

Crashing the internet:

Cars, CarGurus and copyright in the digital age

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The authors represented CarGurus, Inc., in the case discussed in this article.

As technology evolves, copyright law has evolved as well. Copyright is a creature of statute and does not exist at common law. Although the statute is to be interpreted and applied in a technologically neutral way, the evolution of copyright law also has involved legislative change. In 2012, the federal government introduced the *Copyright Modernization Act* to amend the *Copyright Act*, with the hope of bringing copyright law incontrovertibly into the digital age.

Like any legislative reform, copyright reform requires a balance between competing interests, which is often legislatively challenging. For instance, content creators (e.g., Hollywood music and entertainment companies) typically wish to limit defences to copyright infringement, whereas search engines and internet service providers arguably could not exist without fair dealing and certain safe harbours.

Because of this tension, and the uncertainty that new technology brings to the legal landscape, copyright matters are being litigated with greater frequency for increasingly larger sums of money. For example, in commercial cases, the *Copyright Act* now grants authors the ability to claim statutory damages of up to \$20,000 per work infringed, *without* proof of any actual damage. Such changes have made copyright claims more attractive, particularly since the internet has significantly increased the potential liability for unauthorized reproductions of numerous works at the same time. In addition, copyright disputes may be litigated by way of application, rather than action, which can result in faster decisions at less cost.

Although copyright law is intended to be technologically neutral, its application to digital media and the internet has been controversial and, arguably, inconsistent.

This uncertainty has created both protections and risks to new entrants to Canada's digital landscape and poses challenges to new business models.

The intersection between copyright law and the internet was recently addressed in *Trader Corporation v. CarGurus, Inc.*, 2017 ONSC 1841. The case raises several issues of first impression involving search engines and the "making available" right, both of which were introduced by the *Copyright Modernization Act*. The case is also believed to be the first fully contested proceeding addressing the issue of when reproduction in a single medium – in this case, desktop and mobile access to a website – justifies lowering an award of statutory damages below the usual \$500 per work minimum in commercial cases.

Who is CarGurus?

CarGurus operates automotive research and shopping websites and search engines that assist users in comparing local vehicle dealer listings for used and new vehicles, and facilitates their contact with dealers. CarGurus operates the largest "digital marketplace" for new and used cars in the United States and also operates in the United Kingdom and Canada. When it launched its Canadian digital platform in May 2015, CarGurus obtained data from numerous sources. In particular, CarGurus sourced listing data for vehicles, including photos, from partners who "feed" CarGurus dealers' listing information and by indexing (also known as "crawling" or "scraping") dealers' websites.

These practices were similar to those used for its US digital platform. In CarGurus' US experience, dealers typically own the copyright in the photos on their websites, and the vast majority of dealers support what CarGurus does, because it amounts to free

publicity for dealers and helps direct users to dealers' inventory of vehicles for sale. It is also helpful to consumers, because CarGurus uses its patented algorithm to identify whether a listing is a good, fair or bad deal, enabling consumers to review their vehicle and pricing options without visiting multiple dealers. If a dealer objects to its listings being included on a CarGurus digital platform, CarGurus removes them and, by doing so, is generally immune from liability for copyright infringement in the United States.

