

# **Sony Revisited: A new look at contributory copyright infringement\***

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## **Introduction**

Digital technology and the Internet have brought about a crisis in copyright law enforcement unlike any previously seen. In the past, for copyright infringers to substantially damage the worldwide market for a copyrighted work, they had to expend considerable resources in producing the infringing products and had to have a suitable worldwide distribution network. People were discouraged from investing in such activities because their significant investment would be lost if an infringement suit were successful.

However, digital technology allows anybody with access to a computer to make perfect reproductions of copyrighted works at little or no cost, and the worldwide connectivity of the Internet allows the easy distribution of those reproductions with little effort.

Today, tens of millions of people participate in peer-to-peer systems like Kazaa, with most users “sharing” not their own material, but more likely music whose copyrights are owned by others. Whether such activities hurt the copyright owners by being a substitute for legitimate sales and license fees, or help by sparking interest in a new work, is not the question here. The Constitution<sup>1</sup> and the copyright statutes<sup>2</sup> give a copyright owner the exclusive right to the protected work during the limited duration of the copyright, and therefore the right to determine the business model for its distribution to the public.

## **Litigation to stop the infringements**

Copyright owners need to convince the public that they should not be sharing copyrighted music, but should be getting it from legitimate sources. They have finally made a first step by licensing their songs to a variety of services where they can be downloaded for less than a dollar a song. But even

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I would like to thank Andy Greenberg, who first suggesting liability for inducement of copyright infringement to me, although he claims that he was thinking about something entirely different. Andy, Ed Damich, Beryl Howell, Ralph Oman, and Steve Tepp reviewed earlier drafts and offering excellent suggestions, although any opinions or conclusions are solely my own.

<sup>1</sup> “Congress shall have the Power . . . To promote the Progress of Science and useful Arts, be securing for limited Times to Authors and Inventors the *exclusive* Right to their respective Writings and Discoveries . . .” Article 1, Section 8 (emphasis added).

<sup>2</sup> 17 U.S.C. §106.

that low price cannot compete with free if there is no downside to file sharing. That is where copyright infringement litigation plays a necessary role.

There are two classes of parties for copyright infringement suits to stop unauthorized file sharing. The first is the direct infringers – those who are downloading the songs without authorization or, more to the point, those providing the songs for downloading. The latter are easier to determine, since they make their infringing activities visible to users of the particular “file sharing” system, and are an effective target, since if there are few people providing songs, there will be few users of a system.

However, there are substantial difficulties in these suits. First, the real identity of the person who is making the copyrighted songs available must be determined. In most cases, all that is known is the Internet Protocol (IP) address identifying the Internet service provider (ISP). The Digital Millennium Copyright Act provides a simplified procedure for to get the name of a subscriber who was using a particular IP address at a specified time from the ISP,<sup>3</sup> but the Court of Appeals for the District of Columbia Circuit has held that the provision does not apply to the types of communications used by most file sharing systems.<sup>4</sup> Instead, a “John Doe” infringement suit must be filed and the actual user name then determined from the ISP.

Copyright infringement suits may be too blunt a tool to use when there are many small infringers. The litigation is expensive, especially if many users cannot be joined in a single suit, can take an inordinately-long time since criminal matters have priority in federal court, and have draconian penalties. While the maximum statutory damages of \$150,000 per copyrighted work infringed when the infringement has been willful has certainly gotten the interest of the press and the public, even when the infringer is “not aware and had no reason to believe that his or her acts constituted an infringement of copyright,” the court cannot reduce the award of statutory damages below \$200 per work, except in very limited circumstances.<sup>5</sup> But for a user making a thousand songs available (as some who have been sued have done), this means that the absolute minimum statutory damages would be \$200,000 if the high burden of proving innocent infringement could be met by the defendant, and \$750,000 otherwise.

And while stories of other users having to pay significant damage amounts might discourage some users from infringing, many might see the odds of being sued comparable to being struck by lightning and not significantly alter their behavior. They might even alter their behavior not to stop infringing, but to

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<sup>3</sup> 17 U.S.C. §512(h).

<sup>4</sup> *RIAA v. Verizon Internet Services*, 351 F3d 1229, 69 USPQ2d 1075 (DC Cir. 2003). The result is more from unfortunate drafting of the provision by Congress, rather than it not being Congress’s intent for the simplified procedure not being available for such communications.

<sup>5</sup> 17 U.S.C. §504(c). The “innocent infringement” provision is ambiguous as to whether the reduction of “the award of statutory damages to a sum of not less than \$200” means \$200 per work or a total award of statutory damages for all works infringed of \$200. However, a reading that the “sum” refers to the total award would also mean that the provision increasing the award of statutory damages for willful infringement to a maximum of \$150,000 would be setting a cap on total statutory damages for the willful infringement of multiple works when such a cap does not exist for non-willful infringement, which is clearly contrary to Congress’s intent.

make it harder to detect the infringement – such as going to a system that is harder to monitor.<sup>6</sup>

## Contributory infringement

Imposing liability on a party who contributes to the infringement but is not a direct infringer can be particularly valuable when there are a large number of small infringers and a few who are making substantial contributions to that infringement. A good example was Napster,<sup>7</sup> where there were tens of millions of infringing users so it would be impossible to sue even a small fraction of the users. It is far easier to shut down infringement at a few key points. The resources of the federal court system are limited, and would be overwhelmed by tens of thousands of copyright infringement suits, yet joining users in a single suit when all they have in common is the use of a particular file sharing system may be unfair.

Those operating those key points may not be infringers themselves and so some theory of indirect infringement must be used to reach their conduct. The classic statement of what constitutes contributory infringement comes from *Gershwin Publishing v. Columbia Artists Management* – “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer.”<sup>8</sup>

The Copyright Act of 1976 attempted in part to codify contributory infringement by providing the copyright owner with the exclusive right “to do” certain things, but also “to authorize” those things.<sup>9</sup> In the Committee Report that accompanied the Copyright Act, there is this explanation:

The exclusive rights accorded to a copyright owner under section 106 are “to do and to authorize” any of the activities specified in the five numbered clauses. Use of the phrase “to authorize” is intended to avoid any questions as to the liability of contributory infringers.<sup>10</sup>

However, whether the provider of a file sharing system can be held liable as a contributory copyright infringer is unclear in light of the district court decision in *Grokster*,<sup>11</sup> based on a limitation on contributory infringement created by the Supreme Court in its *Sony*<sup>12</sup> decision.

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<sup>6</sup> See *In re Aimster Copyright Litigation*, 335 F.3d 453, 67 USPQ2d 1225 (7th Cir. 2003).

<sup>7</sup> *A&M Records v. Napster*, 239 F.3d 1004, 57 USPQ2d 1729 (9th Cir. 2001).

<sup>8</sup> 443 F.2d 1159, 1162, 170 USPQ 184-185 (2d Cir 1971).

<sup>9</sup> 17 U.S.C. §106.

<sup>10</sup> H.R. Rep. No. 94-1478 at 61.

<sup>11</sup> *Metro-Goldwyn-Mayer Studios v. Grokster*, 259 F.Supp.2d 1029, 66 USPQ2d 1579 (DC CD CA 2003), affirmed

<http://caselaw.lp.findlaw.com/data2/circs/9th/0355894p.pdf> (9th Cir. 2004).

<sup>12</sup> *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 220 USPQ 665 (1984).

## Behind the scenes at Sony

With Justice Blackmun's papers now publicly available at the Library of Congress,<sup>13</sup> it is possible to see how the *Sony* opinion developed through the drafts that were circulated to the justices and their written communications.<sup>14</sup>

According to Justice Blackmun's notes from the conference following the oral arguments in January 1983, only Justice Stevens was clearly in favor of reversing the Ninth Circuit's opinion that Sony was a contributory copyright infringer. Chief Justice Burger and Justices Brennan, White, and possibly O'Connor were unsure. Justice Blackmun was selected to write the opinion.

