

“Sony Revisited,” Revisited

Another look at the paper that presaged *Grokster* and inducement liability

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The most current revision of this paper is available at
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Foreword

In April 2004, I finished the first draft of the paper “*Sony Revisited: A new look at contributory copyright infringement.*” At that time, about the only mention of inducement with respect to copyright infringement was to quote from *Gershwin* – “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.”¹

Fourteen months later, that had changed substantially. Based in part on an early draft of my paper, the Induce Act² was introduced on June 22, 2004. Just before then, on June 6th, I had placed a copy of the paper on the Internet. The August 26th version of the paper was augmented to discuss the Induce Act and the various comments made and alternatives proposed. The paper also was the basis for the amicus brief I filed with the Supreme Court in *Grokster*.

And on June 28, 2005, the Court unanimously held:

For the same reasons that Sony took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.³

Here’s the paper that revitalized inducement. This is essentially the June 6th version, with some corrections and with the paragraph from the August 26th version that indicates that “Liability for inducement exists, in some form, for all other types of intellectual property protection.” And I have added some

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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, Tom Sydnor, and Steve Tepp also made excellent suggestions, but any opinions or conclusions are solely my own.

¹ 443 F.2d 1159, 1162, 170 USPQ 184-185 (2d Cir 1971).

² Inducing Infringement of Copyrights Act of 2004, S. 2560, 108th Congress.

³ *MGM v. Grokster*, 545 U.S. ____ (slip opinion at 19), 75 USPQ2d 1001, 1012 (2005).

ideas of what might happen next, based on suggestions in my amicus brief, following the original paper.

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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 Constitution⁴ and the copyright statutes⁵ 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 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

⁴ “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).

⁵ 17 U.S.C. §106.

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,⁶ 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.⁷ 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.⁸ 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 make it harder to detect the infringement – such as going to a system that is harder to monitor.⁹

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,¹⁰ 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

⁶ 17 U.S.C. §512(h).

⁷ *RIAA v. Versizon 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.

⁸ 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.

⁹ See *In re Aimster Copyright Litigation*, 335 F.3d 453, 67 USPQ2d 1225 (7th Cir. 2003).

¹⁰ *A&M Records v. Napster*, 239 F.3d 1004, 57 USPQ2d 1729 (9th Cir. 2001).

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.”¹¹

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.¹² 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.¹³

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*,¹⁴ based on a limitation on contributory infringement created by the Supreme Court in its *Sony*¹⁵ decision.

Behind the scenes at Sony

With Justice Blackmun’s papers now publicly available at the Library of Congress,¹⁶ it is possible to see how the *Sony* opinion developed through the drafts that were circulated to the justices and their written communications.¹⁷

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,¹⁸ indicating that he was going to be writing a dissenting opinion. His

¹¹ 443 F.2d 1159, 1162, 170 USPQ 184-185 (2d Cir 1971).

¹² 17 U.S.C. §106.

¹³ H.R. Rep. No. 94-1478 at 61.

¹⁴ *Metro-Goldwyn-Mayer Studios v. Grokster*, 259 F.Supp.2d 1029, 66 USPQ2d 1579 (DC CD CA 2003), *affirmed* 380 F.3d 1154, 72 USPQ2d 1244 (9th Cir. 2004).

¹⁵ *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 220 USPQ 665 (1984).

¹⁶ The collection became available on March 4, 2004, five years after his death.

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

¹⁷ 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*.

¹⁸ Letter of January 24, 1983 from Justice Stevens to Justice Blackmun.

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).¹⁹

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.²⁰ On one hand, he disagreed with Justice Stevens that Congress intended any broad exemption for all cases of private, noncommercial, single-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,²¹ and Justice Stevens agreed to recast his memorandum into an opinion taking Justice Brennan's position.²²

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

¹⁹ 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.

²⁰ Letter of June 14, 1983, from Justice Brennan to the Conference.

²¹ Letter of June 17, 1983, from Justice White to Justice Brennan.

²² Letter of June 17, 1983, from Justice Stevens to Justice White.

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.²³

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 an 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. 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.²⁴

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.

²³ 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.

²⁴ 464 U.S. at 440, 220 USPQ at 677.

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.²⁵

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.²⁶ 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.²⁷

In contrast, the patent statutes provide only a very limited statutory exception for patent infringement by the required testing of a drug.²⁸ 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."²⁹

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

²⁵ 464 U.S. at 441, 220 USPQ at 678.

²⁶ The "fair use" doctrine is codified in the Copyright Act of 1976 at 17 U.S.C. §107.

²⁷ 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.

²⁸ See 37 U.S.C. §271(e).

²⁹ *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.

brief, clearly pointed out that any unauthorized use of a patented invention is an infringement because there is no “fair use.”³⁰

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.³¹

“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,³² 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”³³ – 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 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.”³⁴

³⁰ Amicus Brief of the Motion Picture Association of America, at 20.

