

Outline of Remarks on Secondary Liability
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I. Introduction

Two significant pending cases address issues at the intersection of the traditional doctrines of secondary liability and the safe harbor defenses of the Digital Millennium Copyright Act (“DMCA”), 17 U.S.C. § 512, which incorporate elements of these doctrines.

1. *Viacom v. YouTube*, 2d Cir. Case No. 10-3270. Fully briefed, tentatively scheduled for oral argument the week of September 12, 2011.

Viacom and other content owners sued YouTube, the online community that allows users to share videos, for direct and secondary copyright infringement resulting from users’ posting of infringing videos. The United States District Court for the Southern District of New York granted summary judgment to YouTube in June, 2010. The court’s opinion contains almost no meaningful analysis of applicable statutory language, legislative history, or case law.

2. *UMG v. Veoh*, 9th Cir. Case No. 09-56777. Appeal is fully briefed and argued May 6. Awaiting decision.

Universal Music Group sued Veoh, another online video-sharing site similar in concept to YouTube, for direct and secondary copyright infringement resulting from users’ posting of infringing videos. The United States District Court for the Central District of California granted summary judgment to Veoh in September, 2009.

The legislative history of the DMCA says that the statute doesn’t aim to “embark[] upon a wholesale clarification of these doctrines.” Instead, “the Committee decided to leave current law in its evolving state and, instead, to create a series of ‘safe harbors,’ for certain common activities of service providers.” (Senate Committee on the Judiciary Report, S. Rep. No. 105-190, at 19 (1998)). Does the DMCA incorporate these doctrines as they stand, or change them in some way? We’ll look at how courts have treated the issues.

II. Traditional common-law doctrines of secondary liability

A. Contributory infringement

1. Direct infringement by a third party
2. Defendant knows or has reason to know of third party's direct infringement
3. Substantial participation by D in the infringing activities

Gershwin Publ'g Corp. v. Columbia Artists Mgmt, Inc., 443 F.2d 1159 (2d Cir. 1971). Organizer of concert series held liable for infringing performances. Organizer knew that copyrighted songs would be performed because one of its employees obtained song titles from artists and printed programs. Organizer deliberately refrained from getting licenses and knew that performers would not get licenses either. Organizer participated in formation and direction of concerts.

B. Vicarious liability

1. Right and ability to supervise activity that directly infringes copyright
2. Direct financial interest in the infringing activity

Fonovisa v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir. 1996). Swap meet operator held vicariously liable for sale of bootleg recordings by vendors. Cherry Auction controlled access to venue and reserved right to terminate vendors for any reason. Cherry Auction also received rental fees from vendors, parking and concession fees, and admission fees from customers.

C. Inducement

1. Distribution of device with object of promoting its use to infringe copyright is liable for 3rd party infringement
2. Mere knowledge of infringing potential or of actual infringing uses is not enough
3. Defendant must have engaged in purposeful, culpable expression and conduct showing intent to promote infringement

Metro-Goldwyn Mayer Studios, Inc. v. Grokster, 545 U.S. 913 (2005). Grokster P2P service found liable for inducing copyright infringement for operating file sharing service. Grokster deliberately sought to capture users of Napster after Napster was shut down.

III. DMCA

A. Basics

1. “Safe harbor” for internet service providers (“ISPs”) engaging in certain activities
 - a) Transitory communications
 - b) System caching
 - c) Information residing on systems at direction of users (user-generated content)
 - d) Information location tools

Subsections (c) & (d) are relevant to our discussion today.

To be eligible for safe harbor for any of these activities, ISP must have reasonably implemented a policy providing for termination of repeat infringers in appropriate circumstances.

2. Subsections (c) and (d) borrow elements of contributory infringement & vicarious liability tests. To be eligible for safe harbor, ISP must:
 - a) Not be a contributory infringer:
 - (1) Not have actual knowledge of infringing material or activity;
 - (2) Absent actual knowledge, be unaware of facts or circumstances from which infringing activity is apparent (“red-flag” knowledge); and
 - (3) Upon obtaining such knowledge or awareness, act expeditiously to remove, or disable access to, the material
 - b) Not be vicariously liable:
 - (1) Not receive a financial benefit directly attributable to the infringing activity
 - (2) Not have right and ability to control infringing activity

- c) Take down infringing material upon notification per DMCA notification procedures

B. Areas of controversy

1. What constitutes actual knowledge?

A&M v. Napster, 239 F.3d 1004 (9th Cir. 2001). Record industry sued P2P filesharing service. For purposes of contributory infringement, Napster had both actual and constructive knowledge.