Immediately following the conference, Justice Stevens wrote to Justice Blackmun,<sup>15</sup> indicating that he was going to be writing a dissenting opinion. His theory was that making a single copy of any copyrightable work for a private, noncommercial use was not a copyright infringement. He commented on Congress' "curious choice of language" in Section 106 – the only exclusive rights not expressly related to either public or commercial use (the reproduction and adaptation rights) talks about "copies" or "works" plural.

Justice Stevens indicated that he had "tried to find a comment in the Committee Reports on the narrow question of whether a single-copy-for-private-use would be a infringement, and have not yet found anything directly in point." But the section-by-section analysis of Section 106 states:

The references to 'copies or phonorecords,' although in the plural, are intended here and throughout the bill to include the singular (1 U.S.C. 1).<sup>16</sup>

On June 13, 1983, Justice Blackmun circulated the first draft of his opinion. At the same time, Justice Stevens circulated a memorandum indicating his dissenting position. He still pressed for an exception to copyright infringement for noncommercial, single copies. He also questioned whether there was a reasonable remedy available – the injunction that the copyright owners were requesting would allow any copyright owner to shut down a new technology, regardless of the wishes of other copyright owners. And Congress, not the courts, is the appropriate place to determine the nature of a compulsory royalty scheme for VCR manufacturers and users.

Justice Brennan found it difficult to join either the Blackmun or Stevens position.<sup>17</sup> On one hand, he disagreed with Justice Stevens that Congress intended any broad exemption for all cases of private, noncommercial, single-

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<sup>13</sup> The collection became available on March 4, 2004, five years after his death.

<http://www.loc.gov/rr/mss/blackmun/>.

<sup>14</sup> In most instances, the justices communicated with each other in formal letters, most on letterhead. In most cases, even if a letter is addressed to a particular justice, it is copied to the other justices. It appears that Justice Blackmun saved all this correspondence, at least for *Sony*.

<sup>15</sup> Letter of January 24, 1983 from Justice Stevens to Justice Blackmun.

<sup>16</sup> H.Rep. No. 94-1476 at 61. 1 U.S.C. §1 reads, in part "In determining the meaning of any Act of Congress, unless the context indicates otherwise – words importing the singular include and apply to several persons, parties, or things; words importing the plural include the singular . . ." Justice Rehnquist brought this section to Justice Stevens' attention. Letter of February 3, 1983, from Justice Rehnquist to Justice Stevens.

<sup>17</sup> Letter of June 14, 1983, from Justice Brennan to the Conference.

copy reproduction. On the other hand, he saw no legislative authorization for the courts to impose a tax-like compulsory license.

He did, however, feel that while “library building” was copyright infringement, “timeshifting” was a fair use. And because the Betamax’s “most conspicuous purpose” or “primary use” was a noninfringing fair use, Sony should not be liable for contributory infringement. Justice White agreed with Justice Brennan and suggested that he try to work with Justice Stevens on an alternative opinion to Justice Blackmun’s that could be acceptable to five justices,<sup>18</sup> and Justice Stevens agreed to recast his memorandum into an opinion taking Justice Brennan’s position.<sup>19</sup>

But time was running out on the 1982-1983 Supreme Court term, and it was decided that the case be carried over to the 1983-1984 term. By the time the case was reargued in October 1983, the majority of the justices were in favor of reversing the Ninth Circuit and having Justice Steven’s memorandum, revised in line with Justice Brennan’s approach, become the opinion of the Court. Justice Blackmun’s original opinion became the dissent, with Justices Marshall, Powell, and Rehnquist joining.

The opinion avoids the question of whether building a library of television shows is a fair use, presumably because since timeshifting was the primary use for the Betamax and was a substantial noninfringing use, Sony would not be a contributory infringer even if librarying were an infringement.<sup>20</sup>

### **Sony’s contributory infringement formulation**

In its *Sony* opinion, the Supreme Court tried to determine when the supplier of a product that is being used for copyright infringement was a indirect copyright infringer. Clearly, not everybody who supplies a product that assists its user’s copyright infringement is a contributory infringer. It makes no sense to say that an office supply store that sells an infringer the paper for his printer is a contributory infringer because that paper is used to produce infringing copies of a book.

The Court noted that while there are no clear provision in the copyright statutes addressing indirect infringement, there are statutory provisions for indirect infringement of patents.

In the Patent Code both the concept of infringement and the concept of contributory infringement are expressly defined by statute. The prohibition against contributory infringement is confined to the knowing sale of a component especially made for use in connection with a particular patent. There is no suggestion in the statute that one patentee may object to the sale of a product that might be used in connection with other patents.

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<sup>18</sup> Letter of June 17, 1983, from Justice White to Justice Brennan.

<sup>19</sup> Letter of June 17, 1983, from Justice Stevens to Justice White.

<sup>20</sup> Librarying is discussed in the dissent, but shows up in the opinion only cryptically in Footnote 39. That footnote references section V.C of the opinion, a section that does not exist. It originally was a brief discussion of librarying in the second draft of Justice Stevens’ memorandum and Footnote 34 of his third draft (which became Footnote 39 of the Court’s opinion) references it. The section on librarying was dropped in Justice Stevens’ first draft of the opinion of the Court, perhaps because Justice Brennan had indicated that he felt that librarying was not a fair use.

Moreover, the Act expressly provides that the sale of a “staple article or commodity of commerce suitable for substantial noninfringing use” is not contributory infringement.<sup>21</sup>

The purpose of this exception to contributory infringement is to prevent a patent owner from leveraging the patent to control a staple article of commerce. The owner of a patent on a salt spreader cannot control the sale of salt, just because it is necessary for the infringement of the patent.

### **Patent law may be a poor analogy**

It is somewhat strange that the Court takes its contributory infringement formulation not from past copyright law decisions or the legislative history of the copyright act, but from a statute considerably different from copyright. But the contributory infringement provision in the patent statute has just what the Court was looking for to provide an exception for Sony’s conduct.

We recognize there are substantial differences between the patent and copyright laws. But in both areas the contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make such duplication possible. The staple article of commerce doctrine must strike a balance between a copyright holder’s legitimate demand for effective – not merely symbolic – protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce. Accordingly, the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.<sup>22</sup>

That sounds reasonable, but the problem is that the Court really didn’t “recognize that there are substantial differences between patent and copyright laws” and those differences may make what appears to be a reasonable test for contributory copyright infringement no test at all.

One difference is that patent law does not have any “fair use” doctrine, one of the more important aspects of copyright law.<sup>23</sup> One of the reasons that the Court found that Sony was not a contributory infringer was that time-shifting a television program was a fair use and therefore the Sony Betamax recorder had that as a substantial noninfringing use.<sup>24</sup>

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<sup>21</sup> 464 U.S. at 440, 220 USPQ at 677.

<sup>22</sup> 464 U.S. at 441, 220 USPQ at 678.

<sup>23</sup> The “fair use” doctrine is codified in the Copyright Act of 1976 at 17 U.S.C. §107.

<sup>24</sup> Justice Steven’s fair use analysis is minimal at best, ignoring the “nature of the copyrighted work” and “amount and substantiality of the portion used” factors (that inconveniently tend against a finding of fair use for time shifting, since complete television shows with high expressive content were being time-shifted) and seemingly reducing fair use to a test of whether the use was commercial in nature and its effect on the market, and imposing on the copyright owner the burden of showing that a noncommercial use was not harmful.

