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# Raise The Yellow Submarine! Subafilms and Extraterritorial Application of the Copyright Act

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# Raise The Yellow Submarine! *Subafilms* and Extraterritorial Application of the Copyright Act

Michael T. Crowley\*

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## INTRODUCTION

International issues have always posed significant problems for U.S. copyright law. Many of these issues were resolved when the United States acceded to the Berne Convention<sup>1</sup> in 1988. However, one needs to look no further than the burgeoning trade conflict with China to see that major challenges in the area of international copyright still remain. On February 4, 1995, the United States decided to slap China with the largest trade sanctions in U.S. history, with tariffs of up to 100 percent on \$1.08 billion worth of Chinese imports.<sup>2</sup> The reason for the stiff measures is the failure of the Chinese government to shut down factories which vigorously pirate U.S. goods. Such unauthorized copying has cost U.S. companies more than a billion dollars in lost revenues over the previous year.<sup>3</sup>

While protecting U.S. manufacturers from overseas pirating can be extremely difficult without an enforceable bilateral copyright agreement, a recent decision from the Ninth Circuit may make enforcement even more troublesome. The decision of the Ninth Circuit in *Subafilms, Ltd. v. MGM-Pathe Communications Co.*<sup>4</sup> ended several years of debate over the extraterritorial application of the U.S. Copyright Act.<sup>5</sup> With the United States now in the midst of controversy over the General Agreement on Tariffs and Trade (GATT),<sup>6</sup> the issues raised by *Subafilms* are particularly relevant. While the United States continues to lose billions of dollars per year to acts of piracy abroad, the Ninth Circuit, by ruling that the U.S. Copyright Act is not effective abroad, has issued a wake up call to Congress. The responsibility lies with Congress to tailor the Copyright Act for extraterritorial application by making a few modest revisions.

This Note briefly examines the history of U.S. copyright law with regard to the international community and will discuss the theories of vicarious and contributory liability and their common origin in the law of torts. This Note then discusses chronologically the copyright cases

1. Berne Convention for the Protection of Literary and Artistic Works, July 24, 1971, S. Treaty Doc. 99-27, 99th Cong. 2d Sess. 37 (1986) 828 U.N.T.S. 221 [hereinafter Berne Convention].

2. Martha M. Hamilton, *U.S. to Hit China With Stiff Tariffs*, WASH. POST, Feb. 5, 1995, at A1.

3. *Id.* at A31.

4. *Subafilms*, 24 F.3d 1088 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 512 (1994).

5. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified at 17 U.S.C. §§ 101-803).

6. General Agreement on Tariffs and Trade, Oct. 30, 1947, TIAS No. 170, 50 U.N.T.S. 187 [hereinafter GATT].

involving extraterritorial application of the Copyright Act. This Note concludes by critiquing the *Subafilms* decision and proposing some changes to the Copyright Act. These changes are in line with the current direction of U.S. copyright law in the international arena and are consistent with existing doctrines of vicarious and contributory infringement.

The *Subafilms* decision, although flawed, highlights a loophole of sorts in U.S. copyright law which, if not addressed, could have potentially devastating effects. This Note does not argue for intervention in the affairs of other sovereign states. It merely calls for changes in the existing copyright law to allow the U.S. government to prosecute would-be pirates who seek to circumvent the law by carrying out their activities abroad. As a nation, we cannot bemoan the lack of protection afforded U.S. works by foreign governments, while excusing illicit activities sanctioned by our own companies.

## I. THE UNITED STATES JOINS THE BERNE CONVENTION

### A. *United States Copyright Law Before 1976*

For most of its first two hundred years of existence, the copyright law of the United States<sup>7</sup> was replete with archaic<sup>8</sup> requirements and formalities, including those of recording, notice, and deposit found in the Copyright Acts of 1790<sup>9</sup> and 1909.<sup>10</sup> Non-U.S. nationals were denied the protection of U.S. copyright law until 1891.<sup>11</sup> Even with the passage of

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7. United States intellectual property law springs from the Constitution. "To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." U.S. CONST. art. I, § 8, cl. 8.

8. I use the term *archaic* because the United States drew heavily upon the Statute of Anne, passed in 1710 and known as the first copyright statute, for most of its provisions including notice, registration, and deposit. Most nations dropped these provisions during the latter half of the nineteenth century, but they remained a part of U.S. copyright law until 1986. See ALAN LATMAN ET AL., COPYRIGHT FOR THE NINETIES 5-7 (3d ed. 1989).

9. Copyright Act of May 31, 1790, ch. 15, 1 Stat. 124, *repealed by* Act of Feb. 3, 1831, ch. 16, 4 Stat. 436.

10. Copyright Act of 1909, ch. 320, 35 Stat. 1075, *repealed by* The Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified at 17 U.S.C. §§ 101-803).