“If a computer system operator learns of *specific infringing material* on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement.” (emphasis added). *Napster*, 239 F.3d at 1021.

Court differentiated between specific infringing items and general ability of system to include infringing material. Absent specific information which identifies infringing activity, ISP cannot be liable for contributory infringement merely because structure of system allows for exchange of copyrighted material. *Id.*

District court found that Napster had actual knowledge of infringement, and 9th Circuit agreed. Internal document referenced need to remain ignorant of users’ real names and IP addresses “since they are exchanging pirated music.” Also, RIAA sent takedown notice with respect to more than 12,000 infringing files, some of which Napster failed to take down. *Napster*, 239 F.3d at 1020 n. 5; 1022 n. 6. Ninth Circuit emphasized failure to take down as basis for actual knowledge in appellate opinion.

District court found that Napster had constructive knowledge of infringement: Napster executives had recording industry experience. Napster enforced IP rights in other instances (suing a rock band that copied its logo). Napster executives downloaded copyrighted songs from the system. Napster promoted the site using screen shots listing infringing files. *Napster*, 239 F.3d at 1020 n. 5. Ninth Circuit emphasized actual knowledge rather than constructive knowledge in appellate opinion.

For purposes of DMCA safe harbor, Ninth Circuit noted that Plaintiffs had raised significant questions about Napster’s eligibility for safe harbor protection, including whether Napster was an ISP, whether Napster reasonably implemented a copyright compliance policy, and whether copyright owners must give

“official” notice of infringing activity in order to give rise to knowledge. *Napster*, 239 F.3d at 1025.

Ellison v. Robertson, 357 F.3d 1072 (9th Cir. 2004). Author sued AOL as a result of individual’s posting copyrighted work to Usenet group, which was stored on AOL’s servers for 14 days.

In assessing knowledge for *contributory infringement* purposes, court examined AOL’s DMCA notification policy. Author attempted to notify AOL of infringement by email, but AOL had changed email address for copyright complaints without telling anyone. Email sent to old address was not automatically forwarded to new email address. Court found that this was unreasonable and reasonable trier of fact could conclude that AOL had reason to know of infringement.

(Note: court did not discuss knowledge standard for DMCA safe harbor, because AOL alleged “transitory communications” prong, which does not include a knowledge element.)

Perfect 10 v. CCBill, 481 F.3d 751 (9th Cir. 2007): Publisher of adult entertainment photographs sued provider of webhosting services and processor of credit card payments, alleging secondary liability for infringement occurring on client sites.

For purposes of *DMCA safe harbor*, court held no *actual knowledge* where notices sent by P10 failed to comply with DMCA requirements. For example, P10 sent a 22,000 page production of pictures with corresponding URLs, but didn’t include statement under penalty of perjury that complaining party was authorized to act on behalf of copyright owner, and was acting in good faith. These omissions were not technical errors; often, one or more required element was entirely absent.

Veoh: For purposes of *DMCA safe harbor*, fact that Veoh hosted an entire category of content – music – that could be copyrighted was insufficient to impute actual knowledge of infringement, otherwise safe harbor would be a dead letter. Automatic tagging of music videos with “music video” label also did not demonstrate actual knowledge. When Veoh received takedown notices, or otherwise became aware of specific instances of infringement (*i.e.* employee found an infringing video), it removed material in question. RIAA notices did not give actual knowledge of any content beyond that specifically referenced in the notices. Fact that notices referenced specific artists didn’t give knowledge of material other than what was specifically identified in the notice –

Veoh didn't have to go look for other infringing content relating to that artist. Per *CCBill*, DMCA places burden of policing copyright infringement squarely on the owners of the copyright.

YouTube: "tenor" of DMCA is that actual knowledge = knowledge of specific and identifiable infringements of particular individual items.

Recited language of statute and legislative history at length, but no analysis or discussion.

Only and fleeting analysis was of subsection (m), which says DMCA shall not be construed to condition safe harbor protection on a service provider monitoring its service or affirmatively seeking facts indicating infringing activity.

Court held that letting knowledge of a generalized practice of infringement in the industry, or of a proclivity of users to post infringing materials, impose responsibility on service providers to discover which of their users' postings infringe a copyright would contravene the structure and operation of the DMCA.

Bottom line: courts construing actual knowledge requirement of DMCA so far have held that actual knowledge must be of specific infringing items. *This differs slightly from Napster district court's interpretation of contributory infringement*, which found actual knowledge in part on internal communications reflecting knowledge of the generalized practice of infringement on the site. But 9th Circuit *Napster* opinion said that ability of system to host infringing content is not enough for actual knowledge.

