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Reviewing U.S. Copyright Law and the Internet in 2008

2008 has seen a veritable explosion of copyright cases where the internet plays an important role. This article discusses cases dealing with a wide variety of issues from takedown notices under the Digital Millennium Copyright Act, to the first sale doctrine in copyright law, to distribution rights under the Copyright Act, to the fair use defense.

I. Review

In 2007, Viacom sued YouTube for copyright infringement seeking at least \$1 billion in damages. Although there have not been any major developments in the case a recent decision from a federal court in California may have implications for the litigation.

1. Safe Harbor under the Digital Millennium Copyright Act

In *Io Group, Inc. v. Veoh Networks, Inc.*,¹ defendant Veoh provides software and a web site that enables the sharing of user-provided video content over the Internet, much like YouTube. Plaintiff Io owns copyrights in a number of adult films, portions of which were uploaded and viewed on Veoh's web site without Io's authorization.

In a motion for summary judgment before trial, Veoh sought to invoke the "safe harbor" provisions of the Digital Millennium Copyright Act (DMCA). The DMCA limits a service provider's liability for copyright infringement where it (1) does not know of the infringement; or (2) acts expeditiously to remove or disable access to the material when it (a) has actual knowledge, (b) is aware of facts or circumstances from which infringing activity is apparent or (c) has received DMCA-compliant notice; and (3) either does not have the right and ability to control the infringing activity, or – if it does – that it does not receive a financial benefit directly attributable to the infringing activity.

Because Veoh responded to compliant DMCA takedown notices on a same-day basis, notified users of its policies against copyright infringement, registered a copyright agent with the Copyright Office, terminated users who were repeat infringers, blocked new registrations from the same e-mail addresses, and used "hashes" (or digital fingerprints) to stop the same infringing videos from being uploaded by other users, the court found that Veoh fell within the DMCA's safe harbor provisions.

Many in the blogosphere have commented that the decision in the Veoh case is good news for YouTube. Whether the trial court will find that YouTube has taken the same kinds of appropriate steps to deal with copyright infringement remains to be seen. In the meantime, the onus seems to remain upon copyright owners to police their works on the internet.

2. Takedown Notices

In yet another case involving YouTube, albeit one where YouTube was not named as a defendant, in *Lenz v. Uni-*

versal Music Corp.,² plaintiff Stephanie Lenz posted a video on YouTube of her children dancing in the kitchen while the song "Let's Go Crazy" by Prince could be heard in the background. Universal sent YouTube a DMCA takedown notice demanding removal of the video.

Lenz filed a declaratory judgment action against Universal for misrepresentation. Specifically, Lenz claimed that Universal acted in bad faith by issuing the takedown notice without proper consideration of the fair use doctrine in copyright law. Universal moved to dismiss the Complaint for failure to state a claim.

In denying the motion to dismiss, the court stated that consideration of the fair use doctrine is part of the initial review that any copyright owner must make of potentially infringing material prior to issuing a takedown notice. At the same time, the court stated that whether Lenz could prove that whether Lenz could prove that Universal acted with the necessary subjective bad faith or that she suffered meaningful actual damages was not at issue in deciding that the Complaint survived the motion to dismiss. Nevertheless, before issuing any takedown notices, copyright owners should consider the possibility that an infringer may successfully invoke the fair use defense.

3. Jurisdictional Issues

In addition to YouTube, eBay is a ubiquitous actor in copyright cases involving the internet. Through eBay's Verified Rights Owner's program copyright owners can shut down infringing auctions through submitting a Notification of Claimed Infringement (NOCI). In *Dudnikov v. Vermilion Fine Arts Inc.*,³ the submission of such a NOCI provided the plaintiff with a jurisdictional basis for filing a declaratory judgment lawsuit against the copyright owner.

In *Dudnikov*, plaintiff earned a living from home in Colorado selling a variety of fabrics and handmade crafts through eBay. In 2005, Dudnikov auctioned fabric with a pattern based on works by the artist Erte. The defendant copyright owner submitted a NOCI to eBay, which cancelled the auction. Dudnikov contested the claim. In response, the copyright owner sent an e-mail to Dudnikov stating that, to prevent the auction from being reinstated under eBay procedures, it intended to file suit in federal court. Dudnikov then filed her own lawsuit in Colorado for declaratory judgment of non-infringement.

