2022 IP Outlook Report

THE DEVELOPMENTS SHAPING COPYRIGHT LAW

McDermott Will & Emery

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KEY TAKEAWAYS AND OUTLOOK FOR 2022

Like so many things in 2021, a few long-awaited copyright developments have spilled into 2022, with anticipated amendments to key provisions in the Digital Millennium Copyright Act topping the list of legislation to watch. The key issues we are tracking include the following:

WHETHER SWEEPING CHANGES TO COPYRIGHT LAW PROPOSED BY MEMBERS OF US CONGRESS WILL TAKE EFFECT

US Senator Thom Tillis's (R-NC) proposed Digital Copyright Act of 2021 (DCA), which amends key provisions for addressing online copyright infringement in the Digital Millennium Copyright Act of 1998 (DMCA), was pushed to 2022. Chief among the proposed changes are a notice-and-*staydown* system (as opposed to the current notice-and-*takedown* system) requiring online service providers (OSPs) to go beyond taking down copyrighted works and implement a mechanism to ensure the work is not reposted. In 2022, we expect to see continued discussion and debate around the DCA, including the implications of placing the US Copyright Office under the US Department of Commerce.

THE IMPACT OF *GOOGLE V. ORACLE* ON SOFTWARE DEVELOPMENT AND THE ONGOING "FAIR USE" DEBATE

The decade-long dispute between Google LLC and Oracle America, Inc. over "declaring code" ended with a win for software developers and promoters of open-source works. The Supreme Court of the United States' decision in *Google* was the biggest copyright decision in years and will undoubtedly lead to many future claims regarding the application of the fair use defense to software-related copyright claims.

In another high-profile copyright infringement case involving the fair use defense, *Andy Warhol Foundation v. Goldsmith*, the US Court of Appeals for the Second Circuit affirmed that *Google* will likely have a negligible effect on artistic works. The Court analyzed its prior opinion considering *Google* and reaffirmed its decision in favor of the originating artist. Both courts noted the difference between the mediums (portraits versus software code), finding that copyright protection is stronger when the material serves an "artistic rather than utilitarian" function—underscoring that *Google* will likely have negligible effect on artistic works.

WHAT THE HIGHEST COURT WILL SAY ABOUT A FASHION INDUSTRY INFRINGEMENT DISPUTE

Unicolors, Inc., and H&M Hennes & Maurtiz, L.P., will soon receive the Supreme Court's opinion as to whether the US Court of Appeals for the Ninth Circuit erred in breaking with its own prior precedent, the precedent of sister circuits and the Copyright Office in holding that 17 U.S.C. § 411 requires referral to the Copyright Office where there is no indicia of fraud or material error as to the work at issue in the subject copyright registration.

RELIEF FOR INDIVIDUAL ARTISTS THIS SUMMER IN THE FORM OF ALTERNATIVE DISPUTE FORUMS

The Copyright Office announced that the much-anticipated commencement of the Copyright Claims Board, which establishes an alternative forum for resolving copyright disputes of low economic value, is now slated to launch operations in summer 2022. This should bring much-needed relief to individual artists and small groups of creatives.

DEVELOPMENTS SHAPING COPYRIGHT LAW

PROPOSED CHANGES TO THE DIGITAL MILLENNIUM COPYRIGHT ACT

Authors: Jodi Benassi and Anisa Noorassa

Senator Tillis released a proposed update to the DMCA called the Digital Copyright Act of 2021. Senator Tillis intends for the DCA to update and fill gaps in the DMCA, which he asserts is out of date and ill-suited to the digital-media-driven world of today.

The DCA proposes sweeping changes to the DMCA, among the most notable of which would be moving from the current notice-and-takedown system to a notice-and-staydown system. This would require OSPs to take down copyrighted works and then implement a continuing search or online filter to ensure that the work is not reposted.

The DCA would also require OSPs to search their systems to locate copies of allegedly infringing works rather than requiring the complaining party to identify web addresses for each infringing work. The DCA empowers the Copyright Office to determine if OSPs are doing enough to combat copyright infringement and to revoke "safe harbor" immunity if the OSPs are found to be lacking.

The DCA also proposes to reclassify the Copyright Office from a division of the Library of Congress to an executive agency under the Department of Commerce. This would make the register of copyrights a presidential appointee with a five-year term.