11. The reason for this is probably because the young United States felt the need to "encourage learning" and develop its own culture "by granting incentives to American authors," while pardoning piracy of foreign works. Witness the statement of Sidney Smith in 1820, "[No one] in the four quarters of the globe . . . reads an American book." LATMAN, *supra* note 8, at 7-8 (quoting United Dictionary Co. v. Merriam Co., 208 U.S. 260, 264 (1908)). See also 3 DAVID NIMMER & MELVILLE B. NIMMER, NIMMER ON COPYRIGHT § 17.01[C][1][a] (1995). "During that century foreigners were utterly without rights under U.S. copyright law, and American publishers busied themselves bootlegging the works of Dickens, Trollope, Hugo, et al." *Id.* Of course, this also adversely affected

the 1891 International Copyright Act,<sup>12</sup> foreigners seeking the protection of U.S. copyright law had to comply with the cumbersome requirements of recording, notice, and deposit and were forced to contract with an American business for the manufacture of any book or other work.<sup>13</sup> It was apparent that the name "International" in the 1891 Copyright Act was a misnomer belying ulterior, protectionist motives.<sup>14</sup>

While the copyright law of the United States possessed an isolationist perspective, some European nations began to move toward the adoption of multinational copyright standards. In 1886, a convention took place in Berne, Switzerland that spawned the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention or Convention) and an international copyright union.<sup>15</sup> The Convention was the result of "over 25 years of study and conferences which were undertaken by representatives of authors and artists . . . acting to replace the growing patchwork of European bilateral copyright arrangements with a simple, multilateral treaty respecting authors' rights."<sup>16</sup>

The Berne Convention established "two cardinal principals, both of continuing vitality today."<sup>17</sup> First, it established the formation of an International Copyright Union whose members would function as "a cooperative unit" with a perpetual existence unaffected by any future "accessions or withdrawals."<sup>18</sup> Second, the Convention established the principle of "national treatment," giving foreign authors and artists the same protection for their creations that native authors and artists enjoy, and set minimum standards—baseline copyright protection all nations must provide to Convention claimants.<sup>19</sup> In order to gain protection, the work first had to be recorded in a Union nation before the work was published in a nation that had not acceded to the Convention.<sup>20</sup> The United States,

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American writers who now had to compete with very inexpensive copies of the works of their European counterparts. *Id.*

12. The International Copyright Act of 1891 (Chace Act), ch. 565, 26 Stat. 1106, repealed by Copyright Act of 1909, ch. 320, 35 Stat. 1075.

13. LATMAN ET AL., *supra* note 8, at 7.

14. *Id.*

15. H.R. REP. NO. 609, 100th Cong., 2d Sess. 1-66 (1988), reprinted in PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE, app. 503 (Supp. 1994). See also NIMMER, *supra* note 11, at § 17.01[B][1]. The Convention has been revised at subsequent meetings of its member nations in Paris (1896), Rome (1928), Brussels (1948), Stockholm (1967), and Paris (1971). H.R. REP. NO. 609, at 503.

16. H.R. REP. NO. 609, *supra* note 15, at 504.

17. *Id.* at 504.

18. *Id.*

19. NIMMER, *supra* note 11, § 17.01[B][1].

20. LATMAN ET AL., *supra* note 8, at 8.

with its formalistic copyright requirements, was not one of the Convention's original members.

While the United States stubbornly refused to part ways with the formalities of its copyright law, after the Second World War, Congress recognized the importance of belonging to an international copyright organization. To that end, Congress passed legislation in 1952 ratifying a separate treaty-based organization: the Universal Copyright Convention (UCC). The UCC was an alternative to the Berne Convention, created under the "auspices of the United Nations Educational, Scientific, and Cultural Organization (UNESCO)"<sup>21</sup> to "accommodate the peculiarities of American copyright law, including the use of the familiar copyright '(c)'"<sup>22</sup> and to provide a "simple avenue for protection on the basis of national treatment, with few treaty requirements relating to the level of protection."<sup>23</sup> However, the UCC was created with the full assistance of the "founding members of the Berne Union," and there were safeguards implemented to protect the Berne Treaty from "erosion by the lower level UCC."<sup>24</sup> Both the Berne Convention and the UCC are administered by United Nations organizations; the former through the World Intellectual Property Organization (WIPO), and the latter through UNESCO.<sup>25</sup> The UCC should not be perceived as a direct rival to Berne.<sup>26</sup> Its formation came at a time when it was apparent that the entry of the "United States . . . into the Berne Convention would require major amendments to national copyright laws and, therefore, was not likely in the near future."<sup>27</sup>

Almost immediately following its passage, it soon became apparent that the UCC was only a temporary solution. Starting in 1955, a parade of experts suggested possible revisions in domestic law.<sup>28</sup> These proposed revisions were the subject of ongoing hearings and committee reports starting in 1964<sup>29</sup> and reaching their high-water mark with the passage of

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21. NIMMER, *supra* note 11, § 17.01[B][2] (citing Act of Aug. 31, 1954, Pub. L. No. 83-743, 68 Stat. 1030 (1954)).

