

Remarks

The decision¹ of the US Court of Appeals for the Ninth Circuit of December 3rd 2007 comes as an amendment to its previous rulings in *Perfect 10, Inc. v. Google Inc.*, Case No. 06-55406 (9th Cir. May 16, 2007) and *Perfect 10, Inc. v. Amazon.com, Inc.*, Case No. 06-55405 (9th Cir. May 16, 2007), which mainly reversed the initial decision of the district court, Case No. CV 04-9484 AHM (C.D. Cal. February 17, 2006).

These important rulings concern (1) search engine's display of thumbnails and (2) copyright liability of search engines for infringing materials on in-line linked third party websites.

In its decision of May 16, 2007 the Ninth Circuit concluded that the district court erred in its findings relating to Google's fair use defense. Instead, the Ninth Circuit approved of Google's fair use defense and moreover, it concluded that the in-line linking and framing of Perfect 10 photographic images did not constitute vicarious copyright infringement. Yet, it remanded the case to the district court for further factual consideration of Picture 10's claims of contributory infringement. The following amendments in the decision of December 3, 2007 were only editorial.

In the light of the Ninth Circuit's findings, the significance of the fair use defense for the copyright liability, the liability for infringing third-party content and the consequences for copyright owners must be newly assessed.

1. Brief Outline of the Ninth Circuit's Findings

The Ninth Circuit reviewed the district court's decision only for abuse of discretion.

a) Server Test and In-Line linking

The Ninth Circuit agreed with the district court over the method it used to define the word "display" in 17 U.S.C. § 106, which constitutes a key element for the direct infringement of Picture 10's exclusive copyrights through Google's thumbnails. This method is the server test: "Only a computer owner that stores an image as electronic information and serves that electronic information directly to the user is displaying the electronic information in violation of a copyright holder's exclusive display right." If this is not the case, even if such owner in-line links to or frames the electronic information, no direct infringement can be assumed. Thus, the Ninth Circuit held that Google, which undisputedly creates and stores thumbnail pictures of copyright protected images, directly infringes these display rights. On the other hand, the server test reveals that Google does not infringe directly the copyrighted images by merely in-line linking to and framing full-size photographic images, because it does not store them on its computers. The Ninth Circuit assumed with the district court that in-line links constitute only HTML instructions, not the images themselves. Therefore, Google does not "display" these full-size photographic images. Nor does Google violate Picture 10's distribution rights because "distribution requires an 'actual dissemination' of a copy", which is not the case here.

¹ The decision is available over:

[http://www.ca9.uscourts.gov/ca9/newopinions.nsf/90756C6E9CC4CF10882573A600513540/\\$file/0655405.pdf?openelement](http://www.ca9.uscourts.gov/ca9/newopinions.nsf/90756C6E9CC4CF10882573A600513540/$file/0655405.pdf?openelement)

b) Fair Use Defense

After acknowledging a direct copyright infringement through Google's thumbnails, the Ninth Circuit then turned to the question of fair use. Like the district court, it applied the four factor analysis of 17 U.S.C. § 107. Here lies the turning point of the Ninth Circuit's decision. Where the district court had found Google's use of the thumbnail pictures to be of commercial use, superseding and harmful to the potential market for the downloading of the Perfect 10's reduced-sized images onto cell phones, the Ninth Circuit ruled in favor of Google's fair use defense. First, it held that the purpose and character of Google's use of the thumbnail images is highly transformative (1). It relied on the precedent of *Kelly v. Arriba Soft Corp.* to outline the fact, that Google uses the thumbnail pictures in a new context (search engine) to serve a different purpose (reference tool). With respect to commercial use of the images, the Ninth Circuit found that the district court erred in its evaluation of Google's commercial use. Although Google's use is commercial to some extent, Perfect 10 has not shown any significant superseding use. Its claim of harm to the potential market for downloading the reduced-sized pictures onto cell phones is considered as merely hypothetical, since the district court had not found that any actual downloads had taken place. Furthermore, the AdSense program, through which Google creates \$ 630 million of annual revenues from partner websites, constitutes commercial use, but the Ninth Circuit held that the district court failed to show the significance of this element, since this amount breaks down to much smaller revenues relating to websites. As to the factor of the nature of the copyrighted work (2), the Ninth Circuit upheld with the district court its opinion from *Kelly v. Arriba Soft Corp.* Since Perfect 10 had published its pictures on the Internet before Google did with its thumbnails, Perfect 10 had - despite the creative nature of the images - exercised and exhausted this one-time right. Thus, the second factor weighted only slightly in favor of Perfect 10. The amount and substantiality of the portion used (3) weighted in favor of neither party, because like in *Kelly v. Arriba Soft Corp.* only the display of the entire (thumbnail) image gives users sufficient information to decide whether to pursue more information about the image or originating website. The last factor (4), the effect of use on the market, the district court did not find to be in favor of Perfect 10 because Google's thumbnail images do not supersede the market for the regular sized pictures of Perfect 10. In addition, the harm on the cell phone download market remains hypothetical. In this respect, the Ninth Circuit entirely affirmed the district court's decision. Lastly, the Ninth Circuit weighted all these factors against one another and found that the transformative use of the thumbnail images by Google is fundamentally different than the use intended by Perfect 10 and - after weighing it against the unproven use of Google's thumbnails for cell phone downloads - concluded it to be a fair use, thus reversing the district court's decision.