³¹ Letter of June 21, 1983, from Justice Blackmun to Justices Powell and O’Connor.

³² *Fonovisa Inc. v. Cherry Auction*, 76 F.3d 259, 37 USPQ2d 1590 (9th Cir. 1996).

³³ *A&M Records v. Napster*, 239 F.3d 1004, 1022, 57 USPQ2d 1729, 1741 (9th Cir. 2001).

³⁴ 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

(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.³⁵ 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.³⁶

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.³⁷ Libraries can make a single copy of a work in certain circumstances.³⁸ A computer program can be duplicated to create an archive copy.³⁹ Judge Posner, in his *Aimster* opinion, lists a variety of possible noninfringing uses.⁴⁰ 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 infringement⁴¹) 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.”

any case, the *Sony* opinion gives two uses – authorized copying and “fair use” time shifting.

³⁵ See 464 U.S. at 443-447, 220 USPQ 678-680.

³⁶ 464 U.S. 441 fn 21, 220 USPQ 677 fn 21.

³⁷ See 17 U.S.C. §§107-122.

³⁸ 17 U.S.C. §108(a).

³⁹ 17 U.S.C. §117(a).

⁴⁰ *In re Aimster Copyright Litigation*, 334 F.3d 643, 652-653, 67 USPQ2d 1233, 1240-1241 (7th Cir. 2003).

⁴¹ 35 U.S.C. §271(c).

No “bright line” rule

In an amicus brief⁴² to the Ninth Circuit Court of Appeals in the appeal of the *Grokster* decision,⁴³ 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,⁴⁴ while in another case, the copying of a work in its entirety was a fair use.⁴⁵ 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,⁴⁶ 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 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

⁴² http://www.sims.berkeley.edu/~pam/papers/Grokster_Law%20Prof%20brief.pdf.

⁴³ *MGM Studios v. Grokster*, 259 F.Supp.2d 1029, 66 USPQ2d 1579 (DC CD Ca 2003).

⁴⁴ *Harper & Row v. Nation Enterprises*, 471 U.S. 539, 225 USPQ 1073 (1985).

⁴⁵ *Sega v. Accolade*, 977 F.2d 1510, 24 USPQ2d 1561 (9th Cir. 1992).

⁴⁶ *Fonovisa Inc. v. Cherry Auction*, 76 F.3d 259, 37 USPQ2d 1590 (9th Cir. 1996).

and outside of a technical analysis of the doctrine of vicarious copyright infringement.⁴⁷

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.⁴⁸

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.

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.⁴⁹

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

⁴⁷ *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*.

⁴⁸ 464 U.S. 434-435, 220 USPQ 675.

⁴⁹ Sen. Rep. No. 82-1979, H.R. Rep. No. 82-1923, 1952 U.S.C.C.A.N. 2394, 2421.

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.⁵⁰

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.⁵¹

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*,⁵² 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.”⁵³ (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.

Liability for inducement exists, in some form, for all other types of intellectual property protection. In addition to the patent statutes,⁵⁴ inducement is specifically addressed in the Semiconductor Chip Protection Act⁵⁵ and the Vessel Hull Design Protection Act.⁵⁶ The Supreme Court has found inducement

⁵⁰ *Moleculon Research v. CBS*, 793 F.2d 1261, 229 USPQ 805 (Fed. Cir. 1986).

⁵¹ 464 U.S. at 439, 220 USPQ at 677.

⁵² *Gershwin Publishing v. Columbia Artists Management*, 443 F.2d 1159, 170 USPQ 182 (2d Cir. 1971).

⁵³ Letter of June 21, 1983, from Justice O’Connor to Justice Blackmun.

⁵⁴ 35 U.S.C. §271(b), discussed previously.

⁵⁵ “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.

⁵⁶ “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).

liability for trademarks.⁵⁷ And the Uniform Trade Secrets Act treats inducement as one of the improper means for misappropriating a trade secret.⁵⁸ 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*,⁵⁹ 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 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.⁶⁰

While he doesn't use the term "inducing infringement," note the comparison to aiding and abetting infringement, the same terms the legislative

⁵⁷ "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.

⁵⁸ "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).

⁵⁹ *In re Aimster Copyright Litigation*, 334 F.3d 643, 67 USPQ2d 1233 (7th Cir. 2003).

⁶⁰ 334 F.3d at 645, 67 USPQ2d at 1236.

history uses to 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.⁶¹

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.⁶²

Furthermore, the inducement must be tied to a direct infringement related to the inducement.⁶³ 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

⁶¹ 334 F.3d at 651, 67 USPQ2d at 1239-1240 (citations omitted).