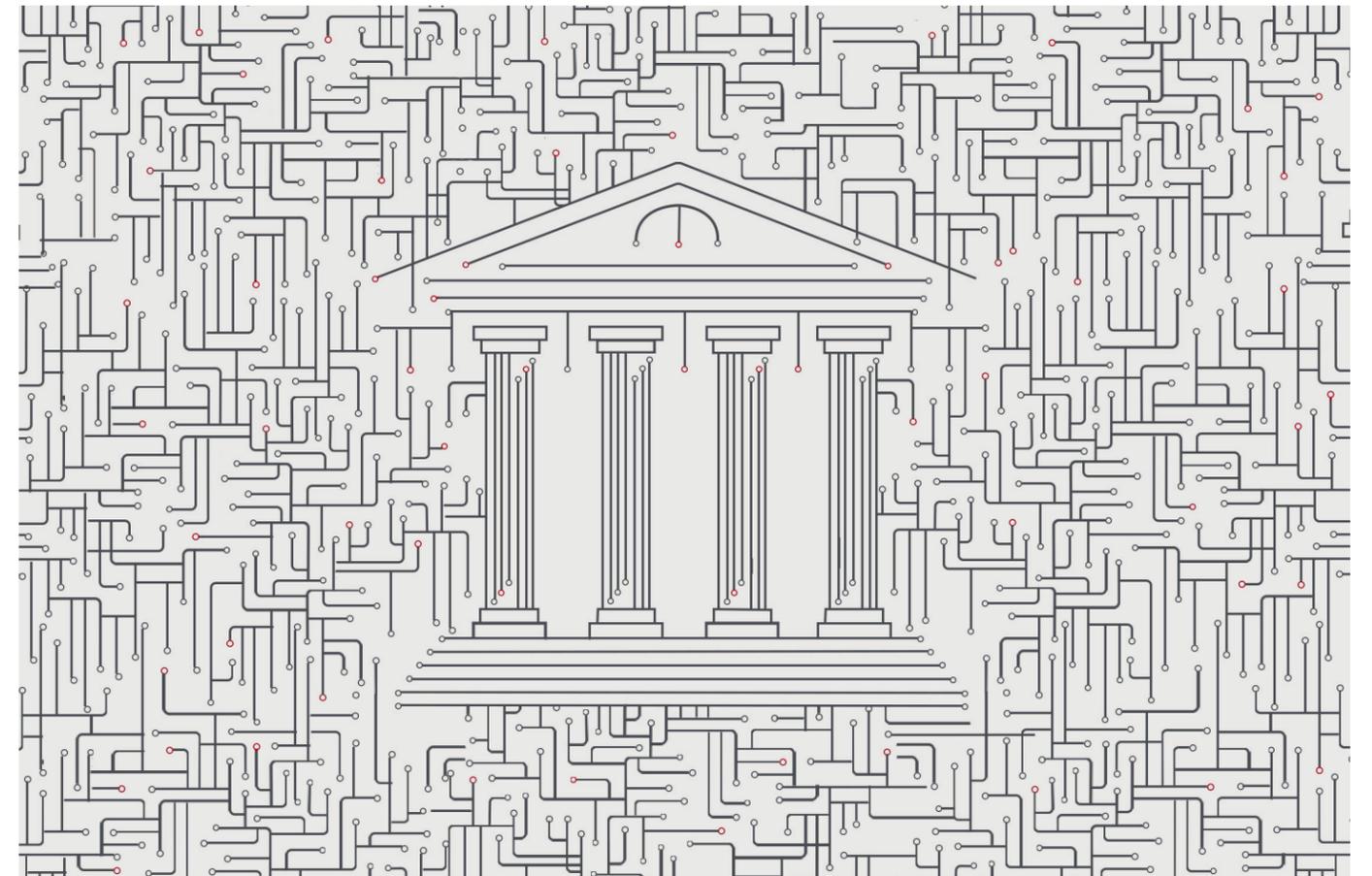
Remember AutoTrader?

Most Canadians are likely familiar with Trader Corporation as the publisher of *AutoTrader* and related magazines, in which dealers and individuals listed their vehicles for sale. Trader evolved from offering only print magazine publications to operating only a digital platform and, by 2015, Trader was the largest digital marketplace provider for new and used vehicles in Canada. When CarGurus entered the Canadian market in May 2015, CarGurus and Trader became direct competitors.

Who owns the copyright in car photos?

In the United States, dealers typically own the copyright in photos of their vehicle inventory, even if the photos are taken by third parties. In Canada, however, the situation is more complicated, in part because Trader operates a capture service, which involved that company's employees and contractors taking photos of a small percentage of dealers' vehicle inventory.

In December 2015, Trader brought an application against CarGurus on the Commercial List of the Ontario Superior Court of Justice, in which it alleged copyright infringement of 144,974 photographs. Trader claimed those photos had been taken by employees or



contractors hired by Trader for Canadian dealers and, therefore, Trader owned the copyright in them (Trader Photos). Trader sought statutory damages of \$500 for each Trader Photo (approximately \$72.5 million) and punitive damages of \$1 million.

In April 2016, Trader amended its claim to allege that CarGurus had infringed more than 217,000 Trader Photos, and it increased its claim to \$108 million.

