

COSTAR V. LOOPNET:
PROTECTION OF THE INTERNET AT THE EXPENSE OF COPYRIGHT
PROTECTION?

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INTRODUCTION

Under the Copyright Act, any infringement of a copyright, either intentional or otherwise, makes one liable to the copyright holder.¹ In the past, courts were split on how to deal with this issue in regards to Internet Service Providers (“ISPs”). Some courts favored a strict liability approach while others leaned towards finding no liability for purely passive actions that led to infringement. To remedy this split, Congress passed the Digital Millennium Copyright Act, (“DMCA”)² which provided a safe haven for ISPs under particular circumstances.³ While the split over the approaches to liability was resolved, the general question of whether liability existed was not, and new questions arose. Were the traditional infringement defenses rendered useless with the passing of the DMCA? Suppose an ISP took active steps to prevent infringement; would such attempts to prevent infringement actually *increase* the ISP’s exposure to copyright liability?

The United States Court of Appeals for the Fourth Circuit addressed these questions in the case of *CoStar Group, Inc. v. LoopNet, Inc.*⁴ Part I of this note will discuss the history of and the current state of Copyright infringement. Part II of this note will discuss the general background of copyright infringement as it relates to *CoStar*. Part III summarizes and analyzes the majority and dissenting opinions of *CoStar* and Part IV forecasts how the *CoStar* decision will be applied to future decisions. I conclude that the *CoStar* court correctly decided the case because the defendant took active, good-faith steps to *prevent* infringement, and copyright law should reward such attempts to further its goals even if such attempts may cause ISPs to abandon their usual passive role.

I. COPYRIGHT INFRINGEMENT

The Copyright Act grants exclusive rights to a copyright holder, including the right to reproduce and to authorize the reproduction of a copyrighted work.⁵ Infringement occurs when anyone violates any of those exclusive rights granted in the Copyright Act.⁶ The Supreme Court developed a general two-step test to determine copyright infringement: first, is there a valid copyright and, second, has there been a “copying of constituent elements of the work that are

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¹ See 17 U.S.C. § 501(a) (2005).

² 17 U.S.C. § 512 (2005).

³ See 17 U.S.C. § 512. See also S. Rep. No. 105-190, at 19-20 (1998); H.R. Rep. No. 105-551, pt. 2, at 50 (1998).

⁴ 373 F.3d 544 (4th Cir. 2004) (hereinafter “*CoStar*”).

⁵ 17 U.S.C. § 106(1) (2005); *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

⁶ 17 U.S.C. § 512 (2005).

original?”⁷ Copyright infringement liability can be broken down into two categories: strict liability for direct infringement and secondary liability for contributory or vicarious infringement.⁸ This paper will focus exclusively on direct infringement liability.

The DMCA was designed as a limitation on copyright infringement liability for online material.⁹ Under this statute an ISP has additional defenses—commonly known as “safe harbors”—against infringement suits, as long as the ISP meets the threshold requirements of the statute.¹⁰ Congress enacted the DMCA to handle the two positions that the courts were taking on ISP liability for copyright infringement.¹¹

In *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*,¹² the court distinguished passive infringement from direct and secondary infringement.¹³ Defendant Dennis Erlich posted copyrighted works to an online forum that Thomas Klemesrud managed.¹⁴ Erlich gained access to this forum via Klemesrud’s site that in turn gained its connection through the services that Netcom provided.¹⁵ The court reasoned that it should not impose liability for direct infringements so long as there was not volition or causation, and the court noted that liability for secondary infringements would require a showing of additional elements.¹⁶

In *Playboy Enters. v. Frena* the court expressed an opposing view.¹⁷ Playboy sued Frena, an operator of a computer bulletin board, for copyright infringement for the unauthorized display and distribution of copyrighted photographs.¹⁸ Frena admitted that the photographs at issue were posted on his bulletin board without the permission of the copyright holders but he claimed that subscribers uploaded the photographs without his knowledge.¹⁹ The court held Frena liable for direct copyright infringement even though he was unaware of the infringement.²⁰ That is, the court took a strict liability approach to an ISP that had no knowledge of the infringement in question.²¹

II. CASE HISTORY

CoStar Group, Inc. and CoStar Realty Information, Inc. (collectively “CoStar”), was a national provider of commercial real estate information and copyright holder in numerous

⁷ *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991).