22. Ancel W. Lewis, Jr. et al., *Recent Developments in Copyright Law: The Berne Convention*, 22 COLO. LAW. 2525 (1993).

23. *Id.*

24. H.R. REP. NO. 609, *supra* note 15, at 507-08.

25. *Id.* at 506-07.

26. NIMMER, *supra* note 11, § 17.01[B][2].

27. H.R. REP. NO. 609, *supra* note 15, at 507.

28. LATMAN ET AL., *supra* note 8, at 10.

29. *Id.* (providing a chronological examination of the legislative history of the 1976 Copyright Act).

the Copyright Act of 1976 (1976 Act).<sup>30</sup> The revisions contained in the 1976 Act affected numerous aspects of the existing American copyright law, but contained two major modifications. First, federal law was extended to unpublished works, where in the past, claimants had to seek refuge under state copyright law.<sup>31</sup> Second, the 1976 Act protected the works provided they were properly marked at the time of their creation, without compliance with a range of strict statutory formalities.<sup>32</sup>

### *B. The Copyright Act of 1976 and the Berne Convention Implementation Act*

The 1976 Act has three relatively simple requirements for protection: affixing of copyright notice on publicly distributed copies of works<sup>33</sup> and phonorecords,<sup>34</sup> depositing of a certain number of these copies with the Copyright Office,<sup>35</sup> and registering with the Copyright Office.<sup>36</sup> While these claims continued to be a prerequisite for foreign authors and artists to receive copyright protection, they were considerably more lenient than in the past. The reason for this was probably a shift in the way the United States viewed its role in the international community. Congress saw the dangers and difficulties of failing to keep pace with the rest of the world in the protection of intellectual property.<sup>37</sup> The 1976 Act marked the beginning of this shift.<sup>38</sup>

Another important part of the 1976 Act contained the provisions addressing piratical copies.<sup>39</sup> Section 501 of the 1976 Act prohibits the importation of such copies or phonorecords into the United States. Section 602 of the Copyright Act creates two classes of such copies. The first class covers those copies made under circumstances which would violate the copyright law of the United States.<sup>40</sup> The Customs Service may deny entry

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30. The Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified at 17 U.S.C. §§ 101-803).

31. Lewis, *supra* note 22, at 2525.

32. *Id.*

33. 17 U.S.C. § 401 (1994).

34. 17 U.S.C. § 402 (1994).

35. 17 U.S.C. § 407 (1994).

36. 17 U.S.C. §§ 408-10 (1994).

37. LATMAN ET AL., *supra* note 8, at 9-10.

38. Note the language of 17 U.S.C. § 104(a) (1994): "The works specified by section 102 and 103, while unpublished, are subject to protection under this title without regard to nationality or domicile of the author." *Id.* "It can safely be stated that Congress drafted and passed the 1976 act with a 'weather eye' on Berne." H.R. REP. NO. 609, *supra* note 15, at 516.

39. 17 U.S.C. §§ 501 and 602 (1994).

40. 17 U.S.C. § 602(a) (1994).

of this class of copies into the United States.<sup>41</sup> The second class includes those copies made in accordance with the law of the nation in which the reproduction takes place. Such copies cannot be denied entry into the United States, although copyright infringement may still exist if the U.S. distribution rights have not been secured.<sup>42</sup>

The United States finally joined the Berne Convention in 1986 after the passage of the Berne Convention Implementation Act (BCIA).<sup>43</sup> Although there were many reasons for finally acceding to the Convention, three major motivations dominated. First, the UCC had long been regarded as the second-rate multinational treaty organization, because its level of minimum copyright protection was considerably less than that afforded by the Berne Convention.<sup>44</sup> Congress believed that the Berne standards would act as more effective deterrents against “piracy of American works.”<sup>45</sup> Second, the United States realized that its credibility in the formation of “international copyright policy” was significantly weakened by its failure to join the Berne Convention.<sup>46</sup> Former United States Trade Representative Clayton Yeutter wrote, “[I]t is often hard to convince other countries to provide strong copyright protection when we do not belong to the premier international treaty in the area of copyright.”<sup>47</sup> Third, the costs and burdens imposed on American companies using Berne’s “backdoor” provision denied protection to most artists and authors.<sup>48</sup> The “backdoor” provision refers to Article 3(1) of the Berne Convention which extends protection to authors from non-Berne countries if publication occurs simultaneously in the author’s nation, and in a nation belonging to the Convention.<sup>49</sup> However, the substantial expenses associated with using this option made it only available to large U.S. corporations.<sup>50</sup>

Acceding to the Berne Convention has changed “U.S. copyright law

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41. *Id.*

42. 17 U.S.C. § 602(b) (1994). For a thorough discussion of U.S. Customs procedure regarding the importation of pirated copies, see Lawrence M. Friedman, *Protection of Intellectual Property Rights at the Border: Customs Law and Practice*, 19 RUTGERS COMPUTER & TECH. L.J. 429 (1993).