Three of CarGurus' defences to Trader's allegations

All the Trader Photos were removed from CarGurus' digital platform within 30 days of notice, so the principal issue in the case was the quantification of statutory and punitive damages and whether, and in what form, a permanent injunction should issue.

Various defences were raised by CarGurus in response to Trader's application. For the sake of brevity, this article considers the following three:

1. whether the CarGurus website is an "information location tool" (i.e., a search engine) as defined in section 41.27 of the *Copyright Act* and, if so, whether CarGurus otherwise complied with that section;
2. whether the framing by CarGurus on its website of certain Trader Photos hosted on third-party websites where they were lawfully reproduced constituted (a) a separate reproduction of those photos by CarGurus, or (b) a telecommunication of the photos to the public by "making [them] available" to the public; and
3. whether Trader's claim for statutory damages in the amount of \$500 for each photo was "grossly out of proportion" to any infringement and, if so, whether it should be reduced as permitted by section 38.1(3) of the *Copyright Act*.

The first two defences arose from the 2012 *Copyright Act* amendments, and these provisions had never been litigated. The third defence had never been litigated in a fully contested proceeding.

The 2012 amendments to the Copyright Act

The 2012 amendments were intended to: (1) update the rights and protections of copyright owners to better address the challenges and opportunities of the internet, in line with international standards; (2) clarify the liability of the internet service providers; and (3) ensure that the *Copyright Act* remained technologically neutral.

In terms of this article, three amendments are particularly relevant. First, certain protections for search engines, which are called "information location tools" (ILTs), were added. For the protections to apply, the ILT must adhere to various conditions (e.g., caching or copying must be automated for the purpose of providing a search tool; copies cannot be modified other than for technical reasons). These concepts are discussed further below.

Second, the amendments included a "making available" right, which confirmed that the right to telecommunicate a work to the public includes the right to make the work available in a way that allows a member of the public to access it at his or her convenience.

Third, the amendments included providing adequate protection for, and effective remedies against, the circumvention of technological protection measures (TPMs), such as encryption and digital locks, along with other tools used by copyright owners to prevent the unauthorized reproduction of digital works. Although TPMs are a useful and effective means of controlling the reproduction of digital works, Trader had not implemented them to prevent any unauthorized reproduction of the Trader Photos.

In addition to the modernization of the *Copyright Act*, in 2012 the

Supreme Court also issued five decisions¹ that brought much needed clarity to how the *Copyright Act* is to be interpreted in the digital age. A key holding from those decisions is that the principle of technological neutrality requires the infringement provisions in the *Copyright Act* to be applied in a technologically neutral manner. This means that new technologies do not automatically create new infringements. For example, the distribution of movies over the internet for which music royalties had already been paid did not result in the payment of additional royalties for those same musical works, even though the digital transmission and sale of these movies technically constituted a separate reproduction of the musical works.

This was the copyright context before Justice Conway when she decided the *CarGurus* case. In the balance of this article, we discuss how she decided the three defences noted above.

Are all search engines “information location tools”?

Under the *Copyright Act*, an ILT is “any tool that makes it possible to locate information that is available through the Internet or another digital network.” ILTs are subject only to injunctive relief and must take down requested content within 30 days of notice in certain circumstances. This requirement was intended to create a safe harbour for ILTs, allowing them to make and cache copies of works on the internet.

The main issue before the court was whether search engines that are aggregators qualify as ILTs if they do not directly link back to the original source from which the aggregated information was gathered.

CarGurus argued that its search engine aggregated and posted vehicle listings from Canadian vehicle dealers, allowed consumers to search the search engine for vehicles and the corresponding listing data, and then facilitated contact between the consumers and the dealers. CarGurus submitted that its search engine was therefore an ILT and, since the photos at issue had been removed promptly, Trader was not entitled to any damages in the event of infringement. In support, CarGurus relied on expert opinion evidence from an author of *Internet for Dummies*, who had been retained by Google as an expert in several US cases.

Trader responded that CarGurus did not operate an “internet search engine” or an ILT, because its website did not connect consumers directly to the original vehicle listings on

dealers’ websites. Instead, CarGurus acted as a liaison facilitating communication between the consumers and the dealers. CarGurus located information for consumers, though it did not pinpoint its underlying location on the internet to consumers.