⁶² *Water Technologies v. Calco*, 850 F.2d 660, 668, 7 USPQ2d 1097, 1103 (Fed. Cir. 1988).

⁶³ “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).

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.”⁶⁴

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.⁶⁵ 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.⁶⁶ 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.⁶⁷ (Emphasis added.)

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 solution?

While it appears that no new legislation and no change to Supreme Court precedent is necessary to add inducement of infringement to copyright law, a bit of legislation could certainly clarify that. But given the pitched battles that accompany any proposed modification to the copyright statutes, it may be difficult to pass such legislation, although if the legislation were viewed by the parties as simply codifying the status quo, it could have a better chance.

⁶⁴ *Moleculon Research v. CBS*, 793 F.2d 1261, 1272, 229 USPQ 805, 813 (Fed. Cir. 1986).

⁶⁵ *Power Lift v. Lang Tools*, 774 F.2d 478, 227 USPQ 435 (Fed. Cir. 1985).

⁶⁶ 17 U.S.C. §506(a).

⁶⁷ 18 U.S.C. §2(a).

Before getting to indirect infringement of copyright, Congress should clarify how a copyright is being infringed when a song is made available to the world on a file sharing system. As I noted in my treatise,⁶⁸ none of the Section 106 exclusive rights⁶⁹ cleanly cover the act of making a work available to others on the internet. Amending the distribution right, or creating a seventh exclusive right, in line with the WIPO Copyright Treaty's new "Right of Communications to the Public"⁷⁰ may be desirable to clarify how direct infringement occurs when somebody makes a copyrighted work available on a file sharing system.

Since copyright legislation always seems to be a tradeoff between owners' rights and exceptions to those rights, if a public communications right were added to the exclusive rights, it may be reasonable to also add a new exception so that 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.⁷¹ That has necessarily broadened fair use from its traditional "transformative work" rationale and turned it into a "little harm done" exception, with perhaps unintended consequences.⁷² By clearly saying what is permissible, Congress would make it easier to find indirect infringement by those promoting systems that go beyond those permitted acts.

After direct infringement in the digital world has been addressed, the legislation can go on to make it clear that there is liability for indirect infringement, and when it occurs.⁷³

For vicarious infringement and inducement of infringement, that could simply consist of codifying the existing law. The formulation of vicarious infringement in the Ninth Circuit's *Fonovisa* decision⁷⁴ provides a good starting point. For inducement, the provision in the patent statutes⁷⁵ may be sufficient, with the obvious substitution so that it reads "Whoever actively induces infringement of a copyright shall be liable as an infringer." By using the same language, and indicating the desire in the legislative history, the developed law

⁶⁸ *Legal Protection of Digital Information* (BNA Books, 2002). See, in particular, Ch. 3.I.B, "Copyright Laws are a Bad Fit," pp. 137-150 or <http://digital-law-online.info/lpdi1.0/treatise30.html#secI.B>.

⁶⁹ 17 U.S.C. §106.

⁷⁰ ". . . authors of literary and artistic works shall enjoy the exclusive right of authorizing any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access these works from a place and at a time individually chosen by them." WIPO Copyright Treaty, Art. 8.

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

⁷² "It appears that the language of the Copyright Act could lead a court to conclude that, by operation of section 109, copies of works made lawfully under the fair use doctrine may be freely distributed." U.S. Copyright Office, *DMCA Section 104 Report*, August 2001, p. 155 (available at <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf>).

⁷³ It would also clarify the language used, much as the Ninth Circuit tried to do in *Fonovisa* (discussed previously). 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.

⁷⁴ *Fonovisa Inc. v. Cherry Auction*, 76 F.3d 259, 37 USPQ2d 1590 (9th Cir. 1996).

⁷⁵ 35 U.S.C. §271(b).

for inducement of patent infringement can provide a starting point for interpreting the provision.

The biggest question will be what the scope of contributory copyright infringement should be. If it were felt that vicarious infringement or inducement of infringement reaches those promoting copyright infringement, then the *Sony* test can be used, with its exception for substantial noninfringing use. If it were felt that, because of all the exceptions currently in the copyright statutes another test would be a better fit, a test like the one in the Digital Millennium Copyright Act (DMCA)⁷⁶ might be used.

Rather than the general case of someone supplying a device that aids in infringement, the anticircumvention provisions of the DMCA⁷⁷ are concerned with someone who provides the “technology, product, service, device, component, or part thereof” used to circumvent a technological measure that attempts to prevent copyright infringement or access to a copyrighted work. Congress said that the circumvention device must fall into one of three categories before there is a violation.