In contrast, the patent statutes provide only a very limited statutory exception for patent infringement by the required testing of a drug.<sup>25</sup> In addition, the courts have created an “experimental use” defense to a charge of patent infringement, but it is far narrower than copyrights “fair use” defense, being limited to making or using the patented invention solely “for amusement, to satisfy idle curiosity or for strictly philosophical inquiry.”<sup>26</sup>

Surprisingly, there was little discussion between the justices or in the brief or oral arguments, whether the absence of a fair use concept in patent law might make the contributory infringement test for patents a bad fit for copyright. Only the Motion Picture Association of America (MPAA), in its amicus brief, clearly pointed out that any unauthorized use of a patented invention is an infringement because there is no “fair use.”<sup>27</sup>

Expressing his concerns in a letter to Justices Powell and O’Connor, in response to their suggestions regarding his opinion, Justice Blackmun wrote:

I am reluctant to adopt the “staple article of commerce” doctrine “lock, stock, and barrel” into copyright law. I think we do well to avoid importing technical doctrine from one area of the law to another without being fully aware of where this may lead.<sup>28</sup>

### **“Article of commerce”**

In *Sony*, the exception to contributory copyright infringement is limited to an article of commerce – the Betamax video recorder. The Court felt it important that there was no continuing relationship between Sony and the direct infringers after the Betamax was purchased.

In the *Fonovisa* case,<sup>29</sup> a flea market operator was held to be a contributory infringer because it was renting space to the infringers, rather than supplying a staple article of commerce. Similarly, Napster was a contributory infringer because it provided “the site and facilities’ for direct infringement”<sup>30</sup> – the centralized directory service that was necessary for the users to locate the copyrighted works and do the infringement. While Napster also provided software to the user that was capable of noninfringing uses, and that could fall within the *Sony* exception if those uses were substantial, not being a contributory infringer because of one aspect of the activity does not shield other aspects where there is contributory infringement.

The scope of the *Sony* exception is that it covers reproduction devices such as the Betamax video recorder or software that configures a digital computer to perform a reproduction, where the direct infringer purchases the article of commerce and has no further involvement with the alleged contributory

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<sup>25</sup> See 37 U.S.C. §271(e).

<sup>26</sup> *Roche Products v. Bolar Pharmaceutical*, 733 F.2d 858, 863, 221 USPQ 937, 941 (Fed. Cir. 1984). Subsection (e) was added to 37 U.S.C. 271 in 1984 specifically to provide an exception to this case, but Congress declined to provide a general “fair use” exception to patent infringement.

<sup>27</sup> Amicus Brief of the Motion Picture Association of America, at 20.

<sup>28</sup> Letter of June 21, 1983, from Justice Blackmun to Justices Powell and O’Connor.

<sup>29</sup> *Fonovisa Inc. v. Cherry Auction*, 76 F.3d 259, 37 USPQ2d 1590 (9th Cir. 1996).

<sup>30</sup> *A&M Records v. Napster*, 239 F.3d 1004, 1022, 57 USPQ2d 1729, 1741 (9th Cir. 2001).

infringer, but likely does not cover services or other activities where there is an ongoing relationship between the direct infringement and the alleged contributory infringer.

### **“Substantial noninfringing uses”**

The Court gives no guidance on how to determine whether a noninfringing use is “substantial” or not. Do we look to substantiality in a qualitative or quantitative way? What percentage of use has to be noninfringing? Does the use have to be commercially significant, or can more intangible things be considered? Does the use simply have to be plausible? The one thing the Court does indicate is that the use does not have to be something presently done – “Indeed, it need merely be *capable* of substantial noninfringing uses.”<sup>31</sup> (Emphasis added.) But it is difficult to determine with any accuracy whether the result of a capability for noninfringing use will eventually result in substantial use of that capability or not.

*Sony* provides an example that makes its substantial noninfringing use test a nullity, since it can almost always be met – authorized time shifting.<sup>32</sup> Some copyright owners may explicitly permit, or at least not object, to the time shifting of their television programs.

It seems extraordinary to suggest that the Copyright Act confers upon all copyright owners collectively, much less the two respondents in this case, the exclusive right to distribute VTR’s simply because they may be used to infringe copyrights. That, however, is the logical implication of their claim. The request for an injunction below indicates that respondents seek, in effect, to declare VTR’s contraband.<sup>33</sup>

But there will generally be a copyright owner who would permit the use of the copying equipment for their own works, perhaps the maker of the copying equipment itself. As an example, imagine a system for “sharing” commercial computer programs such as Microsoft Office. All that the operator of such a system would need to do to show a noninfringing use is to use the system for the distribution of user updates to the sharing system itself. *Sony* provides no guidance as to whether such use would be “substantial,” but since the requirement is only the capability of substantial noninfringing use, the alleged contributory infringer could simply claim potential noninfringing use after potential noninfringing use until substantiality was reached.

It is not difficult to dream up noninfringing uses. Unlike the patent laws, the copyright statute provides a wide variety of exceptions to the exclusive rights of the copyright owner.<sup>34</sup> Libraries can make a single copy of a work in certain circumstances.<sup>35</sup> A computer program can be duplicated to create an

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<sup>31</sup> I’ll avoid a Stevens-like analysis of this statement as requiring that there must be at least two substantial noninfringing uses to qualify because the plural “uses” is used. In any case, the *Sony* opinion gives two uses – authorized copying and “fair use” time shifting.

<sup>32</sup> See 464 U.S. at 443-447, 220 USPQ 678-680.

<sup>33</sup> 464 U.S. 441 fn 21, 220 USPQ 677 fn 21.

<sup>34</sup> See 17 U.S.C. §§107-122.

<sup>35</sup> 17 U.S.C. §108(a).



archive copy.<sup>36</sup> Judge Posner, in his *Aimster* opinion, lists a variety of possible noninfringing uses.<sup>37</sup> The *Sony* exception will, for most reproduction devices, swallow the contributory infringement test and leave it a nullity.

In contrast, it would be difficult to create a new item that uses a component “specially made or especially adapted” (the statutory requirement for contributory infringement<sup>38</sup>) for use in a patented invention without infringing that patent. Perhaps one could mount a key special component on a plaque for display, but that is unlikely that such a pretextual use would be considered “substantial.”

### **No “bright line” rule**

In an amicus brief<sup>39</sup> to the Ninth Circuit Court of Appeals in the appeal of the *Grokster* decision,<sup>40</sup> forty intellectual property and technology law professors called for a “bright line rule” where any substantial noninfringing use means that the supplier of a technology is not a contributory infringer. As discussed above, such a holding would indeed provide a bright line rule – that there is no such thing as contributory copyright infringement for a supplier of a technology that is used by another to infringe copyright.

But while bright line rules may be desirable, there are many aspects of copyright law that are anything but. Fair use, for example, depends on the consideration for four broadly-worded factors and the combining of the results with no particular weighting specified in the statute. In one case, the copying of about 300 words from a book was not a fair use;<sup>41</sup> in another case, the copying of a work in its entirety was a fair use.<sup>42</sup> Since whether something is contributory infringement may depend on whether it allows a fair use of a work, and because fair use is not a bright line rule, there is no reason to believe that even if the suggestion in the amicus brief is adopted that contributory infringement will really be a bright line rule.

### **Vicarious copyright infringement**

Vicarious infringement results when there has been a direct infringement and the vicarious infringer is in a position to control the infringing activity and directly benefits financially from the infringement. In a 1996 Ninth Circuit case,<sup>43</sup> the operator of a flea market where counterfeit recordings were regularly sold was found to be a vicarious infringer because he could have policed the vendors who rented booths from him but didn’t, and he made money from that booth rental as well as from admission and parking fees from the people attending the flea market. The court believed that many of the people who paid those admission fees did so to gain access to the counterfeit recordings. The

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<sup>36</sup> 17 U.S.C. §117(a).

<sup>37</sup> *In re Aimster Copyright Litigation*, 334 F.3d 643, 652-653, 67 USPQ2d 1233, 1240-1241 (7th Cir. 2003).

<sup>38</sup> 35 U.S.C. §271(c).