⁸ See *Fonovisa, Inc. v. Cherry Auctions, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996). Contributory infringement involves situations in which one has knowledge of the infringement and materially contributes to it and vicarious infringement deals with the situation where one has a financial interest in and the right to supervise the infringement. *Id.*

⁹ See 17 U.S.C. § 512. See also S. Rep. No. 105-190, at 19-20 (1998); H.R. Rep. No. 105-551, pt. 2, at 50 (1998).

¹⁰ See 17 U.S.C. § 512 (2005).

¹¹ See *infra* notes 12-16.

¹² 907 F. Supp. 1361 (N.D. Cal. 1995) (hereinafter “Netcom”).

¹³ *Id.*

¹⁴ *Id.* at 1365-66.

¹⁵ *Id.*

¹⁶ See *Netcom*, 907 F. Supp. at 1370-73. See also *Sony*, 464 U.S. at 439-42.

¹⁷ 839 F. Supp. 1552 (M.D. Fla. 1993) (hereinafter “Frena”).

¹⁸ *Frena*, 839 F. Supp. at 1554.

¹⁹ *Id.*

²⁰ *Id.* at 1559.

²¹ *Id.*

photographs of commercial real estate.²² In 1998 CoStar became aware that some of its copyrighted photographs had been posted without permission on a website maintained by LoopNet, Inc., an ISP.²³ LoopNet allowed subscribers to use its website to post commercial real estate listings, and as part of the “Terms and Conditions” subscribers agreed not to post copyrighted photographs without gaining permission from the copyright holder.²⁴ To enforce these terms, LoopNet employees made cursory reviews of all photographs prior to posting to determine whether the photographs had any obvious signs of being copyrighted and whether they depicted commercial real estate.²⁵ Short of failing one, or both, of these criteria the employee simply accepted the photograph by pushing a button; consequently, the photograph appeared on the website.²⁶

After CoStar realized that LoopNet subscribers posted some of CoStar’s photographs on LoopNet’s website, CoStar notified LoopNet of the infringing photographs.²⁷ LoopNet immediately removed the infringing photographs from its website and flagged those properties so that future postings could be more closely evaluated for infringement.²⁸ However, by late 1999, CoStar found that over one hundred of its copyrighted photographs still appeared on LoopNet’s website.²⁹ As a result, CoStar sued LoopNet alleging copyright infringement and violations of the Lanham Act.³⁰ Both CoStar and LoopNet moved for summary judgment, and the court concluded that LoopNet had not committed direct copyright infringement.³¹ CoStar appealed the decision to the United States Court of Appeals for the Fourth Circuit.³²

III. ANALYSIS

A. *CoStar Decision*

On appeal, CoStar argued that the district court³³ erred in providing LoopNet “conclusive immunity” from strict liability.³⁴ The district court reached this conclusion by applying the holding from *Netcom*, namely, that an ISP that engages in passive conduct should not be liable for direct infringement.³⁵ CoStar argued that such immunity must come from the DMCA’s safe harbor provisions which LoopNet failed to meet.³⁶ The Court addressed each contention CoStar

²² *CoStar*, 373 F.3d. at 546.

²³ *Id.* at 547.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.*

³² *See id.* at 544.

³³ United States District Court for the District of Maryland

³⁴ *CoStar*, 373 F.3d. at 548.

³⁵ *Id.* at 549.

