Third Strike for Perfect 10?

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Introduction

In the 1940s, Jehovah's Witnesses, tenaciously litigious in defense of free expression, generated a half-dozen Supreme Court decisions that came to define First Amendment rights in the Twentieth Century. With comparable persistence, but in the service of arguably less lofty interests, erotic photo publisher Perfect 10 has fought a series of battles that may delineate the scope of secondary liability in the online kingdom. Last month, the purveyor of "tasteful copyrighted images of the world's most beautiful [naked] women" lost the third Ninth Circuit case this year in which it sought to make others responsible for direct copyright infringement and other wrongs committed by pornographic internet services. *Perfect 10, Inc. v. Visa International Services Association,* 2007 WL 1892885 (July 3, 2007).

In the *Visa* case, a divided panel held that processing payments for the infringing website services was too remote from the direct copyright infringements for Visa and the other credit card company defendants to be held contributorily or vicariously liable.

Prior Perfect 10 Decisions

The first of the *Perfect 10* trilogy, *Perfect 10, Inc. v. CCBill LLC,* 481 F.3d 751 (9th Cir. 2007), was brought against companies that provide web hosting and online credit card processing services to internet enterprises that directly infringed Perfect 10's copyrights. On March 29, 2007, the Ninth Circuit held Perfect 10's state law claims preempted by Section 230 of the Communications Decency Act, determined that Perfect 10's DMCA infringement notices were insufficient to require the defendants to take down allegedly infringing matter, and remanded for further consideration of the defendants' entitlement to various DMCA safe harbors.

Less than two months later, in *Perfect 10, Inc. v. Amazon.com, Inc.,* 487 F.3d 701 (9th Cir. 2007), another Ninth Circuit panel rejected most of the theories whereby Perfect 10 sought to hold Google liable for providing visual search engine services that facilitated locating and accessing infringing sites. In *Amazon*, the court formulated a new test for contributory infringement online – a test which became the subject of sharp controversy in the latest, *Visa* case – and remanded for further consideration.

Visa Decision

The same panel that adjudicated *Perfect 10 v. CCBill* also decided *Perfect 10 v. Visa.* The case came before the Ninth Circuit after the district court dismissed the suit for failure to state a claim, and the court held *inter alia* that the credit card company defendants were not contributorily or vicariously liable. (For convenience, we'll refer to the defendants collectively as "Visa.")

Each flavor of secondary liability under copyright law requires an underlying direct infringement – not apparently controverted in this case – and that the charged parties be linked to the infringement in a way that warrants imposing responsibility. For *contributory liability,* that means the defendant must (1) have *knowledge* of the infringing activity and (2) *materially contribute* to it. For *vicarious liability,* the defendant must (1) have *the right and ability to supervise and control* the infringing activity and (2) obtain a *direct financial benefit* from the infringement. For "inducement" liability, the kind adopted by the Supreme Court in *MGM v. Grokster* in 2005,[1] the secondary defendant must provide a device or technology "with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement." [2]

Contributory Copyright Liability: No Material Contribution

Reviewing *de novo,* the *Visa* majority upheld dismissal of the contributory infringement claim on the ground that Visa's activities did not materially contribute to the infringement. The majority (Circuit Judges Milan Smith and Stephen Reinhardt) held that facilitating payment was not a material contribution because it bears "no direct connection to [the] infringement." The majority's argument is based on a number of considerations that, while not unpersuasive, are not entirely compelling.

To begin, the majority emphasizes that the underlying direct infringements involve violations of the copyright holder's exclusive rights to copy, create derivative works, publicly display and publicly distribute its works. Facilitating payment for infringing activity, the majority states, is not engaging in these activities, and the infringing activity can occur whether or not Visa provides payment services. Of course, this reasoning only goes so far since the issue in the end is not whether facilitating payment *constitutes* the exercise of the copyright holder's exclusive rights, but whether it *materially contributes* to the unlawful exercise of those rights.