(A) is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under this title;

(B) has only limited commercially significant purpose or use other than to circumvent a technological measure that effectively controls access to a work protected under this title; or

(C) is marketed by that person or another acting in concert with that person with that person’s knowledge for use in circumventing a technological measure that effectively controls access to a work protected under this title.⁷⁸

The “primarily designed or produced” and “only limited commercially significant purpose or use” tests are different from the “substantial noninfringing use” of *Sony*, and a better approach for circumvention devices. While it is not as definite as proposed by the law professors’ amicus brief, courts have to deal with whether or not something is a primary purpose or is a limited use every day and there is a considerable body of law to help understand the terms in the DMCA.

However, while a primary purpose test may be reasonable for technology used to circumvent a protection mechanism, it may cause problems when applied to general reproduction technology. The primary purpose of a reproduction device like a copier may be one thing at the time of its introduction and another over time. Judge Posner, in *Aimster*, notes that although there was little demand for prerecorded video tapes at the time of the introduction of the Betamax, the widespread availability of such machines led to substantial new market for the film industry.⁷⁹ The *Sony* test allows looking both at the current uses and plausible uses in the future to determine whether a substantial noninfringing use exists. Determining whether supplying a

⁷⁶ Pub. L. 105-304, 112 Stat. 2860 (1998).

⁷⁷ 17 U.S.C. §1201.

⁷⁸ 17 U.S.C. §1201(a)(2).

⁷⁹ *In re Aimster Copyright Litigation*, 334 F.3d 643, 650, 67 USPQ2d 1233, 1238-1239 (7th Cir. 2003).

reproduction device is a contributory infringement based on its primary purpose at the time of its introduction may inhibit the development of future noninfringing uses for the device.

So that an indirect infringer cannot avoid liability by purposefully designing a system to hid any infringement, as was done by *Aimster*,⁸⁰ it may be reasonable for any knowledge requirement for indirect infringement to also include the “in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent” formulation present in the DMCA safe harbors.⁸¹

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.

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What happens now?

While the Supreme Court’s unanimous *Grokster* opinion clearly established that there is liability for inducement of copyright infringement, it certainly did not answer all the questions regarding the metes and bounds of secondary liability.

Because, as I noted above, virtually every technology will be capable of a substantial noninfringing use, material contribution will most likely only be found when there is active participation in the infringement. *Napster*, for example, operated the directory system that was key to users finding a song and infringing its copyright by downloading it. But with inducement now playing its role after the *Grokster* decision, material contribution is far less important for showing liability since it is likely that somebody who knows of the infringement and substantially participates in it will also be inducing or aiding and abetting the direct infringers.

Based on the two concurring opinions, it is clear that the Court is split regarding the extent of secondary liability for contributory infringement. Justices Breyer, Stevens, and O’Connor want to preserve *Sony*’s “capable of substantial noninfringing uses” test, while Justice Ginsburg, Chief Justice

⁸⁰ 334 F.3d at 650, 67 USPQ2d 1239.

⁸¹ 17 U.S.C. §512(c)(1)(A)(ii) and 17 U.S.C. §512(d)(1)(B).

Rehnquist, and Justice Kennedy feel that such a test may produce undesirable results.⁸²

It is likely that material contribution will end up as a theory for secondary liability much like vicarious infringement is – a very particular thing that is pleaded in the alternative with inducement in hopes of providing another reason for the court to find liability.⁸³

So, what is inducement?

While Justice Souter spends an extraordinary number of pages indicating the bad acts of Grokster and Streamcast in the trial record, and concludes that “The unlawful objective is unmistakable,”⁸⁴ the opinion never directly says what constitutes inducement. However, it is not like he was introducing a new term into the law since, as noted above, inducement liability is found in all other forms of intellectual property law and there are numerous cases refining the concept of aiding and abetting an illegal activity.

While it may not give the bright-line rule that some law professors and technologists might want, it is reasonable to let the trial court look at the totality of the circumstances and determine whether there was conduct that warrants liability, rather than provide a roadmap for supporting infringement while skirting liability, as Grokster tried to do when it allowed users to continue the conduct that was found illegal in *Napster* while avoiding what caught that company. Most of these cases are pretty black-and-white, not the grays that make for law review articles.

It is clear that the *Grokster* opinion does not require knowledge of a specific infringement of a particular work. If the inducement relates to an entire class of users infringing copyrighted works in general, one should look to whether a reasonable person, based on all relevant information about the acts of the alleged inducer, would find an intent to induce copyright infringement and would have knowledge of the infringement. As with patent law, “While proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice.”⁸⁵

In Footnote 19 of *Sony*, the Court stated:

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.⁸⁶

⁸² In *Sony*, Justice Stevens wrote the majority opinion, which Justice O’Connor joined, while then-Justice Rehnquist joined the dissent, so this just continues their past positions. Justices Scalia, Thomas, and Souter appear content to avoid the question, most likely a good choice if inducement supplants material contribution as the predominate theory for imposing secondary liability.