The DCA has been met with praise by the Recording Academy, the Copyright Alliance, the Association of American Publishers, the Recording Industry Association of America and the Author's Guild. These organizations have praised the proposed legislation for increasing protections for copyright holders and increasing penalties for infringement.

However, free-speech advocates and internet users have raised First Amendment and censorship concerns, arguing that the DCA errs on the side of censorship, restricts fair use and denies internet access rather than working to level the playing field between copyright holders and users. The Electronic Frontier Foundation published a letter expressing fears that the DCA would chill speech and expression and make it harder for small OSPs to remain in compliance. Authors Alliance, Public Knowledge and the Center for Democracy and Technology have expressed similar concerns.

The DCA empowers the Copyright Office to determine if OSPs are doing enough to combat copyright infringement and to revoke "safe harbor" immunity if the OSPs are found to be lacking.

Moving forward into 2022, we expect to see further discussion and debate around the DCA once it is introduced in Congress.

THE FAIR USE DOCTRINE IN LIGHT OF *GOOGLE LLC V. ORACLE AMERICA, INC.*

Authors: Jodi Benassi and Anisa Noorassa

In *Google LLC v. Oracle America, Inc.*, the Supreme Court ruled that Google's use of approximately 11,500 lines (out of 2.86 million lines) of Java application programming interface (API) code was fair use, focusing in large part on the purpose of Google's use. The Court did not address the copyrightability of APIs; instead, the Court assumed the API was copyrightable and addressed whether Google's copying was fair use.

The suit started in 2010, when Oracle sued Google in federal district court for copying elements of its Java programming into Google's Android operating system. The court found that the Java code was not protected by copyright. Oracle appealed and the US Court of Appeals for the Federal Circuit reversed the copyright determination and remanded for a second trial on fair use. At the second trial, a jury determined Google's copying was fair use. The case went back to the Federal Circuit, which held that Google's copying was not fair use as a matter of law. The Supreme Court agreed to consider the Federal Circuit's determinations.

Justice Stephen Breyer, writing for the majority, determined that Google's reimplemented user interface was a "new and transformative program" and, therefore, a fair use of the Java API. Chief Justice John G. Roberts and Justices Brett Kavanaugh, Elena Kagan, Neil M. Gorsuch and Sonia Sotomayor joined the majority opinion. Justice Breyer applied the Copyright Act's four-factor test for fair use:

COPYRIGHT ACT'S FOUR-FACTOR TEST FOR FAIR USE	
1. THE PURPOSE AND CHARACTER OF THE USE.	Google's limited copying of the code, in part to create new products and expand the use and usefulness of smartphones, was a transformative use.
2. THE NATURE OF THE COPYRIGHTED WORK.	The nature of the API favored fair use because the portion of the code (the declaring code) that Google copied was more functional in nature and different from the portion that Google did not copy (the implementing code).
3. THE AMOUNT AND SUBSTANTIALITY OF THE PORTION USED.	Google only copied 0.4% of the entire Java API.
4. THE EFFECT OF THE USE ON THE MARKET FOR AND VALUE OF THE WORK.	Google's Android operating system is not a market substitute for Oracle's Java programing.

On final balance, the Court determined that allowing the enforcement of Oracle's copyright would "risk harm to the public" and act as a "lock limiting the future creativity of new programs."

On final balance, the Court determined that allowing the enforcement of Oracle's copyright would "risk harm to the public" and act as a "lock limiting the future creativity of new programs."