43. Berne Convention Implementation Act, Pub. L. No. 100-568, 102 Stat. 2853 (1988).

44. S. REP. NO. 352, 100th Cong., 2d Sess. 1-51 (1988), reprinted in PAUL GOLDSTEIN, *COPYRIGHT: PRINCIPLES, LAW AND PRACTICE* 575-76 (Supp. 1994).

45. *Id.* at 575-76.

46. *Id.*

47. 134 CONG. REC. 10,323 (1988) (letter of former U.S. Trade Rep. Clayton Yeutter included in statement of Rep. Robert W. Kastenmeier).

48. S. REP. NO. 352, *supra* note 44, at 577-78.

49. Berne Convention, *supra* note 1.

50. S. REP. NO. 352, *supra* note 44, at 577-78.



more than any other single event in its 200-year history."<sup>51</sup> The notice requirement was eliminated as a prerequisite to receiving copyright protection. "At best, marking with a copyright notice only serves to nullify a defense of innocent infringement."<sup>52</sup> Registration was no longer required of foreign authors and artists belonging to the Berne Convention.<sup>53</sup> Recordation of transfers of copyright ownership was dropped completely, but the deposit requirement was retained.<sup>54</sup>

To summarize, the United States has traditionally taken a nationalistic stance toward the development of copyright law, ostensibly to encourage an American culture and its nascent publishing industry. This old attitude changed, but not without substantial resistance in the halls of Congress. The United States now produces the bulk of the world's copyrightable materials. Indeed, it would be difficult to go to the four corners of the world and not find a movie, book, or musical recording created by an American. Congress realized the difficulties created by the failure to accede to Berne and finally changed the existing copyright law to meet its standards.

It is important to note that while the changes made under the BCIA were significant, Congress only altered the 1976 Act enough to merely comply with Berne. For example, the BCIA is not self-executing, meaning that rights found in the copyright laws of other nations cannot merge into the laws of the United States.<sup>55</sup> Also, the provisions of the BCIA are not retroactive. Thus, works created before March 1, 1989, the effective date of the BCIA, are still forced to meet the notice requirement.<sup>56</sup>

The goal of the United States' entry into the Berne Convention was to strike a balance between national values and international harmony in the intellectual property arena. American copyright law is "not primarily for the benefit of the author, but primarily for the benefit of the public."<sup>57</sup> The copyright loophole highlighted by *Subafilms* undermines these national values by allowing American companies who sanction and profit from overseas pirating to avoid the reach of U.S. copyright law. Ultimately, the public loses the benefits provided by the law. It is this philosophy underlying the BCIA that one must keep in mind when analyzing the

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51. Lewis, *supra* note 22, at 2525.

52. *Id.* at 2526.

53. *Id.* The requirement was retained for U.S. authors, but only to gain access to federal courts, not to receive copyright protection.

54. *Id.* At most, a failure to deposit a work will produce a request from the Copyright Office to do so, and then a nominal fine for noncompliance.

55. *Id.*

56. H. REP. NO. 609, *supra* note note 15, at 523.

57. *Id.* at 517.

portions of *Subafilms* which address the role of the United States in the international copyright community.

## II. THIRD-PARTY LIABILITY FOR COPYRIGHT INFRINGEMENT

Liability for copyright infringement comes from the law of tort. Accordingly, doctrines like contributory negligence and vicarious liability have found copyright analogs.<sup>58</sup> However, these doctrines have created confusion when courts have sought to apply them. Before undertaking a discussion of these doctrines, a definition of “direct infringement” is necessary.

An act of infringement occurs when the rights afforded a copyright holder under Section 106 of the Copyright Act have been violated.<sup>59</sup> The owner of such a copyright has the exclusive right to copy,<sup>60</sup> distribute, publicly perform,<sup>61</sup> or display the work,<sup>62</sup> or to authorize any of these acts.<sup>63</sup> Therefore, it naturally follows that one who violates any or all of these rights is a direct infringer.<sup>64</sup> However, through the inclusion of the words “to authorize” in Section 106, Congress recognized the liability of contributory infringers<sup>65</sup>—those who have acted in concert with the direct infringer and knew of the infringing activity.<sup>66</sup>

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58. For a full discussion of these analogs, see NIMMER, *supra* note 11, § 12.04.