⁸³ Vicarious infringement results from “profiting from direct infringement while declining to exercise a right to stop or limit it.” *Grokster*, 545 U.S. ___ (slip opinion at 12), 75 USPQ2d 1001, 1009. Just as for material contribution, it is likely that there will also be inducement when there is vicarious infringement.

⁸⁴ 545 U.S. ___ (slip opinion at 23), 75 USPQ2d 1001, 1014.

⁸⁵ *Water Technologies v. Calco*, 850 F.2d 660, 668 (Fed. Cir. 1988).

⁸⁶ 464 U.S. at 439 n.19.

Sony was not an inducer because it did not know that people were using their VCRs to tape copyrighted television shows, but that it had a good faith reason to believe that conduct such as time-shifting was a permissible fair use under copyright law.⁸⁷ “Inducement” and “aiding and abetting” are active concepts.⁸⁸ The inducement must also be tied to a direct infringement related to the inducement.⁸⁹ But beyond those requirements, inducement has a broad sweep.⁹⁰

But what circumstantial evidence shows inducement? In my amicus brief to the Court in *Grokster*, I indicated four examples:

Reliance on infringement for commercial viability. There is a strong presumption that a system operator who is depending on the infringement of others for the success of a commercial venture (such as being able to attract a large number of users to the file sharing system because of the infringing works present on the system to be able to get sufficient advertising revenue) will be acting to encourage that infringement.⁹¹

This is the example of inducement that is specifically stated in the Induce Act,⁹² although the language of the act makes it clear that it is neither

⁸⁷ That belief was later confirmed by the district court and this Court. As noted by the district court:

Plaintiffs assert, however, that these defendants knew it was likely that people would use the Betamax to record copyrighted works and that this constitutes constructive knowledge. Even assuming that such probability were both accurate and sufficient to create "constructive knowledge" of the recording of copyrighted works, these defendants could not know that this was an infringing activity. Unlike the management agency which knew that the artists would not get a copyright license or the advertising agency whose employee knew that records were being made without paying a compulsory license fee, defendants here could not know what copyright law required. Before this lawsuit, that issue had not been determined. As discussed above, this court finds that home use recording is not an infringement. Even if this finding were incorrect, defendants could not be held responsible for knowing otherwise.

Universal City Studios v. Sony, 480 F. Supp. 429, 460 (DC CD Cal. 1979).

⁸⁸ “Of course inducement has connotations of active steps knowingly taken – knowingly at least in the sense of purposeful, intentional as distinguished from accidental or inadvertent.” *Fromberg, Inc. v. Thornhill*, 315 F.2d 407, 411 (5th Cir. 1963).

⁸⁹ “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 (Fed. Cir. 1986).

⁹⁰ “[Inducement] is as broad as the range of actions by which one in fact causes, or urges, or encourages, or aids another to infringe a patent.” *Fromberg, Inc. v. Thornhill*, 315 F.2d 407, 411 (5th Cir. 1963).

⁹¹ See, for example, *A&M Records v. Napster*, 114 F. Supp 2d 896, 901 (N.D. Cal. 2000). (“Defendant eventually plans to ‘monetize’ its user base. Potential revenue sources include targeted email; advertising; commissions from links to commercial websites; and direct marketing of CDs, Napster products, and CD burners and rippers.”);

See also *In re Aimster Copyright Litig.*, 334 F.3d 643, 651-652 (7th Cir. 2003), cert. denied, *Deep v. Recording Indus. Ass’n of Am., Inc.*, 540 U.S.1107 (2004). “Because Aimster’s software is made available free of charge and Aimster does not sell paid advertising on its Web site, Club Aimster’s monthly fee is the only means by which Aimster is financed and so the club cannot be separated from the provision of the free software.”

⁹² Inducing Infringement of Copyrights Act of 2004, S. 2560, 108th Congress.

necessary nor sufficient for showing inducement. In *Grokster*, the Court noted that the businesses were dependent for their income on the revenues produced by showing advertising to the users at levels that were unlikely without widespread infringement by those users.⁹³

Providing examples to users on how to use a system for copyright infringement. In *Aimster*, the defendant was found to have aided and abetted the copyright infringement of its users by supplying a tutorial giving “as its *only* examples of file sharing the sharing of copyrighted music, including copyrighted music that the recording industry had notified Aimster was being infringed by Aimster’s users.”⁹⁴

In *Grokster*, the Court noted that “From time to time, moreover, the companies have learned about their users’ infringement directly, as from users who have sent e-mail to each company with questions about playing copyrighted movies they had downloaded, to whom the companies have responded with guidance.”⁹⁵

Adding features to a system to conceal the infringement. With the Napster system, it was relatively simple for copyright owners to determine who was infringing by distributing their works to the world.⁹⁶ Aimster providing a method to conceal the identity of the infringer to make itself more attractive to users would clearly be aiding and abetting those users’ infringement by making it difficult or impossible to sue them as direct infringers.