The trial court granted defendant's motion to dismiss for lack of personal jurisdiction. However, the appeals court reversed the decision. According to the appeals court, the defendant submitted a NOCI that it knew would have ramifications for plaintiff Dudnikov's business in Colorado. The court stated that the NOCI purposely

▷ Peter S. Sloane/Sean P. McMahon, both New York. Further information about the authors at p. 32.

1 2008 U.S. Dist. LEXIS 65915 (N.D. Cal. Aug. 27, 2008).

2 2008 U.S. Dist. LEXIS 66335 (N.D. Cal. Aug. 20, 2008).

3 514 F.3d 1063 (10th Cir. 2008).

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caused the cancellation of the auction and allegedly threatened *Dudnikov's* future access to eBay and the viability of her business. As a result, it was neither unfair nor unjust for the defendant to answer for its actions in Colorado, where the letter was sent and where the damage occurred.

The decision in *Dudnikov* should give pause to copyright owners before submitting any NOCIs to eBay. If there is any concern about finding oneself as the defendant in a declaratory judgment action, rather than submit a NOCI or send a demand letter, the copyright owner may want to merely inform the other side of its rights and invite settlement discussions. Even before the rise of the internet and auction houses such as eBay, this restrained approach has always been a recommended way to try to avoid unnecessary litigation.

4. The First Sale Doctrine

The internet has facilitated the flow of copyrighted goods around the world, much to the chagrin of copyright owners who want to control the distribution of their works. In *Pearson Education Inc. v. Liao*,⁴ the defendant purchased foreign editions of textbooks intended for sale outside the United States and, without the permission of the plaintiff copyright owner, resold them within the U.S. on internet bookselling sites. The foreign editions were substantially identical in content to the U.S. editions, but were produced using inferior ink, paper, and binding material.

The "first sale doctrine" under copyright law allows the owner of a particular copy of a copyrighted good to resell it without permission of the copyright holder. However, the doctrine does not necessarily protect people who purchase copies of the copyrighted works outside the United States for resale into the United States. In other words, since the copyright owner has not placed the copyrighted work into the stream of U.S. commerce, it has not yet exhausted its statutory right to control the initial distribution of the work.

Because the works sold by defendant were manufactured abroad, and were sold in the U.S. without permission of the plaintiff, the trial court in *Pearson* found copyright infringement. As a result, the court awarded plaintiff with injunctive relief and statutory damages for \$124,500. The decision in *Pearson* is a useful reminder to copyright owners that they need not allow internet dealers to sell works in the U.S. that were never intended for distribution here.

Vernor v. Autodesk Inc.,⁵ combines aspects of both *Dudnikov* and *Pearson*. Vernor resold copies of Autodesk's AutoCAD architectural design computer program on eBay. In prior auctions, Autodesk submitted NOCIs to eBay, which suspended the auctions. In response, Vernor submitted counterstatements and eBay reinstated the auctions. At one point, however, eBay suspended Vernor's account for one month due to repeated infringement. Vernor finally sued Autodesk for declaratory relief because Autodesk's past actions

gave him reason to believe that it would try to stop additional sales again.

Unlike in *Dudnikov*, the defendant in *Vernor* did not protest jurisdiction. Rather, the issue in *Vernor* was, like in *Pearson*, whether the defendant could avail itself of the first sale doctrine in copyright law. Vernor's lawsuit claimed that his resale of the AutoCAD computer software was permissible under the first sale doctrine. In response, Autodesk claimed that it had merely licensed the software to the initial recipient, from whom Vernor had purchased the goods for resale to others.

In finding that the transfer of the AutoCAD software from Autodesk to the initial recipient was a sale, rather than a license, the trial court found that possession of the software was retained by the buyer in exchange for a single up-front payment. Although it was considered a "sale with restrictions on use," because there were restrictions on the transfer, the transaction did not amount to a license. As a subsequent purchaser, Vernor successfully invoked the first sale doctrine to support his later resale of the copyrighted goods.

