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Digital Millennium Copyright Act (DMCA) Safe Harbor Analysis Now the Same in Both Ninth and Second Circuits

Article By:

Intellectual Property Practice Group

The U.S. Court of Appeals for the Ninth Circuit has withdrawn its 2011 opinion applying the "safe harbor" provision of the Digital Millennium Copyright Act (DMCA) to protect a file sharing site (*IP Update*, Vol. 15, No. 1) and issued a superseding opinion which, while maintaining the same conclusion, modified part of the previous holding to resolve an apparent conflict with the U.S. Court of Appeals for the Second Circuit's decision in ***Viacom v. YouTube*** (*IP Update*, Vol. 15, No. 5). *UMG Recordings, Inc. v. Veoh Networks, Inc*., Case No. 09-56777 (9th Cir., Mar. 14, 2013) (Fisher, J.).

Veoh allows users to "upload" videos to its site, which can then be accessed and shared by others via streaming and/or downloading. Like other video-sharing sites, Veoh's servers automatically break down user-uploaded video files into "chunks" and then convert them into suitable file format for playback by other users. Veoh's computers also automatically extract metadata from content information users provide to help others locate videos for viewing. Veoh employs various technologies to automatically prevent copyright infringement on its site, but despite its efforts, some users were able to download unauthorized videos containing UMG music. As an affirmative defense against UMG's infringement claims, Veoh claimed protection under the safe harbor provisions of § 512(c) of the DMCA, which exempt online service providers from monetary damages and most forms of equitable relief for infringement of copyright "*by reason of the storage at the direction of a user of material*." To qualify for the safe harbor protection, however, an online service provider must meet the following requirements: no actual or apparent knowledge of the infringement and no financial benefit directly attributable to the infringing activity where the service provider has the right and ability to control such activity.

On appeal, UMG contended that Veoh's automated processes went beyond just "storage" and, therefore, were outside of the § 512(c) safe harbor provisions. The 9th Circuit confirmed that the statutory language "*by reason of the storage*" encompasses the access-facilitating processes that automatically occur when a user uploads a video to Veoh.

UMG also contended that Veoh should be denied the § 512(c) safe harbor protection because of its general knowledge that its site could be used to post infringing material. The Court refused to adopt such a general-knowledge standard, noting that it would render the safe harbor a "dead letter." According to the 9th Circuit, service providers should not suffer the loss of safe harbor protection because they do not locate and remove infringing material of which they do not have specific

knowledge.

The third contention by UMG was that Veoh should be deemed to have the right and ability to control infringing activity (it was undisputed that Veoh received a financial benefit therefrom) based on its general ability to "locate infringing material" and "terminate users' access" (a common law vicarious liability standard employed by the 9th Circuit in *A&M Records v. Napster*, see *IP Update*, Vol. 4, No. 3). In declining to follow *Napster*, the 9th Circuit held that for DMCA purposes, "control" requires something more than just the general ability to locate infringing material and terminate users' access. Rather, resolving an apparent conflict with the 2nd Circuit, the 9th Circuit adapted the *Viacom* test, which states that a service provider has the requisite "control" as long as it has "substantial influence" on the activities of users, which influence may be based on high levels of control over user activities or based on purposeful conduct such as intentional inducement. It is in this regard that the 9th Circuit's revised opinion differs from its original 2011 opinion (in which it held that a service provider must be aware of specific infringing material to have the requisite "control").

The 9th Circuit also concluded that none of the Veoh's investors should be held secondarily liable for copyright infringement. According to the 9th Circuit, secondary liability (*i.e*., contributory liability, vicarious liability, and inducement) cannot be based on the mere fact that the named investors together control a majority of the seats on the board, unless they were on some level working in concert to control and direct Veoh's activities.

Practice Note: The 9th Circuit's new opinion in *Veoh*, together with the 2nd Circuit's decision in *Viacom*, provides further clarity on the DMCA safe harbor rules and their application to online service providers that host user-generated content (UGC). Content owners, in particular, should carefully evaluate these decisions and adjust their enforcement and litigation strategies accordingly. Also, see the 9th Circuit's discussion of vicarious liability in *Luvdarts v. AT&T Mobility* (*IP Update*, this issue) as well as the discussion of the DCMA safe harbor provision in *Columbia Pictures v. Fung* (*IP Update*, this issue).

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