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# COPYRIGHT LAW

# Web Site Operators

## By Lewis R. Clayton

Copyright infringement is a strict liability offense—while an "innocent" infringer who copies or distributes a work unaware that it is violating a copyright may have limited liability for damages, its pure state of mind is not a defense to infringement itself. How does this principle apply to the Internet, where text and images are instantly, and often automatically, copied, recopied and distributed over a vast worldwide computer network?

In 1998, Congress passed Title II of the Digital Millennium Copyright Act (DMCA), 17 U.S.C. 512, which extends Internet service providers (ISPs) a safe harbor from liability if they have no knowledge of infringing activity and take specified action to remove infringing material after receiving notice from the copyright holder. The statute was a compromise, enacted after intense negotiations among copyright holders and ISPs.

In *CoStar Group Inc. v. LoopNet Inc.*, 2004 WL 1375732 (4th Cir. June 21, 2004), a case that attracted amicus briefs from major industry players on both sides of the DMCA negotiations, the 4th U.S. Circuit Court of Appeals became the first appellate court to rule definitively that a Web site operator that passively and innocently posts infringing material received from its users does not violate the Copyright Act, even if it fails to qualify for the DMCA safe harbor. The panel split, however, on the question of just how passive the operator must be to invoke this immunity. If widely followed, *CoStar* may have significant implications for the many Web sites that post material from users with something to sell (such as eBay) or information to exchange.

### A dispute over copyrights in real estate photographs

CoStar Group Inc. claims to have assembled a comprehensive database of information on commercial real estate markets and properties. The database includes what it describes as "the largest known digital image library of commercial properties," and CoStar owns the copyright in the vast majority of those photographs. Customers can access the database through CoStar's Web site, in return for a fee and an agreement not to post the photographs on any other site.

LoopNet is a commercial Web hosting service that allows subscribers (mostly real estate brokers) to post listings of commercial properties on its Web site. It hosts more than 100,000 listings, including approximately 33,000 photographs. Rather than depend upon subscription revenue like CoStar, LoopNet supports its service by selling advertising on its site. It therefore encourages brokers to submit listings and photographs. Subscribers who submit photographs fill out a form warranting that they have "all necessary rights and authorizations" from the copyright owner.

Before accepting a photograph, a LoopNet employee "cursorily" reviews it to determine if it in fact depicts commercial real estate, and to identify any "obvious evidence, such as a text message or copyright notice, that the photograph may have been copyrighted" by someone other than the subscriber. If it passes this review, the image is posted.

Finding as many as 300 of its copyrighted photographs on the LoopNet site, CoStar sued LoopNet in federal court in Maryland. It alleged both direct infringement—that LoopNet's actions by themselves amounted to a copyright violation—and contributory infringement. To establish contributory infringement, a plaintiff must show that the defendant knows of another's infringing activity and induces, causes or materially contributes to the violation.

On summary judgment, the district court held that LoopNet could not be liable for direct infringement. Here it relied on an influential decision that predated the DMCA, *Religious Technology Center v. Netcom On-Line Communications Services Inc.*, 907 F. Supp. 1361 (N.D. Calif. 1995).

*Netcom* held that a bulletin board service (BBS) and an ISP were not direct infringers when a subscriber of the BBS had posted copyrighted material. Although the BBS and the ISP had copied the material,

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that copying was done "automatically," and was "necessary to having a working system" for transmitting postings to the Internet. The defendants therefore had not "caused" the copying. The *Netcom* court concluded that "[a]lthough copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy by a third party." Id. at 1370. A different result would create liability for every user in a "worldwide link of computers."

Following *Netcom*, the *CoStar* trial court dismissed the direct infringement claim. It found questions of fact, however, on contributory infringement and concerning whether LoopNet met the requirements of the DMCA safe harbor. The parties settled those outstanding claims, and CoStar took an appeal limited to direct infringement.