59. 17 U.S.C. § 501 (1994). “Anyone who violates any of the exclusive rights of the copyright owner . . . is an infringer of the copyright.” *Id.*

60. 17 U.S.C. § 101 (1994). Copies are defined under the Act as “material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” *Id.*

61. 17 U.S.C. § 101 (1994). “To perform” a work “publicly” means to “perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered,” or to “transmit” a performance to a place open to the public. Performance of an audiovisual work means “to show its images in any sequence or to make the sounds accompanying it audible.” *Id.*

62. 17 U.S.C. § 101 (1994). To “display” an audiovisual work means to “show individual images nonsequentially.” *Id.*

63. This notion of authorization will be discussed extensively in Part III of this Note.

64. An infringer may escape liability using any of the exceptions found in 17 U.S.C. §§ 106-118.

65. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 61 (1975), reprinted in 1976 U.S.C.A.N. 5659, 5674. “Use of the phrase ‘to authorize’ is intended to avoid any questions as to the liability of contributory infringers.” *Id.* The inclusion of “to authorize” also is a recognition of the related doctrine of vicarious liability. NIMMER, *supra* note 11, § 12.04[A].

66. A. Samuel Oddi, *Contributory Copyright Infringement: The Tort and Technology Tensions*, 64 NOTRE DAME L. REV. 47 (1989).

### A. Vicarious Liability

An explanation of the contributory infringement doctrine must be distinguished from the closely related doctrine of vicarious liability. While neither doctrine is codified in the Copyright Act, the courts have long recognized both doctrines,<sup>67</sup> despite the fact that "the boundaries between the two doctrines are often fluid."<sup>68</sup> Copyright infringement based on vicarious liability arises out of the tort doctrine of *respondeat superior*.<sup>69</sup> Thus, copyright infringement is found to exist when "the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyright materials."<sup>70</sup> Furthermore, "[o]ne need not have knowledge that the direct infringer is engaged in infringing conduct to be held vicariously liable."<sup>71</sup> Note that this definition goes beyond the scope of the traditional employer-employee relationship to encompass any situation where a defendant may be liable for merely having control over the primary infringer and has a direct financial interest in his activities.<sup>72</sup>

One example of vicarious liability is when a corporation who owns a television or radio station is "held liable for the airing of an infringing program [because] it had the power to supervise and control the content of infringing programming."<sup>73</sup> If the court determines that the parent corporation did indeed have control, it is not necessary to prove the corporation had knowledge that the radio station was airing infringing shows. Another example is when the owner of a premises where infringing works are being sold is liable for such sales because he has the right to supervise the activity of the manager of the premises and has received rent payments based upon the sale of the infringing activities.<sup>74</sup> A final

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67. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984).

68. *Demetriades v. Kaufmann*, 690 F. Supp. 289, 292 n.5 (S.D.N.Y. 1988). See also NIMMER, *supra* note 11, § 12.04[A] n.12.

69. See NIMMER, *supra* note 11, § 12.04[A][1].

70. *Shapiro, Bernstein, & Co. v. H.L. Green Co.*, F.2d 304, 307 (2d Cir. 1963).

71. *Gershwin Publishing Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1150, 1162 (2d Cir. 1971).

72. NIMMER, *supra* note 11, § 12.04[A][1]. See also *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass'n, Inc.*, 554 F.2d 1213 (1st Cir. 1977).

73. NIMMER, *supra* note 11, § 12.04[A]. See, e.g., *Realsongs v. Gulf Brdcast. Corp.*, 824 F. Supp. 89 (M.D.La. 1993); *Schumann v. Albuquerque Corp.*, 664 F. Supp. 473 (D.N.M. 1987); *Chappell & Co. v. Frankel*, 285 F. Supp. 798 (S.D.N.Y. 1968); *Bevan v. Columbia Brdcast. Sys., Inc.*, 329 F. Supp. 601 (S.D.N.Y. 1965); and *National Ass'n of Performing Artists v. Wm. Penn Brdcast. Co.*, 38 F. Supp. 531 (E.D. Pa. 1941).

74. This is an example of the so-called ballroom cases. See generally *Buck v. Jewell-La Salle Realty Co.*, 283 U.S. 191 (1931); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929); *Remick Music Corp. v. Interstate Hotel Co.*, 58 F. Supp. 523 (D. Neb. 1944), *aff'd*, 157 F.2d 744 (8th Cir. 1946). Other examples related to

example of vicarious infringement liability is if one directs the use of a machine for infringing purposes, supplies parts for it, and profits from its use.<sup>75</sup>

### B. *Contributory Infringement*

The doctrine of contributory infringement has its roots in the tort theory of enterprise liability.<sup>76</sup> The most commonly cited test for contributory infringement is provided by *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*<sup>77</sup>: “A defendant may be contributorily liable for the infringing acts of another when ‘with knowledge of the infringing activity, [the defendant] induces, causes, or materially contributes to the infringing conduct of another.’”<sup>78</sup> Unlike vicarious infringers, those found liable under a contributory theory must be shown to have some knowledge of the infringing activity.