³⁶ *Id.* at 544-57.

made in its affirmation of the district court's opinion.³⁷ Judge Niemeyer wrote the majority opinion which Judge Michael joined.³⁸

1. Majority Opinion

a. *Nature and Applicability of the Netcom Decision*

i. *Inconsistency with Established Copyright Law*

On appeal, CoStar argued that the *Netcom* holding was inconsistent with copyright law as established by *Frena*.³⁹ The *Frena* court held that Frena was liable for direct copyright infringement even though he was unaware of the infringement.⁴⁰ CoStar argued that the *Frena* holding, rather than the *Netcom* holding, should govern the issue between CoStar and LoopNet.⁴¹ The Court of Appeals for the Fourth Circuit rejected this argument, citing to *ALS Scan, Inc. v. RemarQ Cmty., Inc.*⁴² in which the court expressed its preference for the *Netcom* rationale over the rationale in *Frena*.⁴³ In *CoStar*, the court denied summary judgment to both parties on the issue of whether LoopNet had committed contributory or vicarious infringement by providing unregulated access to the Internet and websites containing CoStar's photographs.⁴⁴ After it established that the *Netcom* rationale governed, the court next discussed liability for direct copyright infringement.⁴⁵

ii. *A Nexus Requirement*

While the Copyright Act does not expressly require that an infringer know he or she is infringing a copyright,⁴⁶ the *CoStar* court held that direct liability attaches only when there is some conduct that causes the infringement.⁴⁷ In support of this argument, the court recalled the decision in *Sony Corp. v. Universal City Studios, Inc.*⁴⁸ where the Supreme Court held that the sale of copying equipment does not make one liable for direct infringement, even when one had the constructive knowledge that purchasers may use it to infringe copyrights.⁴⁹ This line of reasoning led directly to the articulation of a nexus approach in *Netcom*. The *Netcom* decision recognized that the Copyright Act was a strict liability statute, but it also expressed a need for "some volition or causation" on the part of a defendant when the copy was made by a third party using the defendant's system.⁵⁰ Adopting this nexus approach, the *CoStar* majority held that an

³⁷ *See id.*

³⁸ *Id.* at 545.

³⁹ *Id.* at 549.

⁴⁰ *Id.* at 1559.

⁴¹ *See CoStar*, 373 F.3d. at 549.

⁴² 239 F.3d 619, 622 (4th Cir. 2001) (hereinafter "ALS Scan").

⁴³ *CoStar*, 373 F.3d. at 549.

⁴⁴ *See Frena*, 839 F. Supp. at 1554 and 1562.

⁴⁵ *CoStar*, 373 F.3d. at 549-50.

⁴⁶ *See supra* n.1.

⁴⁷ *CoStar*, 373 F.3d. at 549-50.

⁴⁸ 464 U.S. 417 (1984).

⁴⁹ *CoStar*, 373 F.3d. at 549 (citing to 464 U.S. at 439-42).

⁵⁰ *Netcom*, 907 F. Supp. at 1370.

ISP should not be liable as a direct infringer when its facility is used to infringe a copyright but when it engaged in no intervening conduct.⁵¹

iii. Definition of “Copying”

One must copy a protected work to violate the Copyright Act,⁵² where “copy” implies a permanent or stable reproduction, as opposed to a transitory communication.⁵³ Thus, the *CoStar* majority excluded temporary electronic copies, made by an ISP during transmission, from the definition of “copies.”⁵⁴ Such a copy is no more than transitory in nature and can hardly be conceived of as “fixed.”⁵⁵ The actions of LoopNet were held not to be “copying,” and, thus, there could be no direct copyright infringement.⁵⁶

b. Impact of the DMCA

CoStar next asserted that the DMCA was an exclusive statute which supplanted the decision in *Netcom* by its enumeration of safe harbor provisions.⁵⁷ The court rejected this assertion, basing its reasoning on the plain language of the DMCA and congressional intent.⁵⁸

First, CoStar argued that LoopNet had to base its defense solely on the safe harbor provisions of the DMCA.⁵⁹ This argument is rooted in the plain language of the DMCA which provides limitations on copyright infringement liability for ISPs in the event that specific safe harbor provisions are met.⁶⁰ However, § 512(l) states that the DMCA “shall not bear adversely upon the consideration of a defense . . . under this title or any other defense,” thus defeating CoStar’s argument.⁶¹ Not only does the DMCA fail to require ISPs to meet the safe harbor provisions as CoStar contends, but it also explicitly states that its provisions are not exclusive of other defenses.⁶² The court concluded that *Netcom* was not preempted by the DMCA and LoopNet was not confined to the statute for liability limitations.⁶³