The 4th Circuit was faced with two issues: whether to follow *Netcom*, and if so, how to apply it. CoStar argued that the DMCA had, in effect, pre-empted *Netcom*, representing a congressional judgment that ISPs that fail to satisfy the act's safe harbor provisions could not contest copying. This issue drew in as amici some of the significant players on each side of the DMCA negotiations. A group of major music companies and movie studios supported CoStar. ISPs and Web site operators contended that the statute was never meant to weaken existing defenses to copyright liability. Each group claimed that the other was attempting to renegotiate a delicate bargain that had been endorsed by Congress.

Rejecting CoStar's position, the 4th Circuit panel unanimously and enthusiastically embraced *Netcom*. "While the Copyright Act does not require that the infringer know that he is infringing or that his conduct amounts to a willful violation of the copyright owner's rights, it nonetheless requires conduct by a person who causes in some meaningful way an infringement." 2004 WL 1375732, at *4.

The court analogized LoopNet "to the owner of a traditional copying machine whose customers pay a fixed amount per copy and operate the machine themselves to make copies. When the customer duplicates an infringing work, the owner of the copy machine is not considered a direct infringer. Similarly, an ISP who owns an electronic facility that responds automatically to users' input is not a direct infringer." Id. at *5.

The panel found nothing in the DMCA that called *Netcom* into question. To the contrary, it pointed to § 512(l) of the act, which provides, under the heading "Other defenses not affected," that an ISP's failure to qualify for the safe harbor "shall not bear adversely upon the consideration of a defense by [the ISP] that [its] conduct is not infringing under this title or any other defense." At least one leading commentator agrees that *Netcom* survives the DMCA. See, Nimmer on Copyright, § 12B.01[A][1].

**The 4th Circuit held that a passive poster of infringing photos did not violate the Copyright Act, even if it didn't qualify for DMCA's safe harbor.**

The panel split, however, on the second question before it: whether LoopNet came within the *Netcom* defense. Unlike Netcom, LoopNet is not a provider of Internet access, indifferent to the content it carries. Its site is a commercial destination on the Internet, and it is a direct competitor of CoStar, owner of the infringed copyrights. Nevertheless, writing for the majority, Judge Paul V. Niemeyer found that LoopNet's screening of photographs was so "cursory as to be insignificant, and if it has any significance, it tends only to lessen the possibility that LoopNet's automatic electronic responses will inadvertently enable others to trespass on a copyright owner's rights." Id. at *11. On that basis, the majority found that LoopNet could not be liable for direct infringement. Arguably, the majority believed that screening is beneficial—in addition to catching copyright violations, screening can help to eliminate spam, viruses and malicious executable programs—and didn't want to penalize ISPs for doing it.

Judge Roger L. Gregory, in dissent, found that the majority's position "profoundly deviates from the passivity approach" of *Netcom*, giving "direct infringers in the commercial cybersphere far greater protections than they would be accorded in print and other more traditional media." In the dissent's view, "the *Netcom* rule was fashioned to protect computer systems that automatically transfer data with no realistic manner by which the operator can monitor content." LoopNet's screening, however, is "active, volitional conduct; its employees make a conscious choice as to whether... the image will be deleted from the company's system." Id. at *15.

## Amount of screening could be focus of other courts

It remains to be seen whether other circuits will follow *CoStar*. If so, the ruling will likely afford a significant additional line of defense for ISPs and Web site operators that fail to qualify for the DMCA safe harbor. Undoubtedly, courts will continue to debate the question that divided the *CoStar* panel—the amount of screening that will disqualify an ISP from invoking *Netcom*. Online services set up for piracy—which encourage unauthorized postings—plainly will not qualify for the defense (and will face liability for contributory or vicarious infringement). At the other extreme, mere ISPs that perform no screening are likely to qualify.

*CoStar* can also be seen as part of a larger controversy: the extent to which commercial Web site operators will be liable for violations of IP rights—copyright, trademark or trade secret—that result from postings initiated by third parties. For example, in *Tiffany (NJ) Inc. v. eBay Inc.*, No. 04 CV 4607 (S.D.N.Y. filed June 18, 2004), Tiffany sued eBay for direct and contributory trademark violations resulting from eBay's alleged failure to prevent auctions of counterfeit Tiffany items. In copyright, as well as trademark, the courts will continue to grapple with these issues. NLJ