The Court notes, for example, that “StreamCast not only rejected another company’s offer of help to monitor infringement, but blocked the Internet Protocol addresses of entities it believed were trying to engage in such monitoring on its networks.”⁹⁷

Replacing a system that has been found to be contributing to, or inducing, copyright infringement by its users. It is sometimes difficult to determine whether users of a system or device are infringing copyrights. In *Sony*, the district court felt that time-shifting was a permissible fair use, the Ninth Circuit felt it wasn’t, and this Court split 5-to-4 on the issue.

But after a court has found that the users of a system like Napster are direct infringers and shut down that system because its operators were contributory infringers, there should be no question that replacing that system with a new one that provides the same capabilities for the users is aiding and abetting their continuing infringement. And yet that is what the Court observed that *Grokster* and *Streamcast* did.⁹⁸

Inducing unwitting infringement. One clear-cut form of inducement, not discussed in either my brief or the Court’s opinion, is when a file sharing system sets defaults or otherwise configures a user’s client program so that it shares copyrighted files with other users without the user’s knowledge or

⁹³ 545 U.S. ___ (slip opinion at 8), 75 USPQ2d 1001, 1007-1008.

⁹⁴ *In re Aimster*, 334 F.3d at 651 (emphasis in the original).

⁹⁵ 545 U.S. ___ (slip opinion at 5), 75 USPQ2d 1001, 1007.

⁹⁶ The copyright owners could determine the user name or Internet Protocol address of the user making a song available. Under the provisions of the DMCA, 17 U.S.C. 512(h), or as part of an infringement suit, the actual name of the user corresponding to that information could be obtained from the service provider supplying their Internet connection.

⁹⁷ 545 U.S. ___ (slip opinion at 9), 75 USPQ2d 1001, 1008.

⁹⁸ 545 U.S. ___ (slip opinion at 6-7), 75 USPQ2d 1001, 1007.

wishes. Sometimes every file in a “music” folder is shared, whether it got there because it was downloaded from another user or was legitimately placed there by the user. Sometimes, all files on a user’s machine are shared. While most systems have ways for users to indicate that they don’t want to let others copy files from their systems, or limit the folders or files being shared, many systems default to widespread sharing and make it difficult for the user to change from that default.⁹⁹

Foisting such defaults on a user may cause the user to infringe the copyright in a work that they legitimately have through its redistribution, even when they have done nothing to cause that redistribution other than to install the file sharing program with its defaults, and are unaware that they are providing the work to others.¹⁰⁰

File sharing system promoters benefit from such defaults because the more works that are available, the more attractive their systems are. Clearly, getting somebody to infringe the copyright of a work by their unwitting distribution of that work to other users is inducement of copyright infringement.

Virtuous behavior

The Court made it clear that it was not adopting a rule requiring a company to implement schemes to prevent copyright infringement.¹⁰¹ However, if the new service has taken steps to stop or reduce the infringement of its users, that is a strong indication that it is not inducing the infringement of those users, even if some infringement remains.

For example, a number of file-sharing systems are now looking at the use of filters based on digital summaries for copyrighted works to block the transfer of unlicensed works on their system. The Ninth Circuit’s reading of *Sony*, when *Napster* and *Grokster* are compared, provided a negative incentive to such good

⁹⁹ “We discover that the majority of users in our study were unable to tell what files they were sharing, and sometimes incorrectly assumed they were not sharing any files when in fact they were sharing *all* files on their hard drive.” Good and Krekelberg, *Usability and privacy: a study of Kazaa P2P file-sharing* (emphasis in the original).

<http://www.hpl.hp.com/research/idl/papers/kazaa/KazaaUsability.pdf>

¹⁰⁰ Innocent infringement is not a defense to copyright infringement. This is illustrated in the statutory damages scheme, 17 U.S.C. 504(c), where the minimum statutory damages go from \$750 to \$200 per work when it can be shown that the infringer “was not aware and had no reason to believe that his or her acts constituted an infringement of copyright.”

While it could be argued that the user should be blameless because he or she did nothing toward the infringements, that overlooks that the user loaded the file sharing system on his or her computer, quite likely to download a copyrighted song, and did not adequately control the software to prevent the later infringements.

¹⁰¹ “Of course, in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the Sony safe harbor.” 545 U.S. ___ n. 12, 75 USPQ2d 1001 n. 12.

behavior,¹⁰² because any attempt to control illegal user behavior might make a file-sharing service liable as a contributory infringer if it is not completely successful. They would have become active participants in the infringement, even though they were actually trying to reduce it.

Contrary to that perverse result, the revitalization of inducement liability by the Supreme Court rewards virtuous behavior and punishes acts that encourage infringement by others, viewed in light of the entire record and not isolated acts.