2. What constitutes red-flag knowledge?

DMCA subsection (m): DMCA doesn't require service provider to actively monitor the service for infringement.

Legislative history: Senate Judiciary Committee Report (S. Rep. No. 105-190 (1998) and House Committee on Commerce Reports (H.R. Rep. No. 105-551, pt. 2 (1998), discussing red-flag knowledge under DMCA subsection (d) (information location tools): "the copyright owner could show that the provider was aware of facts from which infringing activity was apparent if the copyright owner could prove that the location was clearly, at the time the directory provider viewed it, a 'pirate' site of the type described below, where sound recordings, software, movies or books were available for unauthorized downloading, public

performance or public display. Absent such ‘red flags’ or actual knowledge, a directory provider would not be similarly aware merely because it saw one or more well known photographs of a celebrity at a site devoted to that person.”

Perfect 10 v. CCBill: no red-flag knowledge arose from fact that client websites had names like “illegal.net” or “stolencelebritypictures.com.”

“When a website traffics in pictures that are titillating by nature, describing photographs as ‘illegal’ or ‘stolen’ may be an attempt to increase their salacious appeal . . . We do not place the burden of determining whether photographs are actually illegal on a service provider.” 481 F.3d at 763.

Court remanded to district court to determine whether notices of infringement from other parties could constitute red-flag knowledge.

Columbia Pictures v. Fung (C.D. Cal. 2009): Motion picture industry sued operator of “torrent” filesharing site under inducement theory. Site operator sought protection under subsection (d) for information location tools.

For purposes of *DMCA safe harbor*, Court found that operator “turned a blind eye to ‘red flags’ of obvious infringement.” (Slip op. at 40.) Fung himself engaged in unauthorized downloads of copyrighted material from the site. (These downloads were done abroad and thus could not establish actual knowledge; but showed that Fung was aware that infringing material was available on the site.) Also designed website to include lists such as “Top 20 Movies,” “Top 20 TV Shows,” “Box Office Movies.” These lists included copyrighted works. “Thus, unless Defendants somehow refused to look at their own webpages, they invariably would have been [sic] known that (1) infringing material was likely to be available and (2) most of Defendants’ users were searching for and downloading infringing material.” (Slip op. at 41.)

Overwhelming statistical evidence also showed prevalence of copyrighted material on the site. Thus, “the only way Defendants could have avoided knowing about their users’ infringement is if they engaged in an ‘ostrich-like refusal to discover the extent to which their systems were being used to infringe copyright.’” (Slip op. at 42.)

Court concluded that inducement liability and DMCA safe harbors “are inherently contradictory. Inducement liability is based on active bad faith conduct aimed at promoting infringement; the statutory safe harbors are based on passive good faith conduct aimed at operating a legitimate internet business.” (Slip op. at 43.)

Veoh: general awareness of infringement, without more, is not enough for red-flag knowledge.

Court cited *CCBill* for proposition that even providing services to websites with shady names is not enough to raise a red flag. Ninth Circuit set a high bar for finding red-flag knowledge. 665 F. Supp. 2d at 1111.

Court noted that UMG cited no case holding that a provider’s general awareness of infringement, without more, is enough to preclude the safe harbor. If that were enough, DMCA would not serve its purpose of enabling robust development of internet and e-commerce. *Id.*

Veoh eventually implemented filtering, but the fact that it didn’t do so earlier doesn’t matter because DMCA doesn’t require filtering. *Id.*

YouTube: “tenor” of DMCA is that “facts or circumstances” = knowledge of specific and identifiable infringements of particular individual items. If generalized practice of infringement were enough, it would contravene structure and operation of DMCA.

Again, no meaningful analysis.

Cited *CCBill* language that shady website names don’t give rise to red flags, and burden of assessing infringement is not on ISP.

Cited *Veoh* language that lesson of *CCBill* is that if investigation of facts and circumstances is necessary, then they aren’t red flags.

Cited favorably the 2d Circuit opinion in *Tiffany v eBay*, 600 F.3d 93 (2d Cir. 2010), a trademark case. Tiffany sued eBay for contributory trademark infringement because eBay allowed sellers of counterfeit goods to continue to operate despite knowing, generally, that counterfeit Tiffany goods were being sold ubiquitously on the site. Second Circuit ruled in favor of eBay, holding it could not be liable unless it had knowledge of particular listings of counterfeit goods. *YouTube* court concluded, “although by a different technique, the DMCA applies the same principle.”

Bottom line: very difficult to show red flags of infringement. *Fung* is about the only case that's done it, but *YouTube* court dismissed applicability of *Fung* because he was "an admitted copyright thief whose DMCA defense under 512(d) was denied on undisputed evidence of purposeful, culpable expression and conduct aimed at promoting infringing uses of the website."

