



Intellectual Property

PICTURE PERFECT

By Mitchell Zimmerman

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 20th 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. In July, the purveyor of "tasteful copyrighted images of the world's most beautiful [naked] women" lost the third 9th U.S. Circuit Court of Appeals case this year in which it tried to make others responsible for direct copyright infringement and other wrongs committed by pornographic Internet services. *Perfect 10 v. Visa International*, 2007 DJDAR 10586 (9th Circuit July 3, 2007).

In the *Visa* case, a divided panel held that processing payments for infringing Web site services was too remote from the direct copyright infringements for Visa and the other credit card companies (collectively "Visa") to be held contributorily or vicariously liable.

The first of the Perfect 10 trilogy, *Perfect 10 v. CCBill*, 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. In March, the 9th Circuit held Perfect 10's state law claims pre-empted by Section 230 of the Communications Decency Act, determined that Perfect 10's Digital Millennium Copyright Act infringement notices were insufficient to require the defendants to take down allegedly infringing matter, and remanded for further consideration of the defendants' entitlement to the act's safe harbors. In May, another 9th Circuit panel rejected most of the theories whereby Perfect 10 tried to hold Google liable for providing visual search engine services that facilitated locating and accessing infringing sites. *Perfect 10 v. Amazon*, 487 F.3d 701 (9th Cir. 2007).

In *Perfect 10 v. Visa*, the district court dismissed for failure to state a claim, holding inter alia that Visa was not contributorily or vicariously liable under copyright law. The same panel of the 9th Circuit as in *CCBill* affirmed.

Material Contributions

For contributory infringement, the defendant must (1) have knowledge of an underlying direct infringement and (2) materially contribute to it. Reviewing de novo, the *Visa* majority (Circuit Judges Milan D. Smith and Stephen R. Reinhardt) held that Visa's activities did not contribute materially to infringement because facilitating payment bears "no direct connection to [the] infringement."

The majority emphasized that the underlying infringements — reproduction, alteration, display and distribution of Perfect 10's images — could occur regardless of whether Visa provided payment services.

In *Perfect 10 v. Amazon*, the 9th Circuit held that Google's search engine contributed materially to infringement because it assisted in locating infringing images and in accessing them by providing links to specific infringing images. In addition, the music file-sharing services in the *Napster* cases and in *MGM Studios v. Grokster*, 545 U.S. 913 (2005), were held to be contributorily liable because they allowed users to locate and obtain infringing material. Distinguishing these cases, the *Visa* majority argued 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.

Amazon instructed 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 argued that *Amazon's* holding compels the conclusion that Visa materially contributed to infringement. The majority, however, found 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 responded 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. Kozinski also maintained that there was no additional step between Visa's activity and the direct infringement because payment is integral to one of the exclusive rights of copyright holders, "plaintiff's right of distribution 'by sale.'" Section 106(3.)

"It's not possible to distribute by sale without receiving compensation," Kozinski argued, "so payment is in fact part of the infringement process."

The argument has superficial appeal. But payment is scarcely a necessary or limiting element of the public distribution right, and there is no reason to give it controlling weight. 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 falls within one or another of these categories, and these references as currently understood represent surplusage. Whatever the strength of the argument, however, intuition suggests that generating a link to an infringing Web site is functionally closer to display and distribution than is arranging for payment.

Policy Issues

In the end, the answer is determined neither by abstract logic nor by parsing 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 contributed materially to the infringement. After all, if a power company is given notice of an alleged infringement, it can take "simple measures to prevent further damage to ... copyrighted works," namely, turning off the electricity.

The dissent asserts that future courts could distinguish such situations but provides no criterion by which to judge whether services are "incidental" or "direct"; obviously, providing electric power directly enables the computer servers to copy, store and transmit infringing copies.

Even more disturbing, perhaps, is the labyrinth of troubling issues concerning the "knowledge" element of contributory infringement, which will have to be threaded through if a much broader class of enterprises is deemed to be contributing materially to infringing activity.

What if the alleged direct infringer has not created a work alleged to be the original work but a counterfeited 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 for a claim of infringement, that entity must terminate services

to the alleged direct infringer or investigate and make a judgment about whether the claim appears meritorious. 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? Is it enough to defeat such knowledge that the alleged direct infringer makes a nonfrivolous argument of fair use?

Existing case law does not offer clear answers to these questions. But Congress, by providing safe harbors under the Digital Millennium Copyright Act 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 try to terrorize a universe of third parties into shunning business relations with alleged infringers.

Controlling Infringement

For vicarious liability, the defendant must have (1) the right and ability to supervise and control an underlying direct infringement from which it (2) obtains a direct financial benefit. 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 held, that was insufficient.

The dissent responded that Visa did not have the right and ability to control infringement because its agreement with the charged Web sites reserved the right to require them to behave lawfully as a condition of obtaining Visa's 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." 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 and can't be reconciled with Kozinski's logic.

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 Web sites."

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.

The last judicial word has not been uttered on *Perfect 10 v. Visa International*. Leaning heavily on 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. The petition is pending.

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