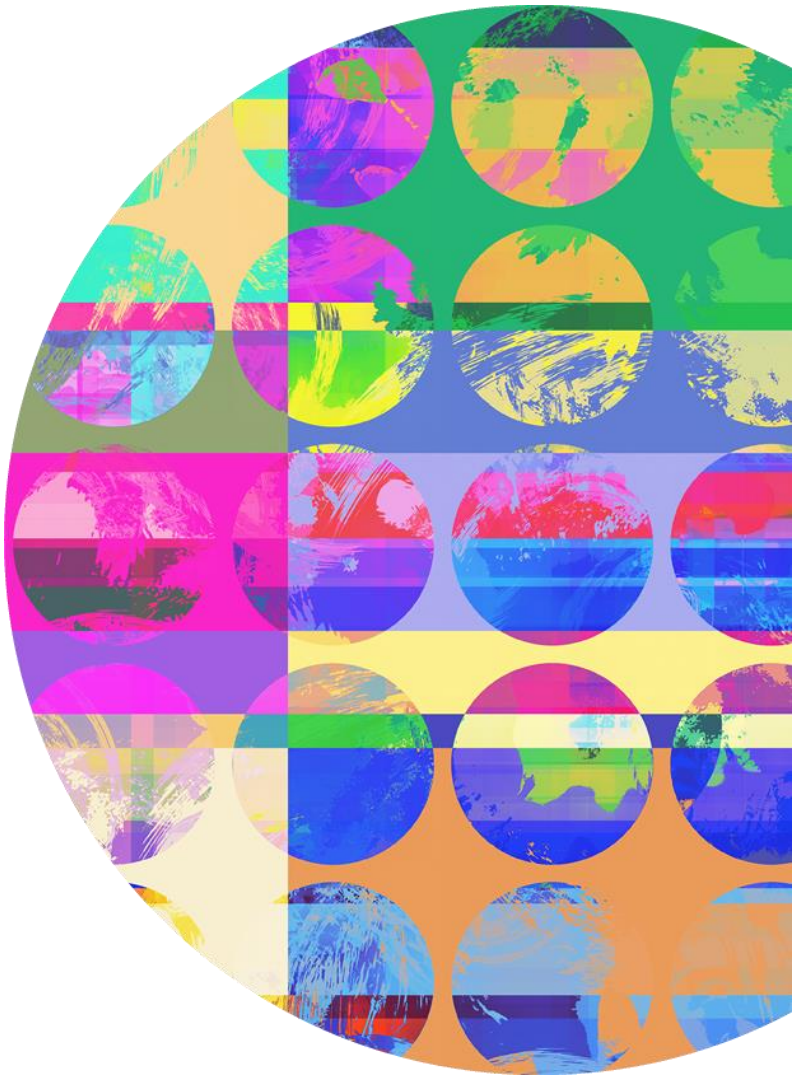
Justice Breyer emphasized that the mainly functional nature of computer programs makes it difficult to apply traditional copyright principles, foreshadowing that the Court's decision may have negligible impacts on artistic works. Although that may be the case, the Court's ruling will likely have far-reaching impacts in the technology market and, more specifically, software. The decision is broadly seen as a win for software developers and promoters of open-source works.

TRANSFORMATIVENESS IN FAIR USE UNDER *THE ANDY WARHOL FOUNDATION FOR THE VISUAL ARTS, INC. V. GOLDSMITH*

Authors: Jodi Benassi and Anisa Noorassa

The Second Circuit reversed the district court's grant of summary judgment to the Andy Warhol Foundation on its complaint for a declaratory judgment of fair use, as well as the district court's dismissal of the defendant's counterclaim for copyright infringement.

On July 1, 2019, a district court ruled that when the Andy Warhol Foundation copied an unpublished photograph of the late singer Prince and created 16 variations of the photo, these uses were fair use and not copyright infringement. Lynn Goldsmith, the professional photographer who took the photograph of Prince, appealed.



The Second Circuit further noted that the Supreme Court repeatedly emphasized in *Google* that "[t]he fact that computer programs are primarily functional makes it difficult to apply traditional copyright concepts in that technological world."

The Second Circuit determined that the district court erred in its assessment and application of the fair use factors and that the works did not qualify as fair use as a matter of law. The Court emphasized that all four fair use factors continue to matter and should be independently considered and weighed, even if a new use is found to be transformative under the first factor. The Court considered the four factors and found that each favored Goldsmith. Specifically, the Court determined that the district court erred in its analysis of (1) factor one, because there was no transformative use of the photograph as the portraits retained the essential elements of the Goldsmith photograph; (2) factor two, because it relied on finding transformativeness under factor one, even though the photograph was unpublished and creative and (3) factor three, because the Foundation's Prince series borrowed significantly from the Goldsmith photograph, both quantitatively and qualitatively. The Second Circuit agreed with the district court's finding with respect to factor four, but nonetheless determined that this factor disfavors fair use because it found harm to Goldsmith's potential licensing markets.

After the appellate court's disposition, the Supreme Court issued its decision in *Google LLC v. Oracle America, Inc.* The Foundation filed a petition for rehearing, which the Second Circuit granted to give careful consideration of the Supreme Court's opinion.

