will prevent access to anyone outside of Canada. At the time of writing, that technology has yet to be disclosed.

127. See Scott, supra n. 1.
128. Moore, see supra n. 13.
130. See id. at 15. (Micropayments are small payments that will be required for authorized use of works available on the Internet.)
131. Id.
132. See Denise Caruso, Digital Commerce; Control Over Content: The Case of an Internet TV Provider Illustrates the Entertainment Industry's Copyright Power, N.Y. Times § C, 4 (March 13, 2000).
133. See id.
“Waiting for a technology-only solution that locks up coveted content so that its use can always be closely administered is futile.” Robert Mankoff of cartoonbank.com stated, “[I]t’s like posting signs that say: ‘This building is protected by big pictures of large barking dogs.”’ A legal solution is needed as well – the two together will largely stop piracy and unintentional infringement. Technology and the law can work together to create a safe cyberspace for film.

VII
Solution for Internet Distribution

The Second Circuit approach and Nimmer’s more popular interpretation of new technology clauses simply do not work for the Internet. Instantaneous worldwide distribution was not only unforeseeable at the time that many of these agreements were entered into, but also constitutes an infringement by any distributor who doesn’t have worldwide rights.

Despite convincing precedent, the Internet must be treated differently. No other medium has ever been capable of instantaneous, worldwide distribution, in which any one transmission will cause a distributor to infringe upon his own exclusive right for distribution in a given territory. Even if Internet distribution was foreseeable at the time the contract was made, the preservation of territoriality rights requires that the Internet be excluded from the scope of the contract.

There are two possible solutions for the renegotiation of future technology clauses. Future technology clauses should not be interpreted as encompassing the Internet, regardless of case history, because of the unique distribution that occurs via the Internet. The first solution, which is the one adopted by this Note, would require that the original copyright proprietor (i.e. the production company) compensate the original distributors for retention of Internet rights. The copyright proprietor would then have the option to retain the Internet rights, grant them to a distributor who specializes in Internet distribution, or renegotiate with the original distributor.

135. Id.
136. Supra Part IV.
137. See supra nn. 51-53 and accompanying text.
138. Doliner, supra n. 13, at 121.
139. Id.
140. Moore, supra n. 13. (stating that films can be stored on a computer server located anywhere in the world and anyone with a computer will be able to download the film.).
141. “The most likely scenario is that studios will distribute their own films through
original distributor would be compensated for the Internet rights to avoid unjust enrichment of the grantor. If the original distributor refuses to be compensated up front, the copyright proprietor could allocate a portion of the profits garnered from Internet distribution to that distributor, according to the distributor's market share. There will still be only one distributor, but the profits will be divided in a historically equitable manner. A single distributor will create a simple marketplace for accessible Internet distribution. A single source is the key to successful distribution.

Another solution is to grant non-exclusive rights based on language, rather than territory. This solution is not as efficient as the single-distributor model, but will allow the licensor to license the Internet rights in other territories without worrying about unauthorized spillover into a territory where a distributor has exclusive rights to distribute in other media. This solution also requires renegotiations with the original distributors, but allows for more than a single distributor to obtain Internet rights. Because distribution would be divided by language (e.g. English distributor, Spanish distributor, etc.), infringement would be minimized. Territoriality would be less important, as each distributor would have worldwide rights for a particular language.

The major studios have already begun to grant Internet rights exclusively of other distribution media, or to provide "holdback" provisions (reserving Internet rights), until Internet distribution is more secure and stable. Independents are exercising this "holdback" right until the marketplace determines how copyright holders will license their programming with respect to this new delivery system. As a rule of thumb, film companies must discontinue using broad new technology clauses and always include limiting language, so that every technological breakthrough in distribution techniques does not present an interpretation crisis.

This departure from the standard interpretation of new technology clauses may seem extreme, but when one looks at the nature of the Internet and its vast capabilities, an extreme measure is needed. The Internet must be handled differently from past "new technologies." Only the Internet makes it possible for a distributor in the United Kingdom to make a motion picture readily available to

their own servers, rather than licensing their films to third-party servers." Id.

142. See supra n. 1, § 18.14[8][3].

143. AFMA Model Int'l Licensing Agreements, § 4.3 (3rd Edition) (Many independent producers and distributors use AFMA's model agreements, which include a holdback of Internet rights as a limitation on exclusivity).
customers in the United States. In such an instance, the American distributor would be faced with a dilemma. It might not be immediately clear whether his rights had been violated, and even if they had, he might have difficulty determining from whom he should seek redress, and what cause of action would be most appropriate. Congress must not be afraid to legislatively override what has generally been acceptable precedent and create new laws unique to the Internet.

Furthermore, copyright law is not sufficient to conclusively solve the unique problems presented in this digital age. There is a dissonance between copyright law and the workings of digital networks. The reconciliation of that dissonance will determine the future of the Internet and should not depend solely on copyright law traditions.\(^{144}\) "Copyright law is important, but it cannot be left to dominate the issues that are faced in defining rights on the information networks of the future."\(^{145}\) There needs to be a new language and approach to the allocation of rights on the Internet.\(^{146}\)

Adopting a fresh interpretation of new technology clauses and using technology to fill the gaps that the law cannot cover will aid in making this promising new delivery system possible.

VIII

How This Interpretation Will Work in the Realm of International Copyright Law

For the proposed interpretation of new technology clauses to work it must be an acceptable and enforceable universal standard. This can only be accomplished if copyright treaties\(^{147}\) are amended to include a standard interpretation of new technology clauses in relation to Internet use.