Case law hasn't defined what red-flag knowledge *is*. Almost like Justice Stewart on obscenity – I'll know it when I see it. No question that *Fung* is a pirate site, and court held that way. But *Veoh* and *YouTube* serve purposes other than piracy.

3. What constitutes the right and ability to control infringing activity?

Fonovisa: Cherry Auction controlled and patrolled premises and reserved the right to terminate vendors for any reason whatsoever. Controlled access of customers to swap meet area. Thus, had control.

Napster: For purposes of *vicarious liability*, the ability to block infringers' access to a particular environment for any reason whatsoever is evidence of right and ability to supervise. (citing *Fonovisa*)

Napster retained right to control access to system. Retained right to refuse service and terminate accounts in its discretion.

Court held that to escape imposition of vicarious liability, however, the reserved right to police must be exercised to its fullest extent. Turning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability.

This is unlike DMCA subsection (m) – no requirement to police

Though Napster system did not read content of indexed files, Napster had the ability to locate infringing material listed on its search indices. Failure to police system's premises, combined with showing of financial benefit, led to imposition of vicarious liability.

Court did not analyze DMCA defense, merely stating that Plaintiff had raised various questions about Napster's eligibility for defense.

Hendrickson v. eBay, 165 F. Supp.2d 1082 (C.D. Cal. 2001): Documentary filmmaker sued eBay because vendors were selling pirated copies of film on site. For purposes of DMCA safe harbor,

right and ability to control infringing activity cannot simply mean the ability of ISP to remove or block access to materials posted on site. To hold otherwise would defeat purpose of DMCA and render statute internally inconsistent. To be eligible for safe harbor, statute requires ISP to remove material on receipt of takedown notice. ISP must also implement copyright policy providing for termination of repeat infringers. ISP can't lose safe harbor because it takes these steps, which are required to be eligible for safe harbor. Voluntary monitoring of site also does not equate to right and ability to control. Legislative history makes this clear.

eBay was not actively involved in listing, bidding, or sale of the pirated items. eBay did not have control over the infringing items – the pirated videos themselves.

Court did not address *Napster* opinion.

Corbis v Amazon, 351 F. Supp. 2d 1090 (W.D. Wa. 2004): Corbis, licensor of rights to photographs, sued Amazon.com because third-party vendors were selling celebrity images owned by Corbis through Amazon's zShops platform.

Court quoted district court opinion in *CCBill* that right and ability to control cannot simply mean the ability of a service provider to remove or block access to materials posted on its website or stored in its system. Amazon never possessed the infringing material, didn't preview them prior to listing, does not edit product descriptions, suggest prices, or otherwise involve itself in the sale. Amazon had no right or ability to control.

Veoh: court explicitly stated that "right and ability to control" under DMCA must differ from common law. Adopting *Napster* standard would make statute redundant because ISPs must already be able to block and take down in order to be eligible for safe harbor. Also, doing so would run afoul of 512(m), which says that ISPs don't have to monitor their services.

Though *CCBill* court said that well-established rule of construction is that terms that have accumulated settled meaning under common law should be construed the same unless the statute otherwise, *CCBill* court was talking about financial benefit, not right and ability to control. Financial benefit can be construed the same as under common law, but right and ability to control can't.

YouTube: held right and ability to control requires knowledge of the activity, which must be item-specific, then referred to section of opinion addressing knowledge. (Slip op. at 25.) No meaningful analysis.

Bottom line: This seems qualitatively different from Fonovisa. In *Fonovisa*, the ability to exclude vendors, and the control over customers' access, was cited by the court as evidence of right and ability to control. In context of DMCA, however, control is interpreted differently.

4. What constitutes a direct financial benefit?

Fonovisa: "sale of pirated recordings at the Cherry Auction swap meet is a 'draw' for customers . . ." No discussion of evidence of bootleg recordings acting as a draw. Not clear if it's just assumed, or if there was evidence showing people specifically came for the pirated recordings. General revenues like admission fees, concession stand sales and parking fees also held sufficient for direct financial benefit purposes.

Legislative history: In general, a service provider conducting a legitimate business would not be considered to receive a "financial benefit directly attributable to the infringing activity" where the infringer makes the same kind of payment as non-infringing users of the provider's service. Thus, receiving a one-time set-up fee and flat periodic payments for service from a person engaging in infringing activities would not constitute a direct financial benefit. It would, however, include such fees where the value of the service lies in providing access to infringing material. S. Rep. at 44-45, H. Rep. at 53-54.