The recording industry's well-publicized pursuit of individual infringers has continued on in the courts this past year. In *Elektra Entertainment Group Inc. v. Barker*,⁶ several recording companies sued an individual named Denise Barker alleging that she infringed their rights of reproduction and distribution by "making available" copies of protected recordings using an online peer-to-peer filing sharing system. In response, Barker moved to dismiss on the ground of failure to state a claim.

The trial court agreed with defendant that the Complaint failed to state a claim to the extent that it alleged that merely making available copyrighted works for distribution to others does not violate any of the specifically enumerated rights granted to copyright owners under the Copyright Act. Merely making the copyrighted recordings available was insufficient to establish a violation of plaintiffs' exclusive distribution rights. According to the court, that would require making an illegal offer to distribute or an actual transfer of plaintiffs' works by defendant.

However, the court denied the motion to dismiss the Complaint. In addition to merely alleging that defendant had made plaintiffs' works available, plaintiffs had also properly alleged that defendant had actually distributed plaintiffs' copyrighted work in violation of the Copyright Act. While defendant may have achieved a pyrrhic victory in *Barker*, the case serves as a reminder that the Copyright Act does not reach every conceivable use of a copyrighted work and that all claims by copyright owners must find support in the specific statutory language.

5. Distribution Rights

One month after the decision in *Barker*, the trial court in *Atlantic Recording Corp. v. Howell*⁷ also found that merely making a copy available does not constitute distribution. In *Howell*, several recording companies alleged that a husband and wife infringed their copyrights by "making available" protected recordings through the peer-to-peer online media distribution system Kazaa. The court disagreed, finding that merely making an unauthorized copy of a copyrighted work available to the public does not violate a copyright holder's exclusive right of distribution.

4 2008 U.S. Dist. LEXIS 39222 (S.D.N.Y. May 13, 2008).

5 555 F. Supp. 2d 1164 (W.D. Wash. May 20, 2008). For an in-depth analysis of this case see *Heydn*, CRi 2009, pp. 23, in this issue.

6 551 F. Supp. 2d 234 (S.D.N.Y. Mar. 31, 2008).

7 554 F. Supp. 2d 976 (D.Ariz. April 29, 2008).

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Unlike in *Barker*, however, the court in *Howell* stated that an offer to distribute does not constitute an illegal distribution. According to the court in *Howell*, the scope of the term distribution is defined within the Copyright Act as a "sale or other transfer of ownership" or a "rental, lease, or lending" of a copy of the work. Thus, according to the court, distribution requires an identifiable copy of the work to change hands in one of the prescribed ways.

The court in *Howell* also denied summary judgment to plaintiff because defendants raised an issue of fact in denying the distribution of any of the copyrighted works through Kazaa. At deposition, Howell testified that the Kazaa program was sharing files without his authorization. Although the court stated that it was not unsympathetic to the difficulty that internet file-sharing systems pose to copyright owners, it was not in a position to respond to new technological innovations by expanding the protections afforded by the Copyright Act without Congressional authorization.

Just recently, like in *Howell*, a trial court in Minnesota also found that a distribution only occurs when a defendant actually transfers to the public the possession or ownership of a copyrighted work. In *Capitol Records Inc. v. Thomas*,⁸ plaintiff recording companies sued an individual named *Jamie Thomas* for downloading and distributing copyrighted recordings through Kazaa. Following trial, the jury instructions stated that "[t]he act of making copyrighted sound recordings available for electronic distribution on a peer-to-peer network, without license from the copyright owners, violates the copyright owners' exclusive right of distribution, regardless of whether actual distribution has been shown." The jury subsequently found *Thomas* guilty of wilful infringement.

On its own, the court ordered a new trial when it became aware of the requirement that actual dissemination must occur in order for a defendant to infringe the distribution right under the Copyright Act. The court concluded that the jury instruction was erroneous and that error substantially prejudiced *Thomas's* rights.

