

Daily Journal

www.dailyjournal.com

LIBRARY
USE
ONLY

VOL. 126 NO. 057

MONDAY, MARCH 25, 2013

© 2013 Daily Journal Corporation. All Rights Reserved

Rulings on copyright set standard

*9th Circuit ruling helps
establish consistent rule,
but uncertainties remain*

By Ryne Hodkowski
Daily Journal Staff Writer

A decade after Hollywood studios and recording labels launched major assaults on upstart user-generated video-sharing services like YouTube and Veoh, observers say courts have finally yielded more clearly defined rules for how these sites should police the unauthorized posting of copyrighted content. As a result, they say, there's an opportunity for businesses to thrive as they navigate what is now more predictable terrain.

But just as courts caught up to the digital marketplace, the game changed again. Capitalizing on its enormous audience, Google Inc.'s YouTube has now become a hub for copyrighted content, having struck licensing deals with major media companies and allowing them to share in its revenues. But lawyers say sites that let users upload content still need to be wary of a few unresolved issues.

With the long-awaited 9th U.S. Circuit Court of Appeals decision this month in the fight between Vivendi SA's Universal Music Group, the world's biggest music company, and San Diego startup Veoh Networks Inc., the 2nd and 9th circuits — where most entertainment cases are filed — have come into alignment on a safe harbor Congress created for online services in the Digital Millennium Copyright Act, or DMCA.

"Although the parties agree, in retrospect, that at times there was infringing material available on Veoh's services, the DMCA recognizes that service providers who do not locate and remove infringing materials they do not specifically know of should not suffer the loss of safe harbor protection," wrote Judge Raymond C. Fisher, who along with judges Harry Pregerson and Marsha S. Berzon composed the panel. *UMG Recordings Inc. et al v. Shelter Capital Partners LLC. et al.* 2013 DJDAR 3298 (March 14, 2013).

The court also stated that copyright holders are "better able to efficiently identify infringing copies than service providers like Veoh, who cannot readily ascertain what material is copyrighted and what is not." This defeated a so-called "red flag" test in the DMCA that says service providers' awareness of infringing material makes them liable.

The Motion Picture Association of America and studios have remained quiet on the outcome of *Veoh*, but "studios have argued under the red-flag provision that general awareness of rampant infringement disqualifies the service providers from safe harbor," said David Halberstadter, an entertainment litigator at Katten, Muchin & Rosenman LLP who represents studios but isn't involved in the case.

Citing the 2nd Circuit's 2012 analysis in *Viacom International Inc. et al v. YouTube Inc. et al*, a long-running \$1-billion suit over similar issues, the 9th Circuit judges said a service provider cannot "willfully bury its head in the sand" to the fact that some of its users were uploading copyrighted videos. However, "there is no evidence that Veoh acted in such a manner." Media conglomerate Viacom owns Paramount Pictures

See Page 2 — VEOH

Veoh ruling provides a guide for service providers

Continued from page 1

and MTV, among other properties.

The court's decision continued to place the burden on copyright owners to notify service providers when their copyright is being infringed, a ruling that will likely bolster confidence among sites that offer user-generated content. Lawyers say service providers can now develop

their technologies knowing what the law is, which in turn will help their business thrive.

"You now have comfort and stability in a marketplace where digital media companies can make investments and grow," said Michael S. Elkin, partner at Winston & Strawn LLP who represented Veoh in the case. "They can now make new offerings and propagate e-commerce and access to entertainment and

media. This is the way Congress intended [it] back in 1998" when the DMCA went into effect.

Still, despite its triumph in court, the contentious litigation played a hand in Veoh filing for Chapter 7 bankruptcy protection in 2010. Crippling litigation fees remains a major issue for service providers — a situation where they can win a court battle but lose the overall war. As a result, not everyone is quick to forecast a service provider-friendly outlook.

"It's more likely that they'll win, but not less likely that they'll get sued," said Betsy Rosenblatt, director of Whittier Law School's center for intellectual property law. "The DMCA is supposed to make it safe for online service providers, and it's not safe if they can still be subject to excessive litigation."

The YouTube case has been remanded to the district court and is eligible for a jury trial to find if YouTube had the "right and ability to control" infringing activity and whether any clips were syndicated to a third party, among other things.

And while both circuit courts agree that responding promptly to notifications of infringing material from users or copyright owners can qualify websites for safe harbor, other problems can still arise.

Inciting users to upload copyright material and the storage of infringing materials, two topics *Veoh* failed to address in detail, may become hot issues, lawyers said.

Given that a service provider can store materials for a wide range of

reasons, both legal and illegal, and "as new business models which implicate new functionality and applications come to the market, how this opinion will apply to them may not be clear," said Ronald L. Johnston, partner at Arnold & Porter LLP, who's not involved in the Veoh or YouTube cases.

'The DMCA is supposed to make it safe for online service providers, and it's not safe if they can still be subject to excessive litigation.'

— Betsy Rosenblatt

The 9th Circuit last week also affirmed a lower court's decision in favor of a group of film studios against Isohunt Web Technologies. The panel held that the defendants were not entitled to protection of safe harbor since it "induced third parties to download infringing copies of the studios' copyrighted works," *Columbia Pictures et al v. Gary Fung et al.* 2013 DJDAR 3783 (March 21, 2013).

"Applying the red flag knowledge is going to be a difficult standard to meet," said Aaron J. Moss, entertainment litigator at Greenberg Glusker Fields Claman & Machtinger LLP not involved in the case. "I think copyright owners are going to focus more on trying to establish evidence

of inducement, which would take them into the realm of Grokster."

Another issue facing sites like YouTube is how to navigate legal waters abroad.

"These services are international and the rights holders are international, so it's important for service providers and rights holders to know that the answer isn't going to depend on where the suit is brought," Rosenblatt said.

Service providers have less of a responsibility to police material in the United States than in Europe.

In 2011, the European Court of Justice stated that national courts must actively prevent further infringements after notification of a particular infringement. Last year, a German court ordered Google to install filters on YouTube to prevent the uploading of copyrighted material, but a French court dismissed a similar case saying that YouTube had made adequate efforts to remove copyrighted programs.

"There is not only an obligation to take a specific infringement down, but under European Law, you have to then prevent other similar infringements from happening," said Jan Bernd Nordemann, partner at German law firm Boehmert & Boehmert.

With the U.S. circuit rulings, legal observers said it is unlikely that America will adopt any similar requirements any time soon.

ryne_hodkowski@dailyjournal.com