c) Contributory Infringement Liability

While the district court had held that Google cannot be deemed to have constructive knowledge of infringing activities and did not materially contribute to direct infringement, the Ninth Circuit decided differently. Quoting its decision in *Grokster*, it assumed that intentional contributory infringement may be imputed "if an actor knowingly takes steps that are substantially certain to result in such direct infringement." The Ninth Circuit then continued with the standard of intent laid out before in the *Napster* case, explaining that "if computer system operator learns of specific infringing material from the system, the operator knows of and contributes to direct infringement." The Ninth Circuit found this to be necessary because, copyright holders could not protect their rights otherwise in a meaningful way unless they can

hold providers of such services or products accountable for their actions. It conceded Perfect 10, that Google substantially assists third-party websites to distribute their infringing copies and consequently would be liable. Yet, there was a factual dispute about the adequacy of the notices, which Perfect 10 had given Google of the infringement and about the possible means for Google to prevent infringing material from being accessed through their system. Therefore, the Ninth Circuit remanded this claim.

d) Vicarious Infringement Liability

The Ninth Circuit agreed with the district court on its finding that Google cannot be held liable for vicarious infringement of Perfect 10's pictures. It does not profit from the direct infringement of a third-party nor does it have the right or means to prevent it, since it is not a closed user system like *Napster*. The full-sized images on user's computers are non-commercial and transformative, thus resulting to be a fair use. For the final question of secondary liability of Google and Amazon.com and possible limitations under title II of the DMCA, the Ninth Circuit remanded the case to the district court for further fact finding.

2. Comment

The Ninth Circuit's decisions of May 16, 2007 and December 3, 2007 reveal some important new aspects about the application of the fair use doctrine, especially about the four factor analysis in internet content copyright infringement cases.

a) Development of Fair Use on the Internet

Albeit the fair use doctrine had existed for a long time before, the codification of the doctrine in 17 U.S.C. § 107 did not come until the Copyright Act of 1976 was passed in U.S. Congress. The doctrine and the statute generally allow limited use of copyrighted works without requiring permission from the copyright owner's for certain purposes, e.g. criticism, comment, or research. With the development of the Internet, fair use has to be newly interpreted into the modern technological world. To achieve that, the Ninth Circuit explained in its decision the general reason for fair use. It "encourages and allows the development of new ideas that build on earlier ones, thus providing a necessary counterbalance to the copyright law's goal of protecting creators' work product." Quoting *Stewart v. Abend*², the court found that without fair use, copyright statute sometimes "would stifle the very creativity which that law is designed to foster", according to the U.S. Constitution.³ Moreover, it emphasized the necessity of a case-by-case analysis of the four factors, when determining whether the use of a work actually is fair use. *Perfect 10, Inc. v. Google Inc.* was only the second U.S. appellate court lawsuit in which the fair use defense was raised for copyright infringement on the Internet. In its application of the four factors - especially the first - the Ninth Circuit repeatedly relied on the precedent case of *Kelly v. Arriba Soft Corp.*⁴. *Arriba* had also used thumbnail images for its search engine. The "transformative" use seems to be the most important element within the first factor. The Ninth Circuit derived the definition from *Campbell v. Acuff-Rose Music, Inc.*⁵ In this case, the court had found a work to be transformative if it "adds something new,

² 495 U.S. 207, 236 (1990)

³ U.S. Constitution, Section 8, Clause 8: "The Congress shall have Power [...] To promote the Progress of Science and useful Arts [...]"