In ordering a new trial, the court took the opportunity to implore Congress to amend the Copyright Act to address liability and damages in peer-to-peer network cases. The court distinguished individuals such as *Thomas*, who as a consumer was not seeking to harm competitors or make a profit, from corporate or business defendants. According to the court, in the case of individuals, large statutory damages are unreasonable and oppressive. Indeed, copyright owners should consider issues of fairness when they seek to enforce their rights against individuals, who may not have the resources to defend against claims or to pay money damages, as opposed to profit seeking companies.

6. The Fair Use Defense

Copyright owners frequently find other companies copying their materials on the internet without permission. In *Designer Skin, LLC v. S & L Vitamins, Inc.*,⁹ defendant reseller S & L was accused of copyright infringement resulting from its use of thumbnail images of plaintiff manufacturer Designer Skin's tanning products on its web site. Both parties moved for summary judgment. Designer Skin claimed that S & L copied elec-

tronic images from Designer Skin's web site and used them on the S & L web site without permission. S & L claimed fair use as a defense.

The court did not agree. Because the photographs were used for a commercial purpose (to market Designer Skin care products to consumers), were creative in nature, and were copies of the original images in their entirety, the court found that S & L could not rely upon the fair use doctrine.

In contrast, the fair use doctrine was successfully argued in *Savage v. Council on American-Islamic Relations Inc.*,¹⁰ where plaintiff Michael Savage accused defendant Council on American-Islamic Relations ("CAIR") of posting a four-minute audio file containing excerpts of his remarks criticizing Islam. Defendant moved for judgment on the pleadings on the ground that its copying was permitted under the fair use doctrine.

In analyzing the fair use defense, the court found that defendant used plaintiff's material in order to criticize and comment on plaintiff's views and statements, the use of approximately four minutes out of a two hour show was small, and that there would not be any actual or potential market impact on the original copyrighted work. Accordingly, the court found that fair use applied and it granted defendant's motion for judgment on plaintiff's copyright infringement claim.

Copyright owners should take note that, when others post copyrighted materials on the internet without permission, the fair use defense may apply in equal measure as it does in the offline world. Whether or not the defense succeeds depends upon the particular circumstances. Educational criticism rather than commercial competition seems to have been the difference in the holdings between the *Savage* and *Designer Skin* cases.

There has previously been a trend toward permitting copyright owners to subpoena internet service providers to reveal the identity of suspected infringers. In 2004, the appellate court in *Recording Industry Association of America Inc. v. Verizon Internet Services, Inc.*,¹¹ upheld a lower court decision granting a motion to quash a subpoena served by the RIAA upon Verizon to learn the names of subscribers who appeared to be trading large numbers of MP3 files of copyrighted music over the Internet. In 2007, however, in *Warner Bros. Records Inc. v. John Does 1-20*,¹² the court allowed plaintiffs to serve a subpoena upon Qwest Communications Corp., whose subscriber activity log files would allow plaintiffs to discover the identity of the alleged infringers.

7. Discovery Issues

In 2007, in *Arista Records LLC v. Doe*,¹³ the trial court granted an order allowing plaintiff record companies to take immediate discovery from Michigan State University (MSU). Plaintiffs alleged that four unknown defendants used peer-to-peer online filing sharing systems to download or distribute copyrighted music. Plaintiffs

8 Civil Action No. 06-cv-1497 (D. Minn. May 15, 2008).

9 560 F.Supp. 2d 811 (D. Ariz. May 19, 2008).

10 87 U.S.P.Q.2d 1730 (N.D. Cal. July 28, 2008).

11 351 F.3d 1229 (C.A.D.C. Dec. 19, 2003).

12 2007 WL 1655365 (D.Colo. June 5, 2007).

13 85 U.S.P.Q.2d 1154 (W.D. Mich. Nov. 20, 2007).