CoStar also claimed that the court should look to the DMCA rather than to case law since Congress enacted the DMCA.⁶⁴ The basis of this claim was that the passage of the DMCA was pointless if *Netcom* was meant to survive the statute.⁶⁵ Under a statutory construction analysis,

⁵¹ *Id.*

⁵² See 17 U.S.C. § 106(1) (2005).

⁵³ See 17 U.S.C. § 101 (2005).

⁵⁴ *CoStar*, 373 F.3d at 551.

⁵⁵ *Id.*

⁵⁶ *CoStar*, 373 F.3d at 551 (citing to *Doe v. GTE Corp.*, 347 F.3d 655, 659 (7th Cir. 2003)) (“A web host, like a delivery service or phone company, is an intermediary and normally is indifferent to the content of what it transmits”).

⁵⁷ *CoStar*, 373 F.3d at 552.

⁵⁸ *Id.* at 552-55.

⁵⁹ *Id.* at 552.

⁶⁰ *Id.*

⁶¹ 17 U.S.C. § 512(l) (2005).

⁶² See 17 U.S.C. § 512 (2005).

⁶³ See *CoStar*, 373 F.3d at 552.

⁶⁴ *CoStar*, 373 F.3d at 552-53.

⁶⁵ *Id.*

the court looks for specific congressional intent before holding that statutes supplant judicially created concepts. CoStar failed to consider this fact before asserting that the DMCA supplanted *Netcom*.⁶⁶ The court explained that such a codification does not supplant case law but rather requires consideration of case law which is an indicator of how to interpret the statute.⁶⁷ The court supported its decision by citing the Senate Committee on the Judiciary, which stated that rather than embarking upon a wholesale clarification of these doctrines, the Committee decided to leave current law in its evolving state and, instead, to create a series of ‘safe harbors,’ for certain common activities.”⁶⁸ The court concluded that Congress meant for the DMCA to guarantee certain safe harbors to ISPs but that Congress did not mean to limit ISPs to only those provisions that the Federal Government codified.⁶⁹

CoStar challenged this conclusion with a passage from *ALS Scan*.⁷⁰ *ALS Scan* noted that the DMCA’s codification of the *Netcom* principles was controlling, even though the *Netcom* reasoning was more persuasive.⁷¹ The distinction between *CoStar* and *ALS Scan* is that the *ALS Scan* statement referred to an earlier draft of the DMCA.⁷² The intention of the earlier version was to encompass all of the protections that the *Netcom* decision outlined while the enacted version only codified the basic protections and left the question of liability for passive acts up to the courts.⁷³

c. Passivity Doctrine

Both *Netcom* and the DMCA seem to protect service providers from direct liability only for passive infringement.⁷⁴ Using this approach, CoStar argued that LoopNet was liable for infringement because its screening process rendered its actions more than passive.⁷⁵ This argument falls in line with the strict liability reasoning of *Frena*.⁷⁶ The *CoStar* majority cited a handful of reasons in its dismissal of this strict liability position. First, LoopNet’s screening process took only a few seconds and was, thus, an insignificant and cursory process.⁷⁷ Second, even though the screening process was volitional and non-passive it was performed solely for the purpose of preventing obvious infringement, not as a volitional act in furtherance of infringement.⁷⁸ And lastly, LoopNet did not engaged in the “copying” of copyrighted material.⁷⁹ As already discussed, “copying” implies making a permanent or stable reproduction, as opposed to a transitory communication.⁸⁰ LoopNet’s copies of the infringing photographs were found to

⁶⁶ See *supra* nn. 65-66.

⁶⁷ *CoStar*, 373 F.3d at 553.