Because copyright infringement is a tort, the concepts of tort liability are helpful in establishing the scope of the contributory infringement doctrine.<sup>79</sup> The tort theory of enterprise liability is found in Section 876 of the *Restatement (Second) of Torts*. The Implied Concerted Conduct Rules found in Section 876(b) require the contributing tortfeasor “[to know] that the other’s conduct [constitutes] a breach of duty and gives substantial assistance or encouragement to the other so to conduct himself.”<sup>80</sup> The conduct of the contributory tortfeasors is deemed implied if it can be established that they had actual knowledge of the breach of duty committed by the other.<sup>81</sup>

A closer examination of the two factors necessary to find contributory infringement shows that the elements are interrelated. There exists a

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the described scenario are cases involving record stores. *See generally* Broadcast Music, Inc. v. Niro’s Palace Inc., 619 F. Supp. 958 (N.D. Ill. 1985); Chess Music, Inc. v. Sipe, 442 F. Supp. 1184 (D. Minn. 1978); KECA Music, Inc. v. Dingus McGee’s Co., 432 F. Supp. 72 (W.D. Mo. 1977). However, note that the “landlord of a premises where infringing works [are] sold [is not] rendered an infringer simply by reason of such relationship.” NIMMER, *supra* note 11, § 12.04[A][1].

75. RCA/Ariola Int’l, Inc., v. Thomas & Grayston Co., 845 F.2d 773, 781 (8th Cir. 1988).

76. Demetriades v. Kaufmann, 690 F. Supp. 289, 292 (S.D.N.Y. 1988); NIMMER, *supra* note 11, at § 12.04[A][2].

77. *Gershwin*, 443 F.2d 1159 (2d Cir. 1971).

78. ITSI T.V. Prods., Inc. v. California Auth. of Racing Fairs, 785 F. Supp. 854, 861 (E.D. Cal. 1992) (quoting *Gershwin*, 443 F.2d at 1162).

79. Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, 256 F. Supp. 399, 403 (S.D.N.Y. 1966).

80. RESTATEMENT (SECOND) OF TORTS § 876B (1979).

81. *Id.*

directly proportional relationship between the actions of the contributory and direct infringer; the closer the actions of the former are to the actions of the latter, the stronger the inference that the contributory party knew of the infringing act.<sup>82</sup> In the case where the actions of the contributory party are relatively close to the actions of the direct infringer, the plaintiff may present enough facts to suggest that a reasonable person would have known that an act of infringement was occurring. Obviously, the more distant the contributory act is from the direct act, the more difficult it becomes on the part of the plaintiff to show through an inference that the contributory party had knowledge. In these circumstances, a showing of actual knowledge may be required.<sup>83</sup>

Cases employing the contributory infringement doctrine generally fall into two broad categories. The first is where the personal participation of the infringer is part of, or furthers, the infringement.<sup>84</sup> Generally speaking, a person giving assistance or authorization may be held liable as a contributory infringer if those actions bear a "direct relationship to the infringing acts and that person was shown to be acting in concert with the infringer."<sup>85</sup> Such cases of contributory infringement have a very important application. They may be used to establish third-party liability if the requirements of the vicarious liability cannot be met.<sup>86</sup>

The more difficult application of the contributory infringement doctrine is of the "implied concert rule." This is used in cases where a defendant has contributed machinery or goods that provide the means to infringe.<sup>87</sup> Because there is a weaker nexus between the contributory and direct infringer, it becomes difficult to prove knowledge of the underlying act of infringement. However, in the landmark case of *Sony Corp. of America v. Universal City Studios, Inc.*<sup>88</sup> the Supreme Court majority stated that, "If . . . liability is to be imposed on Sony in this case, it must rest on the fact that it sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies

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82. Oddi, *supra* note 66, at 68.

83. *Id.* at 68-70.

84. NIMMER, *supra* note 11, § 12.04[A][2]. The *Subafilms* case falls into this category.

85. *Id.* § 12.04[A][2][a]. Examples of such cases are *Universal City Studios v. Nintendo Co.*, 615 F. Supp. 838 (S.D.N.Y. 1985), *aff'd*, 797 F.2d 70 (2d Cir. 1986), *cert. denied*, 479 U.S. 987 (1986); *Schuchart & Assocs., Professional Eng'rs., Inc. v. Solo Serve Corp.*, 540 F. Supp. 928 (W.D. Tex. 1982); *MacMilian Co. v. I.V.O.W. Corp.*, 495 F. Supp. 1134 (D. Vt. 1980); *Gladys Music, Inc. v. Arch Music Co.*, 150 U.S.P.Q. 26 (S.D.N.Y. 1966).

86. NIMMER, *supra* note 11, § 12.04[A][2][a]. See, e.g., *Select Theatres Corp. v. Ronzoni Macaroni Co.*, 59 U.S.P.Q. 288 (S.D.N.Y. 1943).