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had identified the computer used by each of the four defendants through the unique numerical internet protocol (IP) address assigned to each computer. The IP addresses were distributed by MSU as the internet service provider. Plaintiffs requested leave from the court to subpoena information identifying the defendants from MSU. In granting leave, the court found that discovery to allow the identification of unknown defendants has become "routine." Such a ruling is helpful to copyright owners where infringers' identities are hidden.

II. Conclusion

2009 should bring further developments in this continually developing area of the law. Hasbro has filed suit against the creators of the popular Facebook application "Scrabulous" claiming infringement of its copyright in the "Scrabble" game. The case was filed in the Summer of 2008. Expect to see developments in this and other cases that deal with copyright law and the internet over the next year.

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Can Lessons be drawn from the Environmental Legal Framework?

Public participation in decision-making processes and in the governing of the Internet in particular has a legitimizing effect and enhances transparency and accountability of Internet organizations. Allowing the civil society to express its opinions and have their members' considerations taken into account makes decision-making processes and their outcomes more acceptable. Furthermore, public forums for discussions improve the information flows between the manifold stakeholders of the Internet.

This study proposes the conclusion of a Memorandum of Understanding between Internet organizations which could provide for a participatory framework in decision-making matters in favor of the netizens. For this purpose, reference is made to the environmental legal framework and particularly the Aarhus Convention on Access to Information, Public Participation in Decision Making and Access to Justice. Since the interest of the civil society to participate in the Internet is quite similar to its interest to play a part in environmental matters, a comparison between developments in international environmental law and in the field of Internet governance may be fruitful.

I. Need for Public Participation

The lack of transparency and public participation in various policy matters has been the topic of many discussions in the past few years. These debates are based on the general finding that inasmuch as the civil society is concerned by decisions taken, it should also have the opportunity to participate in the decision-making processes. Effective participation means to express his/her freely formed opinion, enabled, not least, by open and

adequate information flows. As a consequence, the human right to freedom of expression is relevant in all policy matters; it can, however, only be fully enforced if opportunities are created for the civil society to effectively formulate its views.

Public participation in the Internet enhances accountability, stability and sustainability of the structural framework that governs the growing information society. For obvious reasons, activities of Internet organizations necessarily have an influence on the respective developments of the Internet, and, consequently, these organizations are too important for not being responsive. However, in this field concerns about the lack of adequate democratic legitimization of Internet organizations have often been expressed, particularly regarding the Internet Corporation for Assigned Names and Numbers (ICANN).¹ Acceptance of decisions can only be achieved if the members of the civil society have the possibility to express their opinions which should be taken into account in the decision-making processes.

By introducing forums for discussion in which all actors can participate, the integration and eventual harmonization of netizens will be increased. This is especially important considering the heterogeneity of Internet users originating from different local, regional and global zones. Furthermore, information asymmetries between the central players of the Internet need to be avoided and the effectiveness of information flows between the different players enhanced. By providing information on decision-making processes and letting the public participate in respective processes, arbitrary or discriminatory decisions are less likely to occur, considering the possibilities of the public to brand such behavior. Free access to information enables the public to assess opportunities and costs of specific operations. Moreover, making room for the civil society's expression of interests encourages its active participation as well as the mobilization of new actors.²

II. Framework for Institutional Participation

1. Memorandum of Understanding on Institutional Participation

Currently, various Internet organizations regulate the inclusion of the civil society in different ways.³ These

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1 For further information on the ICANN see *Erich Schweighofer*, Role and Perspectives of the ICANN, in Wolfgang Benedek/Veronika Bauer/Matthias C. Kettemann, *Internet Governance and the Information Society*, Utrecht 2008, 79–92.

2 Rolf H. Weber, *Transparency and the Governance of the Internet*, Computer Law & Security Report 2008, 342–348, 345–347.

3 For existing participation agreements of the ICANN, IETF and ITU see the Exploratory report on the concept and possible scope of a code of good practice on participation, access to information and transparency in Internet governance, written on behalf of UNECE, the Council of Europe and APC by Professor David Souter for discussion at a workshop in Geneva on 23 May 2008, available at www.unece.org/env/pp/electronictools/UNECE_CoE_APC_draft_report02.pdf, 16/17.