Justice Conway agreed with Trader, holding that

[w]hile CarGurus may have located information about a vehicle and provided it to the user through its website, it did not enable the user to find this information where it was located on the Internet (i.e. the Dealer’s webpage for that vehicle listing). If the user was interested in a particular vehicle, the user was required to contact CarGurus, which in turn acted as a liaison between the user and Dealer.

The fact that for some listings the “Dealer’s name and contact information, including the Dealer’s website address and other contact details, appeared on the CarGurus website,” did not change the fact that CarGurus acted as a liaison and not a mere intermediary between the consumer and the underlying vehicle-listing information on a dealer’s website.

According to the court, the

crux of the defined term “information location tool” in the *Act* is the *locating* of information ... in my view, Parliament intended to afford protection to intermediaries that provide tools that enable *users* to navigate and find information where it is located on the Internet. It did not intend to afford that protection to providers like CarGurus that gather information from the Internet and make it available to the user on the provider’s own website.” [Emphasis in original.]

In view of the court’s decision, it appears that only intermediaries who enable users to access information directly where it is originally located on the internet, such as Google, Yahoo! and Bing, may qualify as an ILT. This holding is important because aggregators that collect data and make them available to the public on their own websites may not fall under this exception. The aggregator business is a large and growing industry.

In addition, limiting the ILT exception only to search engines such as Google, Yahoo! and Bing arguably was not Parliament’s intention when the exception was introduced. In fact, the court’s interpretation of what constitutes an ILT effectively narrows the definition of an ILT in the *Copyright Act* to “any tool that makes it possible

to locate information where it is available on the Internet.”

Future cases will need to interpret the resulting conditions to qualify as an ILT; for example, (1) whether crawling/indexing of content is permissible; (2) whether use of and compliance with robots.txt or another industry standard is required; and (3) whether a search engine may charge for access to its contents.

Online framing held to be an infringement

According to Trader, for at least 34,185 Trader Photos, CarGurus did not reproduce them on its digital platform, but rather “framed” them; that is, used embedded links from its platform to the third-party website legitimately hosting the cached Trader Photos.

When CarGurus framed the photos, it did not itself host or cache them (i.e., it did not download and make a copy) on its servers. Instead, the photos were loaded directly from the authorized third-party server to the requesting consumers’ web browsers and were framed by CarGurus’ website; that is, CarGurus’ website format appeared around the photo as a “frame.” CarGurus did not “authorize” the framed content from the third-party website, since CarGurus had no control over it. (If, for example, it was removed by the third party, CarGurus could not recover the image – the link would be broken.) Nor did CarGurus “send” or “telecommunicate” that photo to the user; that was always done by the third-party website.

Since there was no dispute that Trader’s photos on third-party websites were lawfully hosted, CarGurus argued it acted as a mere conduit for these photos, which were lawfully posted on third-party websites, and that its actions did not constitute a reproduction of the framed photos, nor a telecommunication of them to the public.

The court disagreed, holding that,

[i]n my view, when CarGurus displayed the photos on its website, it was “making [them] available” to the public by telecommunication (in a way that allowed a member of the public to have access to it from a place and at a time individually chosen by that member), regardless of whether the photo was actually stored on CarGurus’ server or a third party server.

Accordingly, CarGurus was held liable for infringement of these framed photos.

This holding is particularly significant because it suggests that even if content is lawfully on a third-party website and available

for all to see (i.e., already “made available” to the public), framing to that content may constitute a violation of the “making available” right. Since framing-authorized content is fundamental to the operation of the internet – it is believed that millions of websites frame to other third-party websites – it remains to be seen if and how this holding will be applied in future judicial decisions.

Of note, framing has generally been permissible at law for more than a decade in the United States.² But a recent New York court decision allowed a claim of copyright infringement to proceed in which a photographer posted a Snapchat story photo of Tom Brady, which was then tweeted by individuals and later framed from Twitter in online articles, without the photographer’s consent.³ That decision was the subject of an interlocutory appeal, which was rejected by the Second Circuit. Although there has yet been no decision with respect to the defences raised (e.g., fair use and newsworthiness), it is unclear whether framing is permissible in the Second Circuit at this time. However, as in Canada, it remains to be seen how this issue will ultimately be resolved in the Second Circuit and in other US circuits should the issue arise there.

Was Trader’s claim for statutory damages “gross”?