This seems inconsistent with *Fonovisa*, where fees paid by all vendors and customers, not just those buying and selling bootleg recordings, were held to constitute a direct financial benefit.

Napster: Financial benefit exists where availability of infringing material acts as a draw for customers. Ample evidence supported the district court's finding that Napster's future revenue is directly dependent upon increases in user base.

Ellison: "Draw" means whether there is a causal relationship between infringing activity and financial benefit, regardless of how substantial it is. Draw can be small. Central question is whether the infringing activity constitutes a draw for subscribers, not just an added benefit. *Ellison* plaintiff failed to show any evidence that

AOL customers either subscribed because of the available infringing material or canceled subscriptions when it was no longer available. Not enough evidence of causal relationship.

CCBill: Based on “well-established rule of construction that where Congress uses terms that have accumulated settled meaning under common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of these terms . . . we hold that ‘direct financial benefit’ should be interpreted consistent with the similarly-worded common law standard for vicarious copyright liability.

Thus, relevant inquiry = whether infringing activity constitutes a “draw” for subscribers, not just an added benefit. In *CCBill*, plaintiff provided almost no evidence on this element, only alleging that Plaintiff “hosts websites for a fee.” This was insufficient.

Veoh: Doesn’t address this element.

YouTube: “There may be arguments over whether revenues from advertising, applied equally to space regardless of whether its contents are or are not infringing, are ‘directly attributable to infringements,’ but in any event the provider must know of the particular case before he can control it. As shown by the discussion in Parts 1 and 2 above, the provider need not monitor or seek out facts indicating such activity. If ‘red flags’ identify infringing material with sufficient particularity, it must be taken down.” (Slip op. at 25-26).

IV. A Peek in the Crystal Ball

Veoh

Most of the case law is from the Ninth Circuit, so we have a lot of information about the standards that will be applied to *Veoh*. *Veoh* was argued May 6 before a panel composed of Judges Pregerson, Fisher and Berzon.

Judge Fisher was skeptical of UMG’s argument that it is impractical for copyright owners to use the DMCA takedown procedures. That is an issue for Congress; the court must deal with the statute as written.

Judge Fisher also opined that UMG’s interpretation of the financial benefit and control provisions would eliminate the safe harbor. ISPs make their money from advertising, so (Judge Fisher reasoned) UMG argues that the

financial benefit prong is satisfied. Moreover, if an ISP's removal of content in response to a takedown notice constitutes the right and ability to control infringing activity, then that prong is satisfied as well, and the safe harbor has no applicability. UMG's attorney responded that ISPs may make money, but must do so lawfully. Here, Veoh received incremental financial revenues every time a video was shown with ads on the site that were tied to the video. More infringing content = more revenue. This is different from charging a flat fee for access to the service that is agnostic to content.

The court also wrestled with the "by reason of storage" language in subsection (c). Judge Berzon suggested that Veoh created a distribution system, which is hard to fit within the "by reason of storage" language.

We are awaiting *Veoh* opinion.

YouTube

Argument in the *YouTube* case is tentatively scheduled for Monday, Sept. 12. The Second Circuit is a bigger question mark. Will it follow the Ninth Circuit, or go its own way? The Southern District of New York didn't give it much to work with in the way of legal analysis. It would be nice to see some development of the red-flag test. On the other hand, the court could decide that there is a fact issue requiring trial – there was substantial evidence that YouTube was aware of, and even welcomed, some degree of infringing activity.

There has been a late-breaking development in *YouTube* based on SCT's recent decision in *Global-Tech Appliances v. SEB*, decided May 31. In *Global-Tech*, the Court construed Patent Act Section 271(b), which provides that whoever actively induces infringement of a patent is liable as an infringer. The language of the section implies an intent element, raising the question whether the requisite intent is the intent to induce the act that results in infringement or the intent to induce infringement itself. Put another way, does the inducer need to be aware of the existence of a patent and intend to cause infringement?

The Court concluded that the inducer must intend to induce infringement and must know of the existence of the patent. The Court went on to hold, however, that this specific intent standard can be satisfied by a showing of willful blindness, defined as (1) a subjective belief that there is a high probability that a fact exists and (2) the defendant takes deliberate actions to avoid learning that fact.

Viacom has brought this opinion to the Second Circuit's attention and argues that willful blindness should apply in the context of the DMCA.

The notion of willful blindness seems to conflict with §512(m), which doesn't require the ISP to monitor its service for infringement. On the other hand, it could potentially be reconciled with red flag knowledge if an ISP is aware of a red flag, but willfully blinds itself to that red flag and any further knowledge. It will be interesting to see whether the Second Circuit addresses this issue in its opinion.