<sup>39</sup> [http://www.sims.berkeley.edu/~pam/papers/Grokster\\_Law%20Prof%20brief.pdf](http://www.sims.berkeley.edu/~pam/papers/Grokster_Law%20Prof%20brief.pdf).

<sup>40</sup> *MGM Studios v. Grokster*, 259 F.Supp.2d 1029, 66 USPQ2d 1579 (DC CD Ca 2003).

<sup>41</sup> *Harper & Row v. Nation Enterprises*, 471 U.S. 539, 225 USPQ 1073 (1985).

<sup>42</sup> *Sega v. Accolade*, 977 F.2d 1510, 24 USPQ2d 1561 (9th Cir. 1992).

<sup>43</sup> *Fonovisa Inc. v. Cherry Auction*, 76 F.3d 259, 37 USPQ2d 1590 (9th Cir. 1996).

court also found that the flea market operator was guilty of contributory infringement.

The *Sony* decision does not discuss vicarious infringement, at least as it is currently understood. Instead, it uses the term to mean any indirect liability for copyright infringement. As the Ninth Circuit noted in *Napster*:

The issues of Sony's liability under the "doctrines of 'direct infringement' and 'vicarious liability'" were not before the Supreme Court, although the Court recognized that the "lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn." Consequently, when the Sony Court used the term "vicarious liability," it did so broadly and outside of a technical analysis of the doctrine of vicarious copyright infringement.<sup>44</sup>

The *Sony* exception does not apply to vicarious infringement. It does not matter whether there are possible noninfringing uses related to the vicarious infringement. If there is a direct infringement, you are in a position to control that infringement (unlike Sony with the Betamax video recorders sold to users), and you directly benefit financially specifically from that infringement (and not the sale of the product in general), you are a vicarious infringer.

### Looking at Sony again

If the *Sony* exception to contributory infringement makes it difficult to stop widespread infringement of copyrighted songs because those providing the file sharing systems can always posit noninfringing uses, the *Sony* decision also suggests an alternative theory of indirect infringement. The Court not only noted that the patent statutes define contributory infringement, but also define another form of indirect infringement – inducement of infringement.

The Copyright Act does not expressly render anyone liable for infringement committed by another. In contrast, the Patent Act expressly brands anyone who "actively induces infringement of a patent" as an infringer, 35 U.S.C. §271(b), and further imposes liability on certain individuals labeled "contributory" infringers. The absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity.<sup>45</sup>

Unlike contributory patent infringement, where the infringer is producing a specially-made component used to infringe the patent, inducement of patent infringement looks at whether the inducer is acting in such a way as to encourage the infringement of the patent by another. In the Revision Notes that accompanied the enactment of Section 271 in the Patent Act of 1952, there is this explanation.

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<sup>44</sup> *A&M Records v. Napster*, 239 F.3d 1004, 1022-1023, 57 USPQ2d 1729, 1741 (9th Cir. 2001). This opinion provides an excellent discussion of the elements necessary for both contributory and vicarious infringement, keeping those two related concepts clearly separated and being much more precise in terminology than either *Sony* or *Gershwin*.

<sup>45</sup> 464 U.S. 434-435, 220 USPQ 675.

One who actively induces infringement as by aiding and abetting the same is liable as an infringer, and so is one who sells a component part of a patented invention or material or apparatus for use therein knowing the same to be especially made or especially adapted for use in the infringement of the patent except in the case of a staple article or commodity of commerce having other uses.<sup>46</sup>

For example, one can be an indirect patent infringer even if one is only supplying technology that has significant noninfringing uses (or no technology at all) if one is “aiding and abetting” the infringement of another, such as providing an environment that encourages the infringement. The Federal Circuit has found, for example, that there was inducement of infringement where a company manufactured a puzzle whose use (but not manufacture or sale) directly infringed the claims of the patent.<sup>47</sup>

The Supreme Court spent little time in the *Sony* decision on inducement, not because it was trying to say that inducement should not be one of the ways that a copyright can be indirectly infringed, but because the district court had found that Sony was not inducing the infringement of the users. As the Court says in footnote 19:

Sony certainly does not “intentionally induce” its customers to make infringing uses of respondents’ copyrights, nor does it supply its products to identified individuals known by it to be engaging in continuing infringement of respondents’ copyrights.<sup>48</sup>

This was included in the decision to address a point raised by Justice O’Connor, a key vote for the 5-4 majority in *Sony*, when she was indicating her concerns to Justice Blackmun regarding his proposed opinion. She noted that *Gershwin*,<sup>49</sup> cited in *Sony* as one of the few attempts to define contributory copyright infringement,

seems to indicate that there are two ways to engage in contributory infringement. First, one may induce the infringement. Second, one may materially contribute to the infringement.”<sup>50</sup> (Emphasis in the original.)

She goes on to say that the Court “should accept the District Court’s finding that Sony did not induce any infringement” and remove the discussion of inducement from the opinion.

There is no reason to believe that the Court meant to exclude inducement of infringement from indirect infringement of copyright, just that the justices in the majority did not feel that it was applicable to Sony’s actions. And there is no reason to believe that Congress, when it adopted the Copyright Act of 1976, intended to overrule or lessen the scope of contributory infringement stated in *Gershwin*, which explicitly included inducement of infringement.

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<sup>46</sup> Sen. Rep. No. 82-1979, H.R. Rep. No. 82-1923, 1952 U.S.C.C.A.N. 2394, 2421.

<sup>47</sup> *Moleculon Research v. CBS*, 793 F.2d 1261, 229 USPQ 805 (Fed. Cir. 1986).

<sup>48</sup> 464 U.S. at 439, 220 USPQ at 677.

<sup>49</sup> *Gershwin Publishing v. Columbia Artists Management*, 443 F.2d 1159, 170 USPQ 182 (2d Cir. 1971).

<sup>50</sup> Letter of June 21, 1983, from Justice O’Connor to Justice Blackmun.

Liability for inducement exists, in some form, for all other types of intellectual property protection. In addition to the patent statutes,<sup>51</sup> inducement is specifically addressed in the Semiconductor Chip Protection Act<sup>52</sup> and the Vessel Hull Design Protection Act.<sup>53</sup> The Supreme Court has found inducement liability for trademarks.<sup>54</sup> And the Uniform Trade Secrets Act treats inducement as one of the improper means for misappropriating a trade secret.<sup>55</sup> It would be surprising to think that Congress and meant to exclude inducement from copyright law when it is a part of every other form of intellectual property protection, especially in the absence of any language indicating such an exclusion.

No legislation and no change to Supreme Court precedent appears necessary to add inducement of infringement to the collection of tools available to protect copyrighted works.

### **Inducement and Judge Posner's *Aimster* decision**

In Judge Posner's opinion in *Aimster*,<sup>56</sup> he discussed the importance of contributory infringement in the control of copyright infringement using "file sharing" systems, and a possible theory for finding indirect copyright infringement.

Teenagers and young adults who have access to the Internet like to swap computer files containing popular music. If the music is copyrighted, such swapping, which involves making and transmitting a digital copy of the music, infringes copyright. The swappers, who are ignorant or more commonly disdainful of copyright and in any event discount the likelihood of being sued or prosecuted for copyright infringement, are the direct infringers. But firms that facilitate their infringement, even if they are not themselves infringers because they are not making

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<sup>51</sup> 35 U.S.C. §271(b), discussed previously.

<sup>52</sup> "The owner of a mask work provided protection under this chapter has the exclusive rights to do and to authorize any of the following: ... (3) to *induce* or knowingly cause another person to do any of the acts described in paragraphs (1) and (2)." 17 U.S.C. §905.

<sup>53</sup> "A seller or distributor of an infringing article who did not make or import the article shall be deemed to have infringed on a design protected under this chapter only if that person— (1) *induced* or acted in collusion with a manufacturer to make, or an importer to import such article ..." 17 U.S.C. §1309(b).