Assuming it had proven infringement, Trader claimed statutory damages. Section 38.1 of the *Copyright Act* provides for statutory damages of “not less than \$500 and not more than \$20,000 that the court considers just, with respect to all infringements involved in the proceeding *for each work* or other subject-matter, if the infringements are for commercial purposes.” [Emphasis added.]

Unlike the United States, in Canada, statutory damages can be claimed regardless of whether copyright has been registered. There are a few exceptions that lower statutory damages below the \$500 per work minimum prescribed by the *Copyright Act* in commercial cases; one of those applied in *CarGurus*.

In *CarGurus*, Trader claimed infringement of approximately 200,000 photos (the “works” at issue), and CarGurus acknowledged that the use of the photos was for a commercial purpose. Trader therefore requested the “minimum” of \$500 for each photo allegedly infringed by CarGurus (an award of roughly \$100 million in statutory damages). It did so, despite admitting on cross-examination that it had suffered no monetary damage or loss of business as a result of the alleged infringement.

Trader argued that the court did not have discretion to lower this amount – it was simply a mathematical calculation. In contrast, CarGurus argued that the court did have discretion under the *Copyright Act* if all the reproductions at issue arose in a “single medium,” and that awarding the requested statutory minimum would result in a total award grossly out of proportion to the infringement.

Is a website a “single medium”?

Thus arose the issue of what constitutes a “single medium.” Trader argued that there was no single medium because the photos at issue could be accessed both via CarGurus’ desktop-formatted website and its mobile application. Both forms allowed consumers to access the same information and photos, albeit in different formats using different technological platforms (computer vs. smartphone).

The court rejected Trader’s argument, holding that

[i]n my view, the medium in this case is the CarGurus website. The desktop and mobile application are simply two user interfaces for accessing that website. The Trader Photos are

therefore in a single medium, meeting the first condition for the reduced statutory damages ...

In so finding, the court essentially applied the principle of technological neutrality – that is, the means by which the same website is accessible is irrelevant in calculating damages.

What award would not be gross?

In exercising its discretion to fix an award of damages that was not “gross,” the court considered the following facts:

1. the marketplace evidence adduced by CarGurus of what Trader’s photography competitors charge for their services (about \$1 per photograph);
2. that CarGurus removed the Trader Photos promptly upon notice;
3. that Trader admitted it had sustained no monetary damages or loss of business;
4. that CarGurus was not aware of Trader’s capture service when it entered Canada and had not acted in bad faith;
5. that Trader’s own conduct was not blameless – it deliberately chose not to advise CarGurus that it owned the copyright in the Trader Photos until just before the litigation was commenced, despite knowing months earlier that a few thousand of its photos were being infringed. Had it done so earlier, any award of statutory damages would have been much less; and
6. the need for an element of deterrence.

Considering all these factors, the court awarded \$2 per photo (not \$500) and declined to award punitive damages, or a permanent injunction. In short, a claim for \$100 million was reduced to \$305,064. The decision was not appealed, and there was no award of costs.

Conclusion

The collision between copyright law and the digital age is still happening, and it is not likely to end as long as technology creates new ways to author and exploit copyright works. Although quantifying actual damages from infringement can be challenging, the threat of significant statutory damages can be a potent remedy on the right facts. However, courts will, and the authors submit must, retain the discretion to ensure that any award is not “grossly out of proportion to the infringement.”

Notes

1-*Entertainment Software Association v Society of Composers, Authors and Music Publishers of Canada*, 2012 SCC 34; *Rogers Communications Inc v Society of Composers, Authors and Music Publishers of Canada*, 2012 SCC 35; *Re:Sound v Motion Picture Theatre Associations of Canada*, 2012 SCC 38; *Society of Composers, Authors and Music Publishers of Canada v Bell Canada*, 2012 SCC 36; *Alberta (Education) v Canadian Copyright Licensing Agency (Access Copyright)*, 2012 SCC 37.

2-*Perfect 10, Inc v Amazon.com, Inc*, 508 F3d 1146 (9th Cir 2007). *Perfect 10* held that a content provider does not infringe if it does not host the infringed work on its servers.

3-*Goldman v Breitbart News Network, LLC et al*, No.17-CV-3144 (KBF) (SDNY February 15, 2018).