⁴ 336 F.3d 811

⁵ 510 U.S. 579 (1994)

with a further purpose or different character, altering the first with new expression, meaning, or message.”, whereas is not transformative if it “merely supersede[s] the objects of the original creation.” Transformative use is important but also the commercial dimension of the infringing use needs to be examined thoroughly to determine fair use. The Ninth Circuit only assumed fair use because Perfect 10 has not proven the harming effect on their marketing of reduced sized images for cell phones. Otherwise, the court could have very well decided against Google. This makes it important for content owners to substantiate not only the market usability of the infringing content but the actual demand and harm for copyrighted content on the market.

Thus, fair use in the future is likely to play a bigger role on the Internet where business concepts build upon each other. Other cases like Google might be seen in Internet business concepts like YouTube, LiveLeak, Facebook, MySpace or wherever someone else’s content is used and possibly infringed by a bigger platform. In addition, NGO’s and Groups like the Electronic Frontier Foundation (EFF) seem to move more aggressively against copyright protection on the Internet. In fact, the Ninth Circuit’s decision partly relies on an amicus curiae brief of the EFF, which it filed on Google’s behalf “[...] to beat back Perfect 10’s overreaching copyright claims.”⁶

b) Significance of the Server Test for copyright owners and their protection

The Ninth Circuit’s interpretation of the word “display” in 17 U.S.C. § 106 is a new restriction to copyright owners for their content on the Internet. In-line linking and framing without physically storing the protected work on own computers is not seen as “display” and therefore does not constitute copyright infringement. Copyright owners should be aware that third-parties can legally use protected content with these HTML-techniques for their own purposes (and businesses), once the content owners have presented it to the public on the Internet. Therefore, content owners should carefully consider which material they make widely accessible over the Internet.

Instead, copyright owners who do not want their content being distributed without licensing fees should take measures to bar third parties from using their content. An effective measure against in-line linking and framing by search engines and other websites is the use of “.htaccess-files” which allow only authorized third-parties to access the owners content with HTML-links.⁷

c) Consequences of fair use for copyright owners and their protection

The new interpretation of fair use on the Internet raises the question of how to protect copyrighted work effectively from infringement and at the same time how to maintain the positive marketing possibilities of the Internet.

The Ninth Circuit did not resolve this most complex matter. Still, a few hints can be made out between the ruling’s lines.

The first possibility is to make only free content available to the public which is not considered for commercial use. In this case, copyright infringement cannot happen at all.

If copyrighted material is presented on the Internet and a party claims a fair use for a direct infringement, copyright owners should look closely at the four factor analysis. If they can prove a non compliance with one of the four factors, a successful fair use defense in a law suit is very unlikely. In its decision the Ninth Circuit has shown an

⁶ See <http://www.eff.org/cases/perfect-10-v-google>

⁷ See <http://www.javascriptkit.com/howto/htaccess.shtml>

exemplary analysis of all factors of 17 U.S.C. § 107: (1) transformative use, (2) nature of the copyrighted work, (3) amount and substantiality of the portion used, and (4) the effect of the use on the market. Especially the first and fourth factor deserve a close examination, because a transformative use should be hard to establish for infringing parties without changing the purpose of the work. Also, the fourth factor remains a valuable protection of copyright owners, if they can show harmful effects of the infringing use on the market for their product. This in fact, should be a key element in damage compensation claims for copyright infringements. On the other hand, there must be a real market for the protected work, because a merely hypothetical harmful effect on the market cannot overcome the fair use defense. In case a third-party infringement has taken place, the copyright owner should notify the contributory infringing party as soon as possible and demand a stop of the infringement. Moreover, it is important that copyright owners can establish proof of this notification if necessary. With this notification, a contributory infringing party - like Google - is obligated to remove the protected content immediately from its servers. Otherwise it is liable for third-party infringements. With these basic measures copyright owners can continue their marketing over the internet while maintaining the protection of their materials.

d) Aspects of Comparative Law (German court decisions)

The problem of copyright infringement through in-line linking and the use of thumbnail images is global and not only U.S. courts had to decide about infringement claims. In Germany courts have already decided a few cases that were situated similar to the case of Picture 10.