Remedies, and a problem

Inducement liability addresses the problem that concerned the Court in *Sony*, noted above, as to whether there was a reasonable remedy available if *Sony* were held to be a contributory infringer. The injunction that the copyright owners were requesting in *Sony* would allow any copyright owner to shut down a new technology, regardless of the wishes of other copyright owners. Awarding damages but not enjoining the distribution or use of the device would essentially be a compulsory royalty, and Congress, not the courts, is the appropriate place to determine the nature of such a scheme for VCR manufacturers and users.

In contrast, an injunction stemming from a finding of inducement would focus on prohibiting the inducing acts. It would order a halt the acts found to be inducing copyright infringement and, if the effects of the inducement would continue even if the inducement is stopped, require some acts to undo the results of the inducement.

However, when we get to assessing damages for past inducement, things are not so simple. The Copyright Act provides for two ways of computing damages, at the discretion of the copyright owner: the copyright owner's actual damages and any additional profits of the infringer, and statutory damages.¹⁰³

In his concurrence in *Grokster*, Justice Breyer discussed the difficulties for a business if the Court were to move away from a bright-line rule on contributory infringement, and in particular the problems for a business trying to assess its position with respect to damages if they are found to be a contributory infringer.

The price of a wrong guess – even if it involves a good-faith effort to assess technical and commercial viability – could be large statutory damages (not less than \$750 and up to \$30,000 *per infringed work*).¹⁰⁴

The problem with statutory damages is not confined to contributory infringement, but is a poor fit for every aspect of “file sharing.”¹⁰⁵ At the time the

¹⁰² There is already a negative economic incentive to implementing filters, because users who wish to continue “sharing” copyrighted works that might be stopped by the filters will go to services that do not filter.

¹⁰³ 17 U.S.C. §504. Statutory damages are only available when there has been timely registration of the work. See 17 U.S.C. §412.

¹⁰⁴ 545 U.S. ___ (slip opinion at 12), 75 USPQ2d 1001, 1022. (Emphasis in the original.)

¹⁰⁵ This is not the only instance where the copyright statutes, which are based on physical objects (“tangible medium of expression”) are a poor fit with the digital world. See “Copyright Laws are a Bad Fit,” in my treatise *Legal Protection of Digital Information*. <http://digital-law-online.info/lpdi1.0/treatise30.html#secI.B>.

Copyright Act of 1978 was being enacted, the most likely infringement, and the one most damaging, was of a small number of works with a large number of copies. There was an overhead associated with infringing each work, such as the setup costs of a printing run, and that effect of that overhead could be minimized only by producing many infringing copies of one or a few works.

In contrast, there is little difference in cost to the infringer using a “file sharing” system between many downloads of a few works and a few downloads of many works, and people making large collections of songs available to the world is the norm. But the consequences in terms of statutory damages of these two different models of infringement is dramatic, because statutory damages are measured by the number of works that are infringed, not the number of infringements.¹⁰⁶ Statutory damages run from \$750 to \$30,000 per work, and up to \$150,000 per work if the infringement is willful. Even if the infringer had no reason to believe that he or she were infringing, the minimum statutory damages are \$200 per work.¹⁰⁷

That means that if the promoter of a file sharing system where a million copyrighted songs are being shared¹⁰⁸ was found to have induced copyright infringement by the system’s users and was assessed statutory damages based on the number of works being infringed by its users, the minimum liability would be \$750 million.¹⁰⁹ Even if that offended a court’s sense of justice, there would be nothing that could be done if the number of works infringed was proved by the copyright owner and statutory damages were elected.

While it may seem like the incredible liability that results from statutory damages is a powerful deterrent against infringement, it may also make it difficult for copyright owners going after users who make large collections of works available to others on file sharing systems. The suits filed by the recording industry have been against users making available many hundreds, or even thousands, of songs, not against users who download songs for their own enjoyment. The stories regarding these suits often indicate how the defendant could be liable for damages of hundreds of thousands, or millions, of dollars.

But even if the user had no reason to believe that his or her activity infringed anybody’s copyright, making 500 songs available would result in a minimum liability of \$100,000, again with nothing that the courts can do to reduce that amount. This is especially troubling when the infringement by the user is unwitting, as discussed above, because he or she simply installed the file sharing program with its defaults and it then redistributed legitimate content from the user’s machine.¹¹⁰

¹⁰⁶ Statutory damages are “with respect to any one work.” 17 U.S.C. 504(c)(1). If the work is a compilation, such as a record album, all the songs on the album may be considered as a single work. *UMG Recordings v. MP3.com*, 109 F.Supp2d 223, 56 USPQ2d 1374 (SD NY, 2000).