The Internet is a "global media phenomenon" that requires "an overriding copyright doctrine to help resolve difficult cases more coherently."\(^{148}\)

An overriding copyright doctrine is essential because there is no

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144. Supra n. 2, at 37.
145. Id. at 39.
146. See id.
147. There is no one intellectual property treaty to which all countries adhere. Consequently, there will always be gaps in terms of protection (i.e. offshore servers). However, the Berne Convention has the largest number of members and the gaps can be adequately handled with technology. Interview with Robert Lind, Professor of Law, Southwestern University School of Law, Los Angeles, Cal. (Jan. 25, 2000).
148. Geller, supra n. 90, at 2[2][b].
uniform international copyright law. Every country has its own copyright law. However, a series of multilateral treaties creates a minimum level of copyright protection in nearly every nation, and requires signatories to respect each others’ copyrights. An amendment to the Digital Millenium Copyright Act (DMCA), representing the proposal in this article, would be the first step toward a more uniform standard. Under the terms of the Berne Convention, the U.S. must provide national treatment to all other member countries. The amendment would thus protect domestic and foreign films distributed in the U.S. Further, countries such as Germany and the Netherlands already construe new technology clauses “as strictly as possible.” Therefore, Internet distribution is likely to be outside the scope of general new technology clauses in those countries.

To protect films distributed throughout the rest of the world, a provision must be added to the Berne Convention that will prompt every member country to enact similar legislation. The TRIPs Provisions of the 1994 Uruguay Round of the General Agreement on Trade and Tariffs (GATT) must also be amended to include the new proposal as it “not only establishes standards,... but takes advantage of [the World Trade Organization (WTO),] a forum in which public entities . . . can bring disputes against each other.” This resolves the problem of where and from whom a party may seek

149. See id. at § 1[1].
150. Id.
152. The Berne Convention is a copyright treaty providing for “national treatment” (“any country adhering to the Convention has to grant the author of any work originating in the Union the same treatment as it does its own nationals relative to their works”) and “minimum rights” (provide a minimum level of protection that a country must give to foreign works). Geller, supra n. 90, § 2[3][b].
153. The Berne Convention prevails in the hierarchy of international treaties and conventions; therefore this seems to be the best international treaty to use to enforce a universal standard. See id. § 5[1][b][i].
154. See Gordon, supra n. 6, at 113.
155. A country may treat provisions of an international treaty as self-executing, meaning the provision is binding even if that country does not enact its own legislation, or a country may choose to enact legislation before the provision is enforceable. However, copyright acts of member countries must generally harmonize with the Berne Convention. See Geller, supra n. 90, at § 5[1][a].
157. See Geller, supra n. 90, § 5[5][b][i].
This provision must be enacted retroactively, thereby applying to works created before its enactment. Although this seems to represent a contracts problem (i.e. a contract should be enforced as of the time it was written), in this case Congress must mandate that copyright law prevails over contract law. The Contracts Clause of the United States Constitution states that “no State shall pass any . . . law impairing the obligation of contracts.” However, this provision applies solely to the states and Congress remains free to legislate in this area. Further, this is the stand a court would generally take when determining whether provisions of a contract are valid in relation to copyright law.

A good example of the types of problems that extraterritoriality will have is the recent icraveTV.com difficulty. Icravetv.com is an Internet site that redistributed television shows without obtaining permission from the program owners. This apparently was legal in Canada (the site’s origin), but not legal in the United States. However, viewers in the United States could easily circumvent the simple barriers for non-Canadians thus causing copyright infringement for shows distributed in the U.S. The site had to shut down. This demonstrates the problem of conflicting laws that will become more prevalent as film distribution becomes more popular.

The need for new treaty provisions is essential for successful transmission of films via the Internet. Some commentators go even further, saying that an entirely new treaty is needed to “determine how worldwide licenses could be issued in split-rights situations.” As the Internet is a worldwide medium, international copyright laws must cooperate and all affected jurisdictions must work together to create an equitable solution.

158. Subafilms, Ltd. v. MGM-Pathe Comm. Co., 24 F.3d 1088, 1090 (9th Cir. 1999).
159. See Geller, supra n. 90, § 4[3][a].
160. See id. at § 6[2].
161. U.S. Const. art. 1, § 10, cl. 1.
162. See Geller, supra n. 90, § 4[3][a].
163. See Caruso, supra n. 132.
164. See id.
165. See id. (i.e., entering an area code).
166. See id.
167. Donald Biederman, Copyright Trends: With Friends Like These . . . , 17 Ent. & Sports Lawyer 3 at 7.
IX
Conclusion

The Internet is qualitatively different from any other "new" technology previously developed. Independent filmmakers will be immensely affected by this new delivery system and to prevent serious inequity, the old interpretation of new technology clauses must be replaced with a more modern approach. This new approach must address the novel aspects of Internet technology and prepare the world for the coming technological revolution.

We cannot afford to have conflicting holdings and results regarding new technology clauses. The outcome of a case should not depend on what jurisdiction is chosen by the lawyer.168 Worldwide uniformity is essential for Internet distribution to work and the federal court system is not pervasive enough to provide us with a workable solution.

Internet distribution will be a lucrative and exciting endeavor, but Congress and the international community must create a new business model to prevent the problems that will occur as Internet distribution revolutionizes the motion picture industry.

168. See Radcliffe, supra n. 74 at 8.