In *Perfect 10 v. Amazon,* the Ninth Circuit held that Google's search engine materially contributed to infringement because it assisted in locating infringing images and in accessing them, by providing links to specific infringing images. And the music file-sharing services in *Napster*[3] and *Grokster* were held to be contributorily liable because they allowed users to locate and obtain infringing material. Distinguishing these cases, the *Visa* majority argues that Visa's services do not cause the infringing activities, and that making it easier to profit from infringement is not essential to the conduct of infringement.

In *Amazon,* the Ninth Circuit had held – in a new test whose scope and application were left unclear – that "Google could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps." Dissenting Judge Alex Kozinski argues that, substituting "payment systems" for "search engine," *Amazon's* holding compels the conclusion that Visa materially contributes to infringement. The majority, however, finds that payment systems and search engines are not equivalent because creating a financial incentive for infringement involves "an additional step in the causal chain" beyond facilitating connection with an infringing site.

The dissent responds that the credit card payment system *is* as a practical matter essential for the infringers to operate, and that the test for "materially contributing" is not whether the activity is essential but merely whether it "substantially assists" infringement. Finally, Kozinksi maintains, there is no additional step between the contributory activity and the directly infringing activity because payment is integral to one of the exclusive rights of copyright holders, "plaintiff's right of distribution 'by sale' [under] *17 U.S.C. § 106(3)*" of the Copyright Act. "It's not possible to distribute by sale without receiving compensation," Kozinski argues, "so payment is in fact part of the infringement process."

The argument has some appeal in light of the statutory language. But payment is scarcely a necessary or limiting element of the public distribution right, and there is no reason to give it controlling weight in the analysis. The Copyright Act grants an exclusive right "to distribute copies ... to the public *by sale or other transfer of ownership, or by rental, lease or lending.*" (Emphasis added.) Essentially any transfer of a copy is considered to rest within one or another of the alternative categories listed, and these references as currently understood represents surplusage. Whatever the strength of the argument, however, one has an intuitive sense that generating a link to an infringing website is closer *functionally* to the activities of display and distribution than arranging for payment.

Unavoidable Policy Issues

In the end, what constitutes material contribution must be determined neither by abstract logic nor by parsing the language of the Copyright Act, but by policy. The majority notes that under the dissent's reasoning, a utility company that provides electricity to the direct infringer would be held to have materially contributed to the infringement. After all, a power company – given notice of an alleged infringement – can take "simple measures to prevent further damage to ... copyrighted works," namely, turning off the electricity.

The dissent asserts that future courts could "distinguish this case when and if they are confronted with lawsuits against utility companies, software vendors and others who provide incidental services to infringers." But this is not entirely comforting since Kozinski provides no criterion by which to judge whether services are "incidental" or "direct" – and particularly because services such as providing electric power directly enable the computer servers to operate that copy, store and transmit infringing copies.

Even more disturbing, perhaps, is the labyrinth of troubling issues concerning the "knowledge" element of contributory infringement, which would have to be threaded through were a much broader class of enterprises deemed to be materially contributing to infringing activity. Since the majority determined that there was no material contribution, it did not address the quality of the "knowledge" of the infringement that Visa would have to have in order to be held liable; neither did the dissent explore this issue.

In this case, we are given to understand there is no serious issue that there is an underlying infringement (the direct infringers are tendentiously referred to as the "Stolen Content Websites"), so the argument that the secondary party should cease cooperating with the infringer upon notice of the violation has some superficial appeal. But what if the alleged direct infringer has not created a counterfeit of the original work, but a work alleged to be "substantially similar"? What if fair use or protectability under copyright law poses significant issues?

By Perfect 10's logic, when a copyright holder puts a supporting player on notice of a claim of infringement, that entity must either terminate services to the alleged direct infringer or launch an investigation, make a judgment about whether the claim appears meritorious, and act accordingly. But what kind of investigation is required?