¹⁰⁷ The only time when the court does not have to assess these minimum statutory damages is when the infringer had reasonable grounds for believing the infringement was a fair use and was working for a nonprofit educational institution, library, or archive, or a public broadcasting station. See 17 U.S.C. §504(c).

¹⁰⁸ Apple says that its iTunes service contains 1.5 million songs.

¹⁰⁹ The maximum would be \$150 billion.

¹¹⁰ The unwitting user is not entirely blameless in the infringement caused by the worldwide distribution of the copyrighted works. He or she installed the file sharing

It is unlikely that a copyright owner would like to see that result because the negative publicity would far outweigh any deterrent effect on others from such a suit.¹¹¹ It is not surprising that these suits have been settling for a few thousand dollars, an amount that appears to have a reasonable deterrent effect while not being viewed as outrageous.

Congress should revisit the statutory damages provision to see if it is workable in the era of people infringing a large number of works a few times each.

Will Grokster “chill technology”?

Technologists would like to see bright-line rules for determining when there is liability for direct or indirect copyright infringement, and often claim that any test short of a bright-line rule will chill technological development because of uncertainty.¹¹² But that viewpoint fails to recognize that there are many aspects of copyright law that are at best shades of gray.¹¹³ Fair use, for example, depends on the consideration of four broadly-worded factors and the combining of the results with no particular weighting specified in the statute.

One should remember why revitalizing inducement was necessary in the first place: “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.¹¹⁴ 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 should avoid aiding and abetting copyright infringement, but that they should configure their system to avoid an appearance of control.

program on his or her computer, likely to download some copyrighted works from other users. What the user didn't know is that instead of the limited infringement of his or her downloading, he or she was part of a much larger infringement. That likely isn't enough to avoid liability and statutory damages.

¹¹¹ In 1996, ASCAP informed the Girl Scouts that they would have to pay royalties for the performance of songs at their camps. While they were within their legal rights to require licenses for such public performances, the resulting scorn in the press caused them to back off.

¹¹² That is likely a carry-over from computer programming, where the rules are detailed and precise, and where the possibility of something happening, no matter how remote and improbable, must be considered and action against it taken if it would cause a problem. Similar claims of chilling were made during the consideration of the NET Act in 1997 and the DMCA in 1998, but it is amazing how few of the predicted horrors have actually occurred.

¹¹³ This is not limited to copyright law. Other areas of the law, such as antitrust, lack bright-line tests, particularly when considering new technologies, and have more devastating consequences for a company than a finding of indirect copyright infringement.

¹¹⁴ 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 (S.D. N.Y. 2000). With the availability of legitimate systems like iTunes and the new Napster, many users have shifted to those legitimate systems because of their higher quality at a reasonable cost.

Having bright-line rules for inducement will only make it easier for follow-on companies to avoid liability by exploiting loopholes in those rules.

The Court made it clear that liability for inducement should not chill legitimate innovation.

We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential. Accordingly, just as *Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.¹¹⁵

Imposing liability for inducement of copyright infringement may have a chilling effect on those ventures whose actions risk classification as inducement. But not imposing such liability definitely stymies those developing and promoting systems that encourage responsible user behavior. As noted in the brief of the new online music systems asking the Supreme Court to grant certiorari in *Grokster*, it is difficult for royalty-paying suppliers of songs to compete against systems where those same songs are available illegally for free.¹¹⁶ It is equally difficult for developers of new technologies that attempt to reduce infringement to compete against systems that don't restrict users. Yet those are the very developers that need to be encouraged.

Revitalizing inducement as a grounds for secondary liability for copyright infringement will cause some commercial ventures to reevaluate their current activities and perhaps do things differently.¹¹⁷

While system developers try to limit their responsibility for the consequences of their design decisions, either through clauses in shrink-wrap licenses or by advocating overly-expansive readings of exceptions like the "capable of substantial noninfringing uses" test of *Sony*, the harm being caused by spam, viruses, and widespread copyright infringement shows what can happen when developers ignore the problems their technologies can cause or

¹¹⁵ 545 U.S. ___ (slip opinion at 19-20), 75 USPQ2d 1001, 1012. That, of course, depends on some reasonable solution to the statutory damages problem discussed above and not addressed by the Court. Even a low probability that an act will be considered inducement is significant if the statutory damages from that act can exceed a billion dollars.

¹¹⁶ Brief of Roxio, et al. as amicus curiae in support of petitioners.

¹¹⁷ If they do, they will be in good company. One of the first recorded copyright infringement actions was brought against a sixth-century priest who had copied the Psalter of Abbot Fennian of Moville. The Irish king held that he was an infringer, declaring "to every cow her calf and to every book its copy." But his later good works resulted in his canonization, and now St. Columba is a patron saint for the poets and bookbinders who benefit from copyright protection.

take no action to limit the potential for harm. Perhaps some “chill” may encourage technologists to weigh the consequences of their “innovations.”