In a decision by the Bundesgerichtshof (Federal Civil Supreme Court [BGH]) which involved an in-line-link in a newspaper-article to an illegal online-gambling-site, the court held that in-line linking does not constitute an illegal act, because in-line linking and framing has become an essential part of the internet and users expect these features.⁸

The so-called "*Paperboy*" - decision by the Bundesgerichtshof dealt with an internet site which indexed news-articles and deep-linked to them (in-line link to sub pages).⁹ The court ruled that a deep-link cannot infringe copyrights because it does neither constitute "a making available to the public" according to § 15 UrhG (Copyright Act) nor does it infringe distribution rights.

Lower appellate court rulings range from decision by the Landgericht München I (district court No. 1 of Munich), which held that in-linking with framed images constitute copyright infringement¹⁰. The question of copyright infringement through Google's search engine thumbnails was explicitly answered by the Landgericht Hamburg¹¹ (district court of Hamburg) and lately by the Landgericht Erfurt¹² (district court of Erfurt). Both courts found that – under German copyright law (Urhebergesetz) – search engines infringe the copyright owner's right to public display their work. But interestingly, the Landgericht Hamburg did not acknowledge a fair use doctrine under

⁸ „*Schöner-Wetten*“ - decision, BGH on April 1st 2004 (I ZR 317/01), available over: <http://www.linksandlaw.de/urteil63.htm>

⁹ „*Paperboy*“ - decision, BGH on July 17th 2003 (I ZR 259/00), available over: <http://www.jurpc.de/rechtspr/20030274.htm>

¹⁰ „*Framing*“ - decision, Landgericht München I on Januar 10th 2007 (21 O 20028/05), available over: http://medien-internet-und-recht.de/pdf/vt_MIR_Dok._027-2007.pdf

¹¹ Landgericht Hamburg on September 5th 2003 (308 O 449/03), available over: <http://www.jurpc.de/rechtspr/20040146.pdf>

¹² Landgericht Erfurt on March 15th 2007 (3 O 1108/05), available over: http://medien-internet-und-recht.de/pdf/vt_MIR_Dok._113-2007.pdf

german copyright law, while the Landgericht Erfurt decided – similar to the Ninth Circuit – that a copyright holder agrees to free use of thumbnail pictures once he has made them accessible to the public on the Internet. The Landgericht Erfurt emphasized the importance of the public benefit through image reference tools like Google's search engine. Moreover, the effects of Google's infringing display on the market would be helpful to the distribution of the work rather than harmful. Here, the potential market for cell phone downloadable images was obviously not considered by the Landgericht Erfurt.

The further development of these copyright infringement cases in Germany remains to be seen. Although german court decisions do not mention the decisions by the Ninth Circuit, the ratio decidendi of the rulings suggests that judges in Germany are well aware of these decisions and the fair use doctrine.

e) Conclusion & Perspective

The Ninth Circuit limited in its decision the protection of copyrighted material on the Internet which is in-line linked to or framed by third-parties. The court also established a right of fair use on the Internet, in continuation of its Kelly decision¹³ in 2003 and Perfect 10 in 2007. Fair use on the Internet predominately requires a transformative element, which gives the work a new purpose or different character. Even when the infringing use has commercial aspects, there is room for fair use. The harmful effects of the infringing use to the potential market need to be proven by copyright owner and must not remain merely hypothetical.

The Google decision will certainly affect the publishing behavior of the Internet community and copyright owners. It can be expected that content providers will consider more carefully which of their works they make accessible to the public. On the other hand, fair use needs to be limited by a thorough and responsible case-by-case application of the four factor analysis. Despite the first impression, the Ninth Circuit did not assume a general fair use on the internet. In the case of Google's search engine, the Ninth Circuit convinced with a very precise examination. In other fair use cases the decision should as well rely on this four factor analysis and not on a general fair use of protected works.

¹³ 336 F.3d 811