87. NIMMER, *supra* note 11, § 12.04[A][2][b].

88. *Sony*, 464 U.S. 417 (1984).

of copyrighted material."<sup>89</sup> If liability in such instances can be based on constructive knowledge, the Court has created an infringement standard that exceeds the scope of the implied concert rule.<sup>90</sup>

In sum, the doctrines of vicarious and contributory infringement can be used as a basis for third-party liability. Both are borrowed from the law of tort. Vicarious liability has its origin in the doctrine of *respondeat superior*, and contributory infringement has its origin in the theory of enterprise liability. The main difference between the two doctrines is that vicarious liability is premised on control and financial interest, whereas contributory liability is premised on knowledge and participation. Both of these doctrines support the needed changes to the Copyright Act which will be discussed later.

### III. CASES INVOLVING INTERNATIONAL COPYRIGHT LAW

The final area that needs to be examined before we can begin an analysis of *Subafilms* is the body of case law covering international copyright disputes prior to that decision.<sup>91</sup> Many of the cases involving international copyright before 1976 centered on the cumbersome requirements of American copyright law and the impact on foreigners seeking its protections.<sup>92</sup> However, a few pre-Berne decisions did deal with issues apart from problems with American copyright formalities. A reading of these decisions suggests that these courts were hesitant to apply the Copyright Act to infringing activities taking place overseas.<sup>93</sup>

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89. *Id.* at 439.

90. Oddi, *supra* note 66, at 71. Such a standard may create economic inefficiencies if the potential liability it creates stymies the development of new materials and equipment. *Id.*

91. In one of the earliest cases in this area, the Supreme Court upheld the common-law performing rights of an English playwright, whose play was never published or printed, against an American who copied it and had it copyrighted. *Ferris v. Frohman*, 223 U.S. 424 (1912). The case recognized the rights of foreign authors against acts of infringement occurring in the U.S. This affirmed their ability to use American copyright law in such instances.

92. *See, e.g.*, *Hoffenberg v. Kamenstein*, 396 F.2d 684 (D.C. Cir. 1968), *cert. denied*, 393 U.S. 913 (1968); *Heim v. Universal Pictures, Inc.*, 154 F.2d 480 (2d Cir. 1946); *Basevi v. O'Toole Co.*, 26 F. Supp. 41 (S.D.N.Y. 1939).

93. In *Beechwood Music Corp. v. Veejay Records*, the court denied the plaintiff the protection of the Copyright Act's compulsory license clause because the act of infringement, unauthorized reproduction of record albums, took place overseas. *Beechwood*, 328 F.2d 728 (2d Cir. 1964).

This is in stark contrast to the reading given the Lanham Trademark Act in *Steele v. Bulova Watch Co.*, which directly addressed the issue of extraterritorial application of American law—*Subafilms* core issue. *Steele*, 194 F.2d 567 (1952), *aff'd*, 344 U.S. 280 (1952). The Bulova Watch Company filed suit in a Texas court to enjoin an American

After the BCIA was passed, the debate over the Copyright Act's territorial limits continued. For example, the Copyright Act may be considered inoperative with regard to an infringement activity transpiring outside of the United States. Some argue that American courts may still have jurisdiction in such instances if the plaintiff has a cause of action arising under foreign copyright law, and personal jurisdiction can be obtained over the defendant.<sup>94</sup> In accordance with this logic, "the transitory nature of a foreign copyright infringement action"<sup>95</sup> has been recognized by an American court.<sup>96</sup>

A qualification to the maxim that the Copyright Act cannot be applied extraterritorially occurs when a portion of the act of infringement takes place in the United States and then is completed in another nation. In this

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citizen living in Mexico from using its registered trademark on timepieces he was manufacturing there. The District Court denied the plaintiff relief, but the Court of Appeals for the Fifth Circuit reversed, and the Supreme Court sustained the decision. *Steele*, 344 U.S. at 289. The Supreme Court recognized that the copyright and trademark laws of the United States do not have extraterritorial application but recognized that, "Congress in prescribing standards of conduct for American citizens may project the impact of its laws beyond the territorial boundaries of the United States." *Id.* at 282. The Court further noted that "the United States [was] not debarred by any rule of international law from governing the conduct of its own citizens . . . in foreign countries when the rights of other nations . . . are not infringed." *Id.* at 285-86 (quoting *Skiriotes v. Florida*, 313 U.S. 69, 73 (1941)).