<sup>54</sup> "Thus, if a manufacturer or distributor intentionally *induces* another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorially responsible for any harm done as a result of the deceit." *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 214 USPQ 1 (1982). This is a unanimous decision by the same members of the Court as in *Sony*, although in *Sony's* Footnote 19 the majority notes that, because of "the fundamental differences between copyright law and trademark law," the standard for contributory trademark infringement of *Inwood* is not applicable in *Sony* because it is too narrow.

<sup>55</sup> "Improper means' includes theft, bribery, misrepresentation, breach or *inducement* of a breach of duty to maintain secrecy, or espionage through electronic or other means; ..." §1(1).

<sup>56</sup> *In re Aimster Copyright Litigation*, 334 F.3d 643, 67 USPQ2d 1233 (7th Cir. 2003).

copies of the music that is shared, may be liable to the copyright owners as contributory infringers. Recognizing the impracticability or futility of a copyright owner's suing a multitude of individual infringers ("chasing individual consumers is time consuming and is a teaspoon solution to an ocean problem," Randal C. Picker, "Copyright as Entry Policy: The Case of Digital Distribution," 47 *Antitrust Bull.* 423, 442 (2002)), the law allows a copyright holder to sue a contributor to the infringement instead, in effect as an aider and abettor.<sup>57</sup>

While he doesn't use the term "inducing infringement," note the comparison to aiding and abetting infringement, the same terms the legislative history uses describe inducement of patent infringement. He goes on to discuss why this aiding and abetting test is more appropriate than the contributory infringement test.

There are analogies in the law of aiding and abetting, the criminal counterpart to contributory infringement. A retailer of slinky dresses is not guilty of aiding and abetting prostitution even if he knows that some of his customers are prostitutes – he may even know which ones are. The extent to which his activities and those of similar sellers actually promote prostitution is likely to be slight relative to the social costs of imposing a risk of prosecution on him. But the owner of a massage parlor who employs women who are capable of giving massages, but in fact as he knows sell only sex and never massages to their customers, is an aider and abettor of prostitution (as well as being guilty of pimping or operating a brothel). The slinky-dress case corresponds to *Sony*, and, like *Sony*, is not inconsistent with imposing liability on the seller of a product or service that, as in the massage-parlor case, is capable of noninfringing uses but in fact is used only to infringe.<sup>58</sup>

### **The scope of inducement**

The scope of inducing patent infringement is not as wide as the statutory language seems. One must be aware of the patent and the direct infringement to be an inducer, and have intended that infringement result.

Although section 271(b) does not use the word "knowing," the case law and legislative history uniformly assert such a requirement. . . . While proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice.<sup>59</sup>

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<sup>57</sup> 334 F.3d at 645, 67 USPQ2d at 1236.

<sup>58</sup> 334 F.3d at 651, 67 USPQ2d at 1239-1240 (citations omitted).

<sup>59</sup> *Water Technologies v. Calco*, 850 F.2d 660, 668, 7 USPQ2d 1097, 1103 (Fed. Cir. 1988).

Furthermore, the inducement must be tied to a direct infringement related to the inducement.<sup>60</sup> So, if we assume that it was a fair use (and therefore not copyright infringement) for a user to timeshift a broadcast television program using the Betamax, Sony would not be inducing infringement when it provided instructions to the users on how to program the Betamax for timeshifting or encouraged timeshifting in its advertising. But if librarying of shows were not a fair use, then Sony would be an indirect infringer if it were to promote, or induce, the building of personal libraries of taped television shows.

As with vicarious infringement, for inducement you look at whether what is being aided and abetted is a direct infringement. It does not matter that noninfringing acts are also aided by the alleged inducer. This is in contrast to the *Sony* exception to copyright infringement, where you look to see if there is any substantial noninfringing use being enabled. Liability of inducement of copyright infringement does not inhibit technology (as long as it has some plausible noninfringing use). Inducement instead concerns how the technology is being promoted or configured.

In patent law, it is not necessary to sue a direct infringer in order to go after an inducer, or even provide direct evidence of infringement:

If [the alleged inducer] is arguing that proof of inducing infringement or direct infringement requires *direct*, as opposed to *circumstantial evidence*, we must disagree. It is hornbook law that direct evidence of a fact is not necessary. “Circumstantial evidence is not only sufficient, but may also be more certain, satisfying and persuasive than direct evidence.”<sup>61</sup>

Perhaps a more interesting aspect of inducement of patent infringement is that the officers of a corporation who actively aid and abet their corporation’s infringement can be personally liable for the infringement.<sup>62</sup> That personal liability for inducing infringement would certainly be useful in trying to stop copyright infringement by going after not only the companies that are promoting the infringement but also the officers of those companies aware that they are promoting infringement.

Going to an aiding and abetting rule for indirect infringement, such as is the case in statutory patent law, would also bring civil copyright infringement in line with criminal copyright infringement. Criminal copyright infringement occurs when there is “willful” infringement either “for purposes of commercial advantage or private financial gain” or if the infringement exceeds a statutory amount.<sup>63</sup> United States criminal law provides that:

Whoever commits an offense against the United States [such as criminal copyright infringement] or *aids, abets*, counsels, commands, *induces* or procures its commission, is punishable as a principal.<sup>64</sup> (Emphasis added.)

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<sup>60</sup> “Absent direct infringement of the patent claims, there can be neither contributory infringement nor inducement of infringement.” *Met-Coil Systems v. Korners Unlimited*, 803 F.2d 684, 687, 231 USPQ 474, 477 (Fed. Cir. 1986).

<sup>61</sup> *Moleculon Research v. CBS*, 793 F.2d 1261, 1272, 229 USPQ 805, 813 (Fed. Cir. 1986).

<sup>62</sup> *Power Lift v. Lang Tools*, 774 F.2d 478, 227 USPQ 435 (Fed. Cir. 1985).

<sup>63</sup> 17 U.S.C. §506(a).

<sup>64</sup> 18 U.S.C. §2(a).

While not the “bright line rule” that the intellectual property professors urged in their amicus brief, the concepts of inducement and aiding and abetting are well known to judges. After examining the totality of the circumstances, the courts in most instances will readily see when someone is inducing users to infringe copyrights, even if it is done with statements like “Never, ever infringe a copyright using this file sharing system,” said with a knowing wink.

### **A legislative approach: S.2560**

Previous versions of this paper discussed whether adding inducement liability to the copyright statutes was necessary, and what form it should take. On June 22, 2004, S.2560 was introduced in the Senate to do just that.<sup>65</sup> The bill, as introduced is quite short, adding the following to the copyright act’s section on infringement:<sup>66</sup>

(g)(1) In this subsection, the term “intentionally induces” means intentionally aids, abets, induces, or procures, and intent may be shown by acts from which a reasonable person would find intent to induce infringement based upon all relevant information about such acts then reasonably available to the actor, including whether the activity relies on infringement for its commercial viability.

(2) Whoever intentionally induces any violation identified in subsection (a) shall be liable as an infringer.

(3) Nothing in this subsection shall enlarge or diminish the doctrines of vicarious and contributory liability for copyright infringement or require any court to unjustly withhold or impose any secondary liability for copyright infringement.

Unfortunately, this early in the process there is little legislative history to help interpret the provisions. But the sponsors have used many terms that come from related laws and have a rich history of interpretation. For example, the synonyms for inducement (“aids, abets, induces, or procures”) come from the federal criminal statutes (“*aids, abets, counsels, commands, induces or procures*”).<sup>67</sup>

The language of the bill takes a minimalist approach<sup>68</sup> and its third paragraph makes it clear that it is not meant to change existing law on

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<sup>65</sup> That a bill codifying inducement was introduced at the same time I wrote about the desirability of such an approach is not coincidental. The proponents of inducement legislation had seen the early drafts of this paper.

