

## Chile Breaks New Ground in Regulating IP Liability

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*In early May, after three years of discussion and debate, the Chilean Parliament approved groundbreaking changes to its intellectual property (IP) law in a move that is thought to be one of the most significant copyright developments in Chile in the last 40 years.*

*In enacting the Intellectual Property Law (Law No. 20 435 which amends Law No. 17.336), Chile became the first country in Latin America to regulate the liability of Internet Service Providers (ISPs). In so doing, it also honored one of the commitments under its Free Trade Agreement with the United States. The new law also strengthens the tools and penalties available for prosecuting copyright piracy. It clarifies and expands existing exceptions to copyright, such as the ability to quote the works of others, and introduces new ones that facilitate access to works, especially for people with disabilities.*

*Finally, picking up on a recommendation made by the competition authorities, the new law establishes a more inclusive mechanism for setting the tariffs charged by collecting societies. In this article, Mr. Rodrigo Lavados Mackenzie, Senior Associate, Sargent & Krahn, reviews some of the most important changes introduced.*

### Liability of ISPs

ISPs often find they are inadvertently hosting or transmitting content that infringes the copyright of third parties. This can give rise to disputes about the legal responsibility of ISPs in hosting and using such information on their networks and websites. With the enactment of its new IP law, Chile became the first country in Latin America to regulate ISP liability.

Under the amended IP law, ISPs are exempt from liability if they remove infringing content as soon as they learn of its existence. But to arrive at this conclusion, it is necessary to determine, from a legal viewpoint, the stage at which an ISP would be deemed to know of the existence of violating content. Under the new law, ISPs are considered to know that such content is being transmitted or hosted in their systems only after having received legal notice.

Many authors and content owners are not satisfied that this goes far enough in protecting their interests and would prefer that a private notification system between copyright holders and ISPs be used – such as that used in the U.S. – as it would be much faster than relying on the courts.

### Piracy

The need to strengthen the country's legal framework to better tackle piracy has been recognized for some time, both at home and abroad. Chile's new IP law includes a number of modifications that support the effective enforcement of copyright and the fight against piracy. These include:

- A 20-fold increase in fines for copyright violations, in some cases rising to over US\$100,000 for repeat offenders.
- Jail terms of up to 10 years for those who import, manufacture or acquire for distribution copies of works reproduced without permission.
- Strong penalties for those who collude to commit copyright offenses.
- Donating counterfeit or infringing copies to charity should the right holder so choose (the general rule being that such copies are destroyed).

- Using the legitimate retail value of the infringed works as a parameter for establishing compensation amounts. In civil proceedings, the court may order the offender to pay an amount corresponding to the profits resulting from the offense, or a fixed sum of up to US\$100,000 per infringement.

## Exceptions

On the question of exceptions to copyright, which imply that certain uses of protected works do not require authorization from copyright holders and are not financially compensated, the legislature introduced several new statutory provisions. These include:

- Acts of reproduction, adaptation, distribution or public communication of works will be considered lawful if done for the benefit of disabled persons where normal access to such works is not available.
- Under certain conditions, non-profit libraries and archives may reproduce works that are no longer obtainable in the market. These institutions may also make electronic copies of works from their collections available for study at user terminals.
- Reverse engineering activities are allowed on software, but only for compatibility purposes and research and development – or to test, investigate or correct the operation and safety of software.
- Satire or parody is considered lawful if it makes an artistic contribution that sets it apart from the work or performance to which it refers.
- It is lawful to reproduce or communicate a work to the public in order to comply with judicial, administrative and legislative proceedings.

While there is a consensus that these exceptions are in the public interest, some authors and copyright holders argue it is unfair that they should bear the costs involved. In their view, these costs should be borne by the beneficiaries of such exceptions or by the State on their behalf. Notwithstanding this criticism, the legislature concluded that all new exceptions passed the three-step test insofar as they refer to special cases that do not conflict with the normal exploitation of a work and do not unreasonably prejudice the legitimate interests of right holders.

## Collecting societies

Many people and companies are involved in the creation of intellectual works. As a consequence, the market for these works is quite fragmented often making it difficult to obtain licenses and to remunerate right owners for the exploitation of their works. Collecting societies, a sort of one-stop-shop for payment of copyright royalties, facilitate the commercialization of works and ensure copyright owners are adequately remunerated.

Prior to the enactment of Chile's new law, collecting societies could unilaterally set the rates they charged users. This raised a number of anti-competitive concerns which the new law addresses insofar as it establishes a more inclusive fee-setting mechanism involving user groups. Fees are now determined through a process of mediation that, in the event that the parties fail to come to an agreement, triggers an arbitral procedure.

Under this procedure, which is designed to help reconcile the positions of users and collecting societies, each party submits a tariff proposal, including an explanation of the uses for which each tariff applies. The arbitrator selects the proposal that best satisfies the mutual interests of both users and collecting societies.

## **Work-for-hire**

The automatic transfer of copyright to employers, or to those who hire authors to create works, is limited in Chile. This practice is confined mainly to the development of computer programs and, to some extent, the work of journalists, photographers and authors involved in the motion picture industry.

Under the previous law a person or entity commissioning a computer program for a third party owned the software only if they also marketed it. This arrangement, however, often proved problematic, for example, when programs were tailor-made for particular companies. The new law states that the entity that orders the development of a computer program for a third party is the copyright holder – eliminating the need to prove that the software is to be commercialized.

While there is still room for improvement, such as regulations governing private reproductions and additional work-for-hire provisions, the developments mentioned above are certainly among the most significant advances in Chile's IP law since its original enactment in 1970.