The Second Circuit analyzed its prior opinion in light of the Supreme Court's ruling in *Google* and determined that the principles enunciated in *Google* are fully consistent with the appellate court's original opinion. The Court noted that both opinions recognize that determinations of fair use are highly contextual and fact-specific and are not easily reduced to rigid rules. The Second Circuit further noted that the Supreme Court repeatedly emphasized in *Google* that "[t]he fact that computer programs are primarily functional makes it difficult to apply traditional copyright concepts in that technological world." The Second Circuit, like the Supreme Court in *Google*, noted the difference between the mediums (portraits versus software code), finding that copyright protection is stronger when the material serves an "artistic rather than utilitarian" function.

UNICOLORS AND H&M HENNES & MAURITZ FACE OFF IN SCOTUS INFRINGEMENT DISPUTE

Author: Jodi Benassi

On October 8, 2021, the Supreme Court heard oral arguments from Unicolors, Inc., and H&M Hennes & Maurtiz, L.P., related to a dispute brought by Unicolors against H&M for copyright infringement of a clothing design. The main issue is whether the Ninth Circuit erred in breaking with its own prior precedent and the findings of other circuits and the Copyright

Office in holding that 17 U.S.C. § 411 requires referral to the Copyright Office where there is no indicia of fraud or material error as to the work at issue in the subject copyright registration.

Unicolors creates and copyrights artwork that it markets to garment manufacturers. In February 2011, Unicolors filed a copyright application for 31 graphic designs, including its design called EH101. The Copyright Office approved the application and issued a copyright registration. Subsequently, Unicolors publicly marketed some of the 31 designs and confined others for specific customers.

In 2015, retail clothing company H&M began selling clothing with the same design as EH101. Unicolors sued H&M and a jury found that H&M willfully infringed the EH101 copyright. Following the verdict, H&M filed a renewed judgment as a matter of law, arguing that Unicolors did not hold a valid copyright on EH101 because Unicolors included known inaccuracies in its copyright application in violation of 17 U.S.C. § 411. H&M argued that Unicolor improperly registered 31 individual designs under one copyright registration. The district court denied the motion.

The Ninth Circuit determined that the copyright application was inaccurate because the Copyright Act requires an applicant who registers multiple works under one copyright application to also first publish those works as a single, bundled collection. Unicolor failed to do so. Despite the inaccuracy, the Ninth Circuit noted, however, that to invalidate the copyright H&M must show that the inaccuracy would have caused the Copyright Office to reject Unicolors' application. Unicolors filed for *certiorari*, which the Supreme Court granted on June 1, 2021.

We will soon find out what the Supreme Court has to say about this question.

COPYRIGHT ALTERNATIVE IN SMALL-CLAIMS ENFORCEMENT ACT: A VENUE AND A LESS-COMPLEX PROCESS IN SIGHT IN 2022

Author: Jodi Benassi

Annual iterations of copyright legislation are slated to culminate in June 2022 when copyright owners can take their claims to a new venue and with less red tape.

In January 2021, Congress signed the Consolidated Appropriations Act, 2021, into law. The Consolidated Appropriations Act incorporates the Copyright Alternative in Small-Claims Enforcement (CASE) Act of 2020. The CASE Act includes revisions to the Copyright Act, 17 U.S.C §§ 101 et seq., with the goal of creating a new venue for copyright owners to enforce their rights instead having to file an action in federal court. The new venue, the Copyright Claims Board (CCB), is designed to serve as an alternative forum where parties may voluntarily seek to resolve certain copyright claims regarding any category of copyrighted work.

In September 2021, the Copyright Office issued a set of proposed rules in the *Federal Register* to establish the initial stages of a proceeding before the CCB. The proposed rules prescribe how to file a complaint, which includes submitting claim and notice forms online and paying a $100 filing fee. The proposed rulemaking notes that the claim form will require less than what is required under Federal Rules of Civil Procedure, Rule 12, as the Copyright Office notes that practice before the CCB will be less complex than practice in federal courts.

At the close of 2021, the Copyright Office announced that it is extending the date by which the CCB will commence operations by up to 180 days. Originally scheduled to begin operations by December 27, 2021, the CCB will now begin operations by June 27, 2022.

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