⁶⁸ *Id.*

⁶⁹ *Id.*

⁷⁰ *Id.* at 553-54.

⁷¹ *Id.* at 554 (citing to *ALS Scan*, 239 F.3d at 622).

⁷² *Id.* at 554-55. See also H.R. Rep. No. 105-551, pt. 1, at 7-8 (1998).

⁷³ *CoStar*, 373 F.3d at 555.

⁷⁴ See *supra* nn. 9-14.

⁷⁵ *CoStar*, 373 F.3d at 556.

⁷⁶ See *supra* nn. 15, 16.

⁷⁷ *CoStar*, 373 F.3d at 556.

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *Id.*

be transitory at worst.⁸¹ Taking these factors into consideration, the majority held that LoopNet's actions were sufficiently passive to preclude liability as a direct infringer.⁸²

2. Dissent

The dissent adhered to the majority's analysis of the application of the DMCA and the *Netcom* decision.⁸³ However, the dissent departed from the majority with respect to whether LoopNet had acted as a passive and non-volitional provider.⁸⁴ Clearly, the process is passive when a photograph is automatically posted to the Internet with no intermediary review.⁸⁵ However, in *CoStar* the posting of the infringing photographs was anything but automatic.⁸⁶ A LoopNet employee had to choose whether to post a given photograph, thereby requiring a volitional act of acceptance before the photograph was made available on the Internet.⁸⁷

The majority avoided the volitional conduct analysis by carefully choosing the wording "volitional conduct to block photographs" and by claiming that LoopNet's screening process was so cursory it was insignificant.⁸⁸ This position departed from the passivity doctrine as stated very clearly in *ALS Scan*, namely, that "without human intervention, as a passive conduit for copyrighted material, [an ISP] is not liable as a direct infringer."⁸⁹ While the dissent recognized that the subscriber was the first direct infringer, it also noted that LoopNet incorporated direct, volitional, human intervention in the process of posting photographs and thus opened itself up to liability for direct infringement.⁹⁰

B. Exclusivity of the DMCA and the Continued Role of Traditional Infringement Defenses

The DMCA contains language which indicates that the expressed defenses in the statute are not the only ones available to a defendant.⁹¹ However, no tribunal fully tested this language until *CoStar*. *CoStar* made it clear that, presently in the Fourth Circuit, the DMCA does not limit ISPs to the safe harbor provisions codified in the statute.⁹² Rather, ISPs may rely on either the DMCA safe harbor provisions, common-law defenses or both. As a result, courts must continue to look to previous decisions, such as *Netcom*, for guidance in the determination of ISP liability for copyright infringement.

C. Expansion of the Passivity Doctrine

⁸¹ *Id.*

⁸² *Id.*

⁸³ *Id.* at 557.

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ *See supra* n. 84.

⁸⁷ *Supra* nn. 25-26.

⁸⁸ *CoStar*, 373 F.3d at 556 (referring to language used in the majority opinion).

⁸⁹ *ALS Scan*, 239 F.3d at 622.

⁹⁰ *CoStar*, 373 F.3d at 558-59.

⁹¹ *See supra* n. 59.

⁹² *Id.*

The holding in *CoStar* indisputably expands the concept of passive involvement from a plain understanding of this term to a much broader, totality of the circumstances, concept which may require more than just a volitional act.⁹³ By applying the language in *ALS Scan*, any insignificant act, so long as it requires an element of volition, would open ISPs up to direct infringement liability for the acts of their subscribers. The *CoStar* dissent concluded that LoopNet's screening process was volitional and, thus, that it should lead to liability for direct infringement.⁹⁴ However, the majority disagreed.⁹⁵ Even though LoopNet exercised sole control over what material was posted on its website and even though it had put a volitional screening process in place, the majority felt that this was insufficient to justify direct infringement liability.⁹⁶ By considering the intent and the very limited nature of the screening process, the majority turned the passivity test into a balancing test rather than a clearly defined principle. Undoubtedly one of the majority's concerns must have been the expansion of direct liability for ISPs and how this could impact the Internet.