<sup>66</sup> 17 U.S.C. §501.

<sup>67</sup> 18 U.S.C. §2. An earlier draft of S.2560 included “counsels” but that was dropped before the bill was introduced, presumably because some felt that it might impose liability on an attorney advising a client regarding copyright infringement.

<sup>68</sup> Critics of the bill claim that its effect is anything but minimal, claiming that it could stop, or at least chill, technological development. But similar claims were made for the NET Act and the DMCA, and it is now years since those laws were passed without the parade of horrors that were predicted coming to pass. For example, one computer professional society was concerned that the NET Act would “Restrict scientists and other professionals from making their research available on the Internet for use by colleagues and students,” “Criminalize the transfer of information that is currently protected under the U.S. ‘fair use’ doctrine,” and “Chill free speech in universities and

vicarious and contributory infringement, most prominent of which is the Supreme Court's *Sony* decision.

It also includes a "relief valve" provision that says that a court does not have to follow the letter of the provision if that would result in an unjust decision. As I have noted in my treatise,<sup>69</sup> the "fair use" provision<sup>70</sup> plays a similar role in copyright law, and is useful since judges do not have to come up with strained interpretations that can be problematic in future cases in order to avoid an injustice based on the facts of the cases before them.

### ***The standard for inducement***

The second paragraph's language is clearly based on the inducement language in the patent statutes: "Whoever actively induces infringement of a patent shall be liable as an infringer."<sup>71</sup> But there are significant differences. First, S.2560 requires that the inducement be "intentional" while the standard in the patent statute is "actively." But as noted previously, courts have also required that the inducement must be "knowingly." Hopefully, the legislative history for any bill will clarify whether "intentional" differs in any material way from "actively and knowingly."<sup>72</sup>

While there may be some advantage to having the language precisely track the language of the patent statute, so that the decisions interpreting the patent statute also give meaning to the new copyright provision, that advantage is essentially illusory. First of all, for the last two decades the patent statute has been interpreted by the Court of Appeals for the Federal Circuit, whose decisions are not binding on the other circuit courts of appeal that hear copyright cases.<sup>73</sup> The extent that a Federal Circuit opinion is persuasive in helping another circuit court in interpreting the new provision need not depend on whether the language of the two statutes is identical.

But more importantly, there are substantial differences between patents and copyrights that can be significant when interpreting the language. Just as I noted previously that it is rare to find a reproduction or distribution device that does not have a substantial use that does not infringe copyright, that is certainly not the case for patents. And while inducement of patent infringement will most often be directed at a particular patent or group of patents, the inducement of copyright infringement by the "file sharing" systems is directed toward musical works in general.

*Chisum on Patents*, a major treatise on patent law, indicates that the knowledge standard for inducement is anything but clear.<sup>74</sup> The legislative

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research labs." In the almost-seven years since the NET Act has been law, it is hard to see any of that occurring.

<http://www.acm.org/usacm/copyright/usacm-hr2265-letter.html>.

<sup>69</sup> <http://digital-law-online.info/lpdi1.0/treatise13.html#secII.1.2>.

<sup>70</sup> 17 U.S.C. §107.

<sup>71</sup> 35 U.S.C. §271(b).

<sup>72</sup> There is an odd thing that could happen if Congress simply used the language of the patent statute by using "actively." It could be argued that because Congress was aware that "knowingly" was how the patent statute was interpreted but declined to include it in the bill, it was Congress's intent *not* to have the "knowingly" standard in the new law.

<sup>73</sup> Even the Federal Circuit will use the copyright law of the circuit for the district court when it hears an appeal that has both copyright and patent aspects.

<sup>74</sup> §17.04[2]. "The decisions leave doubt as to the 'intent' requirement's meaning for active inducement of infringement."



history should make it clear what intent or knowledge needs to be shown. Is it knowledge or intent that a particular work will be infringed, or a more general knowledge that infringement will result?

But of more concern is Chisum's comment that "One troublesome area in the relationship between Sections 271(b) and 271(c) is the sale of a *staple* item within the specific exemption stated in Section 271(c). Can such a sale constitute active inducement under Section 271(b)?"<sup>75</sup> One hopes that there would not be such a problem for inducement of copyright infringement, since inducement is being considered in exactly that case – where there is not contributory infringement because the technology has a substantial noninfringing use.

All in all, adopting the language of the patent statute, appropriately modified for copyrights, and the associated court decisions does not provide great advantages.

### ***How intent can be shown***

Besides giving a number of synonyms for inducement, all well-know in the law, the first paragraph makes it clear that an inducer can't avoid liability simply by trying to remain ignorant – "intent may be shown by acts from which a reasonable person would find intent to induce infringement based upon all relevant information about such acts then reasonably available to the actor, including whether the activity relies on infringement for its commercial viability." This is in line with circumstantial evidence being sufficient to show an intent to induce patent infringement, as discussed previously.

It also indicates a particularly telling factor when looking at the circumstantial evidence – whether a commercial activity, presumably trying to make a profit for its owners, has little or no economic viability unless it can attract users who will infringe copyrights. This factor is not the only one to consider, or even determinative, since "*all* relevant information" must be considered by the court. But it does indicate a significant difference between the "file sharing" systems that can only receive the advertising revenue they do because of the vast infringement by their users and legitimate devices like the Apple iPod or the Sony Betamax, which would have had at least some commercial success even without copyright infringement.

If there are other factors that are as telling as the one indicated, they should also be listed, much like "fair use"<sup>76</sup> includes four factors that should be considered, and the "cybersquatting" statute<sup>77</sup> indicates nine possible factors.

### **Alternatives to S.2560's language**

S.2560 has raised a great deal of concern in technology companies. They had felt that as long as they could think of some plausible noninfringing use for their technology, and they did not exercise the control needed for vicarious copyright infringement, they could do whatever they wanted and not worry about liability for the copyright infringement of their users. As noted earlier, that was likely the case only because copyright owners were thinking only about contributory and vicarious infringement and not inducement. That is

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<sup>75</sup> §17.04[3]. (Emphasis in the original.)

<sup>76</sup> 17 U.S.C. §107.

<sup>77</sup> 15 U.S.C. §1125(d).

clearly no longer the case, and one can expect inducement to be a part of most complaints of indirect copyright infringement, regardless of what happens with S.2560.

Many want the language of S.2560 changed so that it is clear that even if all the facts are viewed most favorably for the copyright owner (the standard for summary judgment), they would not be found to have induced infringement.

### ***Direct infringement is often unclear***

It is unlikely that such language can be found, in large part because direct copyright infringement is far from clear in many digital settings. As I noted in my treatise,<sup>78</sup> none of the Section 106 exclusive rights<sup>79</sup> cleanly cover the act of making a work available to others on the Internet. Intermediate copies necessary for the legitimate use of a work and backup copies of disk information would not have to depend on a “fair use” argument.<sup>80</sup> It is hard to have clear advice on whether something is inducement if you aren’t sure if there is even direct infringement.<sup>81</sup>

But this lack of clarity regarding direct infringement doesn’t have to work against technology developers. S.2560 requires *intentional* inducement, and the legislative history should make it clear that if it were truly the case where it is not known whether there is direct infringement or not, there can’t be an intention to induce infringement. Only in cases where direct infringement is clear, such as the unauthorized worldwide distribution of thousands of songs by a user, should intent to induce that infringement be found.<sup>82</sup>

### ***Possible exceptions to liability***

Some have proposed that exceptions to indirect liability be included as part of a revised S.2560. IEEE-USA, a technical society of computer and electronics developers, has suggested that “manufacture, distribution, marketing, operation, sale, servicing, or other use of embodiments of an otherwise lawful technology by lawful means, with or without the knowledge that an unaffiliated third party will infringe, cannot constitute inducement of infringement ... in the absence of any additional active steps taken to encourage direct infringement.”<sup>83</sup> The Business Software Alliance wants any bill not to “create liability based on advertising or providing support to users, including instructions for using the technology or service provided through manuals or

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<sup>78</sup> *Legal Protection of Digital Information* (BNA Books, 2002). See, in particular, Ch. 3.I.B, “Copyright Laws are a Bad Fit,” pp. 137-150.