And by what standard should a credit card company or utility be deemed to "know" that the accused is an infringer? It is widely held sufficient that the defendant "should have known" of the infringement. Is it enough to defeat such knowledge that the alleged direct infringer makes a non-frivolous argument of fair use? How strong must the direct defendant's position be, and how thorough an investigation is required? Must the could-be-secondary-defendant hire a copyright attorney to assess the claims – and bear the risk of a breach of contract action by the alleged direct infringer, in the event it erroneously concludes there was a direct infringement and cuts off services, perhaps destroying the company's business?

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Existing case law does not offer clear answers to these questions. But Congress, by providing safe harbors under the DMCA and immunity against various state law claims under the Communications Decency Act, powerfully signaled its policy determination that copyright holders must focus their policing efforts on the infringers themselves, not seek to terrorize a universe of third parties into shunning business relations with alleged infringers. In the light of this clear policy determination by Congress, courts should be cautious in expanding secondary liability.

When we venture beyond purely commercial contexts, First Amendment considerations also caution against a liability regime that may create an overly-powerful incentive for suppliers of essential services to cut off services to speakers, perhaps silencing them based on dubious copyright claims. These are strong reasons for being wary of legal standards that may require myriad companies not in the authorship business to become judges of third-party copyright claims.

Vicarious Copyright Liability: No Right and Ability to Control Infringement

As mentioned earlier, to be vicariously responsible for another's infringement, one must obtain a direct financial benefit while having the right and ability to control the infringement. The majority holds that Visa cannot be held vicariously liable because it lacks the right and power to control the underlying infringing activity.

Perfect 10 maintained that Visa had the right and ability to control infringement because the payment system allows the infringements to operate on a larger scale than they otherwise would. But, the majority holds, this is insufficient because the vicarious liability defendant "must have the right and ability to *supervise* and *control* the infringement, not just to affect it, and Defendants do not have this right or ability."

The dissent responds that Visa does have the right and ability to control infringement because its agreement with the charged websites reserved the right to require them to behave lawfully as a condition for obtaining payment services.

Kozinski's argument employs a sleight of hand. The defendant must have a right over the exercise of the infringing activity, not merely the right to take actions that, as a practical matter, may limit or "control" the infringement. Were it otherwise, the dual requirements – right *and* ability to control – would be collapsed into the ability to control the infringement. *Perfect 10 v. Amazon* addressed this very issue, holding that "a defendant exercises control over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so."

Notwithstanding that Google could, as a practical matter, reduce traffic to infringing sites by not providing links to them, and in that sense "limit" the infringing content, *Amazon* clearly held this to be insufficient: "Perfect 10 has not shown that Google has contracts with third-party websites that empower Google to stop or limit them from reproducing, displaying, and distributing infringing copies of Perfect 10's images on the Internet." Neither, of course, does Visa. Regarding financial incentives, *Amazon* observed that "Google's right to terminate an AdSense partnership [which provided some revenue to infringing sites] does not give Google the right to stop direct infringement by third-party websites. An infringing third-party website can continue to reproduce, display, and distribute its infringing copies of Perfect 10 images after its participation in the AdSense program has ended."

The same logic compels the conclusion that whatever Visa's practical "ability" to influence infringements of Perfect 10's copyrighted works, Visa has no actual right to supervise the infringing sites in order to stop or limit copyright infringement.

Conclusion

The last judicial word has not been uttered on *Perfect 10 v. Visa International.* Leaning heavily on Judge Kozinski's vigorous dissent, Perfect 10 (supported by the usual suspects, the Motion Picture Association of America and the Recording Industry Association of America) has petitioned for rehearing and rehearing en banc. As of this writing, the petition is pending.

NOTES:

1. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 545 U.S. 913 (2005).
2. *Id.* at 936.
3. A&M Records, Inc. v. Napster, Inc., 284 F.3d 1091 (9th Cir. 2002).