IV. FORECAST

Because Congress has taken the time to exempt ISPs from direct copyright infringement liability when they unknowingly host an infringer, it follows that this protection should also extend to ISPs when they put a practice in place to further the purposes of the Copyright Act. By implementing a screening process, LoopNet took affirmative measures to prevent infringement.⁹⁷ For the courts to hold an ISP liable for attempting to uphold the law in such a way would be to provide a disincentive for ISPs to exercise any control over their hosted websites. By requiring ISPs to meet the safe harbor provisions of the DMCA in order to qualify for any protection from direct liability the courts would be signaling a massive expansion in ISP liability. The majority saw such an expansion as having a negative impact on the Internet by providing an incentive for ISPs to exercise either absolute control over posted content or, on the other extreme, to avoid any control over the content of their hosted websites.⁹⁸

The argument that ISPs are in a position to spread the cost of their liability over their subscribers fails to account for the impact that such liability and costs would have on the Internet. First, a rise in the cost of service, to cover additional liability, would discourage the continued growth and prosperity of the Internet marketplace. Second, some ISPs would be unwilling to operate under the added direct liability, regardless of the option to bring suits against customers who fail to abide by contractual provisions regarding content. The ISPs that do continue to operate under the added liability and pass the expense to their customers via suits for breach of contract would alienate the very customer base required to maintain business. The precarious situation of having to either increase service costs to cover liability or bring suits

⁹³ "[W]e do not conclude that LoopNet's perfunctory gatekeeping process. . . can be taken to create liability for LoopNet as a direct infringer." *Id.* at 556.

⁹⁴ *See supra* nn. 87-88.

⁹⁵ The Majority held that LoopNet could not be liable as a direct infringer in their affirmation of the district court's judgment. *CoStar*, 373 F.3d at 551-52, 557.

⁹⁶ *See* nn. 79, 83.

⁹⁷ LoopNet's gatekeeping process worked to further the goals of the Copyright Act. *CoStar*, 373 F.3d at 556.

⁹⁸ Making an ISP liable for any subscriber posted material if an ISP employee took any action at all in the posting process increases the incentive for ISPs to have no actual involvement in the posting of material. On the other hand, some ISPs may want, or have to remain involved in the posting process. For these ISPs the incentive would be to exercise complete control over their hosted pages so as to eliminate the possibility of infringement liability.

against customers would stifle ISPs participation in the Internet marketplace. For these reasons future courts will likely reach the same conclusion as the court in *CoStar*, allowing direct liability to pass over the ISPs and straight to the infringing subscribers. Such a position allows the copyright holder to protect their rights without negatively impacting the internet.

CONCLUSION

The Fourth Circuit's ruling in *CoStar* complies with the goals of the DMCA by granting ISPs liability protection. ISPs may be absolved of direct infringement liability if ISPs are sufficiently disconnected from the actual infringement.⁹⁹ The court announced a new standard in the form passivity balancing test.¹⁰⁰ This newly announced balancing test is a massive expansion of previously stated passivity doctrine.¹⁰¹ The Fourth Circuit avoided controversial legal issues over Internet content by abandoning the plain meanings of the words 'volitional' and 'passive.' The necessity of protecting ISPs and Internet usage outweigh the rights of copyright holders to directly attack ISPs.

This decision favors direct ISP liability only in the presence of substantial volitional acts in furtherance of infringement. While this decision allows copyright holders very little ground for suing ISPs for direct infringement, copyright holders may still rely on contributory or vicarious liability suits against ISPs, and direct infringement suits against ISP subscribers.¹⁰² Ultimately, *CoStar* supports insulating ISPs from direct liability when they take active, good-faith steps to *prevent* infringement, despite the abandonment of their usual passive role.

⁹⁹ See *CoStar*, 373 F.3d at 555.

¹⁰⁰ *Supra* Part IV.C.

¹⁰¹ *Supra* Part IV.C.

¹⁰² See *CoStar*, 373 F.3d at 555.