<http://digital-law-online.info/lpdi1.0/treatise30.html#secI.B>.

<sup>79</sup> 17 U.S.C. §106.

<sup>80</sup> 17 U.S.C. §117(a) provides a special exception for “computer programs,” but that exception is available only to the “owner of a copy.” Most software vendors claim users are licensees rather than owners, based on a shrink-wrap or similar license.

<sup>81</sup> Given how heated debates over changes to the copyright statutes have become, it is unlikely that Congress would be able to clarify direct copyright infringement in the digital world in the time of S.2560. But it should not continue to ignore the problem, indicating that it will be considering it and perhaps creating a blue-ribbon commission (like CONTU in the late 1970’s) to study the matter and propose legislation.

<sup>82</sup> It is much easier to know when there is direct infringement of a patent, since the scope of protection for a patent is defined by its claims, and there are not doctrines such as “fair use” to excuse what would otherwise be infringement.

<sup>83</sup> <http://www.ieeeusa.org/forum/POLICY/2004/072204.pdf>.

handbooks, nor by providing assistance for using a product through a company's on-line help system or telephone help services.”<sup>84</sup>

One critic expands on the IEEE-USA suggestion by excluding infringement of the reproduction right (and the making of derivative works) from inducement liability.<sup>85</sup> Combined with a broad “substantial noninfringing use” exception for contributory infringement, only vicarious liability would remain for anybody producing reproduction technology even if they were intentionally promoting its infringing use.

A proposal by a number of groups<sup>86</sup> provides even more exceptions and undefined terms,<sup>87</sup> including this complete exemption from liability:

A person who is not a distributor of a computer program that is specifically designed for use by individuals to engage in the indiscriminate, mass infringing distribution to the public of copies or phonorecords of copyrighted works over digital networks shall not be liable under paragraph (1) [a limited definition of inducement] notwithstanding any contribution to or benefit from such distribution. By way of example and not limitation, providing—

(i) venture capital, financial assistance, payment services, or financial services, ...<sup>88</sup>

So, there is an exemption from inducement liability “notwithstanding any contribution to or benefit from” a distribution of a computer program to induce infringement. It's not hard to see how people wanting to continue profiting from widespread copyright infringement will structure their businesses so that the profits end up in a company that provides “venture capital, financial assistance, payment services, or financial services” to shell corporations that do the actual inducement.<sup>89</sup>

Before creating exceptions to inducement, one should remember why we are looking at inducement in the first place – the “file sharing” systems have taken advantage of perceived loopholes in copyright law to profit from the music of others. Rather than copy and distribute the music itself, Napster encouraged millions of users to infringe music copyrights.<sup>90</sup> When Napster was shut down because the court found contributory and vicarious infringement, the lesson learned by companies like Grokster and Aimster was not that they shouldn't be aiding and abetting copyright infringement, but that they should configure their system so it doesn't seem like they have control. A lawyer for the Electronic

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<sup>84</sup> [http://judiciary.senate.gov/testimony.cfm?id=1276&wit\\_id=3750](http://judiciary.senate.gov/testimony.cfm?id=1276&wit_id=3750).

<sup>85</sup> <http://www.corante.com/importance/archives/005287.php>.

<sup>86</sup> <http://www.publicknowledge.org/content/legislation/leg-alt-lang-induce/attachment>.

<sup>87</sup> Such as the qualifier “mass, indiscriminate” which occurs throughout the proposal.

<sup>88</sup> Proposed §501(g)(3)(C).

<sup>89</sup> One only has to look at the series of shell and offshore corporations behind Kazaa for an example of how such a business might be structured exploit this loophole. See *MGM et al. v. Gorkster et al.*, 243 F.Supp 1073, 1080-1081, 65 USPQ2d 1545, 1548.

<sup>90</sup> For distributing songs, it makes little technical sense to use poorly-produced files from user computers with slow network connections rather than high-quality versions from fast servers, but this was tried by mp3.com and they were held to infringe. See *UMG Recordings Inc. v. MP3.com*, 92 F.Supp.2d 349, 54 USPQ2d 1668 (SD NY 2000).

Frontier Foundation (EFF) has advised peer-to-peer developers to design their systems so that they have a level of “plausible deniability” of whether they know infringement is taking place.<sup>91</sup>

It is not hard to see the “file sharing” system operators saying that what they are doing is “marketing,” “operation or use of an otherwise lawful technology,” “advertising,” “providing manuals or handbooks,” “providing assistance,” or whatever terms are used in any exceptions as a way to continue to avoid liability for the copyright infringement they induce.

It is far better to provide factors that the court should consider in determining whether there is intentional inducement or not, than to provide hard exceptions that will provide the roadmap for avoiding liability.

### **Possible uncertainties**

While businesses would like certainty regarding the consequences of a business plan or act, there are many instances besides possible inducement of copyright infringement where they face uncertainty. They have to evaluate whether they will infringe copyrights, patents, trade secrets, and trademarks. They may have to determine they comply with tax, zoning, employment, and other laws, especially if they are trying to do something that is not black-and-white.

And unless the exceptions being proposed are interpreted so broadly that virtually any act falls under them, all they do is shift the focus of possible litigation from “intentional inducement” to the secondary issues of what is “marketing,” “advertising,” “a manual,” or whatever term is used in the exception.

If there really is a problem with this new uncertainty, there are ways to address the problem without putting in exceptions that provide the roadmap for those wanting to continue their improper activities. For example, if it is not clear what the tax treatment for a particular transaction is, a taxpayer can get a private ruling from the IRS indicating how the IRS will treat the activity based on the facts provided by the taxpayer. Perhaps there should be some way of getting an advisory opinion from an administrative agency,<sup>92</sup> which would not be binding on the courts in future litigation, but would negate “intent” for inducement and “willfulness” for criminal copyright infringement.<sup>93</sup>

### **Harassing litigation**

Critics of S.2560 also express concern that its broad language will be used by people to harass others through litigation brought in bad faith. That’s certainly not something unheard of.<sup>94</sup> In part, that concern is addressed by the

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<sup>91</sup> [http://www.eff.org/IP/P2P/p2p\\_copyright\\_wp.php](http://www.eff.org/IP/P2P/p2p_copyright_wp.php).

<sup>92</sup> The logical agency would be the Copyright Office, but because it is part of the legislative branch, there may be constitutional questions regarding whether it should be playing a quasi-judicial function. An alternative may be the Commerce Department, which has an Under Secretary for Intellectual Property (who is also the director of the United States Patent and Trademark Office).

<sup>93</sup> The court could find that the act induces copyright infringement and enjoin it in the future, since after the ruling the defendant would know that the act induces infringement and so any continuation would be intentional inducement. But before that, there would be no damages because there was no *intentional* inducement.

<sup>94</sup> See, for example, *Religious Technology Center v. Netcom*, 907 F.Supp. 1361, 37 USPQ2d 1545 (ND CA 1995).

“fee shifting” provision in the copyright statutes,<sup>95</sup> which allows the prevailing party to recover its litigation costs including attorney’s fees.<sup>96</sup> If that is not sufficient, or the sanctions available under Rule 11 of the Federal Rules of Civil Procedure are not available, Congress should amend Section 505 to allow the court to impose sanctions in the event that copyright litigation is brought in bad faith.

### **Remedies available**

IEEE-USA has also proposed that the damages (really, remedies, since they also include injunctions) for intentional inducement be severely limited from those of other forms of copyright infringement.

(5) Damages for violations of section (g)(1) of this section [inducement] shall be limited to an injunction against inducement, and actual damages for infringement of a work for which the defendant had specific and actual knowledge the work would be infringed.

It is unlikely that companies like Napster or Grokster or Aimster “had specific and actual knowledge” before some user started distributing a particular song that “*the work* would be infringed.” They didn’t want their users to be sharing a specific work. They wanted their users to share a wide variety of works, including current hits, so that anyone coming to their system would likely find the song they wanted. New releases may not even exist at the time of the inducement, yet the “file sharing” companies clearly want their users to be making such songs available.

But while actual damages would be difficult to compute, statutory damages<sup>97</sup> are a better fit to the classic infringer who is making a large number of copies of a small number of works than for “file sharing” situations where users are distributing a thousand of more different works, and the overall system may involve hundreds of thousands of works. Even at the minimum statutory damages of \$750 per song, the liability for inducing the infringement of 100,000 songs would be \$75 million.<sup>98</sup>

Congress may want to look at statutory damages to determine if they are reasonable in a “file sharing” context or whether they instead hinder infringement suits because the damages are viewed as draconian. Perhaps some form of “small claims” alternative to a full-fledge copyright infringement suit may be more suitable for actions against “file sharing” users.

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<sup>95</sup> 17 U.S.C. §505.

<sup>96</sup> As with many things in the copyright statutes, there is a problem with the language as it relates to another section. 17 U.S.C. §412 says that no award under §505 can be made unless the infringed work was registered in a timely fashion (for published works, within three months of publication). A person bringing a bad faith suit could hold up registering until three months has passed, register the work in order to bring suit, and then after losing say that no costs or attorney’s fees can be awarded.

<sup>97</sup> 17 U.S.C. 504(c).

<sup>98</sup> As the current suits against users by the RIAA have made clear, statutory damages are also a poor fit for the direct infringement by a user. A user making a thousand songs available could be liable for statutory damages of up to \$150 million if the infringement were found willful. On the other hand, the maximum statutory damages for making and selling a million bootleg copies of a movie would only be \$150,000.

Even an injunction can be ineffective. It would not simply tell the inducer to stop inducing, but would instead have to indicate some specific conduct that must be stopped. It could be that the defendant is willing to stop that conduct because it has already had the desired effect, and if damages for past conduct are not readily available there is little consequence for the inducement. Or, those found to induce could modify their conduct so that they are outside the letter of the injunction but not its spirit.<sup>99</sup>

### **Codifying contributory and vicarious infringement**

Many have expressed concern that S.2560 overturns *Sony*. *Sony* did not address liability for inducement of copyright infringement, since the Court felt that *Sony* had not induced infringement. But, in Footnote 19, the Court did seem to indicate at least one form of behavior that might be inducement:

Sony certainly does not “intentionally induce” its customers to make infringing uses of respondents’ copyrights, nor does it *supply its products to identified individuals known by it to be engaging in continuing infringement of respondents’ copyrights.*<sup>100</sup>

So adding inducement to the copyright statutes in any form does not overturn *Sony* as long as substantial noninfringing use remains a defense to contributory copyright infringement. And by its language, S.2560 doesn’t “enlarge or diminish the doctrines of vicarious and contributory liability for copyright infringement.”

But, because of the confusion over the language of indirect copyright infringement<sup>101</sup> and the uncertainty to the scope of *Sony* beyond devices that are sold to end users and there is no further involvement by the manufacturer, it would be good if language were added to S.2560 to indicate the metes-and-bounds of contributory and vicarious infringement.<sup>102</sup>

The formulation of vicarious infringement in the Ninth Circuit’s *Fonovisa* decision<sup>103</sup> provides a good starting point. The biggest question will be what the scope of the “staple article” exception to contributory copyright infringement should be. Should it include only “articles,” as was the case in *Sony*, or should it be expanded to include “technologies,” as used in the law professors’ amicus brief in *Grokster*.<sup>104</sup> Should services be included, even though there is an

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<sup>99</sup> This is not a hypothetical concern. In at least two copyright cases the defendants were ordered to remove material from their web sites, and their response was to remove the material to literally comply with the courts’ orders but then modified their web sites to include links to the same material on other sites. See *Universal City Studios Inc. v. Reimerdes*, 111 F.Supp.2d 294, 55 USPQ2d 1873 (SD NY 2000) and *Intellectual Reserve v. Utah Lighthouse Ministry*, 75 F.Supp.2d 1290, 53 USPQ2d 1425 (DC UT 1999).

<sup>100</sup> 464 U.S. at 439, 220 USPQ at 677. (Emphasis added.) That sounds very much like what some “file sharing” companies are doing.

<sup>101</sup> For example, the *Gershwin* court lumped inducement into contributory infringement, as did the Supreme Court in *Sony*. The *Sony* opinion also uses “vicarious liability” to mean liability for indirect infringement.

<sup>102</sup> In her testimony supporting S.2560, Register of Copyrights Marybeth Peters indicated the desirability of legislative clarification of the standards for contributory infringement.

<http://www.copyright.gov/docs/regstat072204.html>.

<sup>103</sup> *Fonovisa Inc. v. Cherry Auction*, 76 F.3d 259, 37 USPQ2d 1590 (9th Cir. 1996).

<sup>104</sup> [http://www.sims.berkeley.edu/~pam/papers/Grokster\\_Law%20Prof%20brief.pdf](http://www.sims.berkeley.edu/~pam/papers/Grokster_Law%20Prof%20brief.pdf).

element of continuing control in a service since the infringement can be stopped by no longer providing the service.<sup>105</sup>

## Conclusion

There is no reason to believe, either from the opinion in *Sony* or from the discussions between the justices as it was being decided, that the Supreme Court intended to have a test for contributory copyright infringement that was a nullity. But that is essentially the gist of its test – there is no contributory infringement if there is any substantial noninfringing use. And for virtually any reproduction device, there are noninfringing uses.

But as it was importing indirect infringement language from the patent statutes into copyright law, the Court noted that one can also be liable as an indirect infringer if one induces the infringement of another. This was also the case for contributory copyright infringement before *Sony*. In helping to resolve whether someone is providing tools that are being used in copyright infringement, it may be useful to look at whether the provider of the tools is actively aiding and abetting the copyright infringement, and is therefore liable as an inducer.

It may be desirable for Congress to amend the copyright statutes to clarify inducement liability in copyright law, much as Congress codified inducement and contributory infringement in the Patent Act of 1952. In doing so, there are a number of things Congress should keep in mind.

- Not only should inducement be codified, but also contributory and vicarious infringement, so that it is clear what the scope of each is.
- The *Sony* exception for articles with substantial noninfringing uses should be preserved, but apply only to contributory infringement.
- Other exceptions should be avoided, so that loopholes are not inadvertently created.

While there is likely not enough time remaining in the 108th Congress, the following issues should be addressed in the next Congress:

- If bad faith litigation is being brought under copyright law, appropriate sanctions should be added to Section 540's cost-shifting provisions. In addition, Section 412 should be amended so that it applies only to copyright owner plaintiffs rather than defendants who are not in a position to timely register a work but may be prevented from getting costs and attorney's fees.
- Section 117 should be amended so that it conforms to current practices for software ownership and file system backups.
- The scope of direct infringement for works being made available on the Internet should be clarified.
- Statutory damages should be adapted for those instances where a few copies are made of a large number of works, as is the case of users "sharing" songs.
- A procedure for advisory opinions regarding possible copyright infringement, much like IRS letter rulings, should be examined so that businesses can limit their liability in unclear situations.

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<sup>105</sup> See *A&M Records v. Napster*, 239 F.3d 1004, 57 USPQ2d 1729 (9th Cir. 2001).