94. NIMMER, *supra* note 11, § 17.03. However, patent and trademark courts are divided over exercising jurisdiction in actions for infringement arising under foreign laws. This may be because of the procedural and administrative formalities present in such actions. The obstacles presented by these requirements are argued not to be found in foreign copyright laws. It follows that U.S. courts will be placed in the unenviable role of having "to pass upon the validity of administrative acts undertaken by foreign government officials." *Id.*

95. *Id.*

96. In *London Film Prods. Ltd. v. Int'l Comm.*, a British corporation brought suit in New York against an American corporation for the latter's infringement of British copyright for causing three of the plaintiff's motion pictures to be shown in Chile. *London*, 580 F. Supp. 47 (S.D.N.Y. 1984). The court denied the defendant's motion to dismiss for lack of jurisdiction, while making several important statements regarding the use of foreign copyright law in reaching its holding. *Id.* at 48. First, the court supported the theory that the copyright infringement is a transitory tort and "hence may be adjudicated in the courts of a sovereign other than the one in which the cause of action arose." *Id.* at 48-9. Second, the court distinguished the instant case from others where "a 'crucial issue' as to the validity of [foreign] . . . law was present." *Id.* at 49. In support of this premise, the court noted that Great Britain and Chile belonged to the Berne Convention, and, therefore, there were no complex requirements to receive copyright protection for films made in either nation. *Id.* Finally, the court noted that it had "an obvious interest in securing compliance with this nation's laws by citizens of foreign nations who have dealings with this jurisdiction." *Id.*

The court further noted that "[a]n unwillingness by this Court to hear a complaint against its own citizens with regard to foreign law will engender . . . a similar unwillingness on the part of a foreign jurisdiction when the question arises concerning a violation of our laws by one of its citizens . . ." *Id.*

situation the parties who contributed to the act may be found liable as contributory infringers. Obviously, the question at the core of these cases is to what extent must a defendant contribute to an act of infringement in the United States in order to be found liable as a third-party infringer.<sup>97</sup>

Two cases from the 1980s addressed the issue of third-party liability for infringing activities which took place overseas. Both suggested that a domestic authorization for an infringing activity which took place overseas was sufficient to give a U.S. District Court subject matter jurisdiction. In *Thomas v. Pansy Ellen Products*,<sup>98</sup> the court allowed recovery when the agent of the domestic defendant working in the United States authorized a Taiwanese manufacturer to reproduce the plaintiff's copyrighted design.<sup>99</sup> The *Thomas* decision was based on another case supporting a similar reading of "to authorize," *Peter Starr Production Co. v. Twin Continental Films, Inc.*,<sup>100</sup> which was overturned by *Subafilms*.

In *Peter Starr*, the plaintiff complained that Twin, the defendant, infringed the plaintiff Starr's copyright by authorizing another to exhibit a motion picture without Starr's consent.<sup>101</sup> The Ninth Circuit found that "an infringer is not merely one who uses a work without authorization by the copyright owner, but also one who authorizes the use of a copyrighted work without actual authority from the copyright owner."<sup>102</sup> The court held that the defendant was liable as a contributory infringer for authorizing, via a contract executed in the United States, the acts of infringement

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97. For example, in *Robert Stigwood Group Ltd. v. O'Reilly*, the plaintiffs tried to avail themselves of the U.S. Copyright Act by arguing that the defendant American acting troupe rehearsed for its Canadian performances in the United States, and these rehearsals were an integral part of the subsequent infringing activity—performing a copyrighted play for which the performance rights had not been obtained. *Stigwood*, 530 F.2d 1096 (2d Cir. 1976), cert. denied, 429 U.S. 848 (1976). The Second Circuit rejected the plaintiff's theory stating "only when the defendants' domestic acts permit further reproduction abroad does the work's [subsequent] exploitation abroad become a constructive trust." *Id.* at 1101. Funds from this trust were then used to compensate the plaintiffs' damages. *Id.*

The Second Circuit preserved this exception to the presumption against extraterritorial application in a case involving the copying and distribution of an American poster by an Israeli newspaper. The test was met because the poster was duplicated in the United States, and such an act allowed for further infringement abroad. *Update Art, Inc. v. Modii Publishing, Ltd.*, 843 F.2d 67 (2d Cir. 1988).

98. *Thomas*, 672 F. Supp. 237 (W.D.N.C. 1987).

99. *Id.*

100. *Peter Starr*, 783 F.2d 1440 (9th Cir. 1986), overruled by *Subafilms, Ltd. v. MGM-Pathe Comm. Co.*, 24 F.3d 1088 (9th Cir. 1994), cert. denied, 115 S. Ct. 512 (1994).

101. *Peter Starr*, 783 F.2d at 1442.

102. *Id.* at 1443 (quoting *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984)).



which took place overseas.<sup>103</sup> An examination of these two cases suggests that the reading given the "to authorize" clause by the courts in *Thomas* and *Peter Starr* means such an authorization can be an integral part of the extraterritorial infringement, and/or something that permits further infringement abroad.<sup>104</sup>

This reading of "to authorize" was rejected in *Danjaq, S.A. v. MGM/UA Communications Co.*<sup>105</sup> The court, using the *Gershwin*<sup>106</sup> definition of contributory infringement, stressed that contributory infringement could not be found without a finding of direct infringement.<sup>107</sup> Without a finding of direct infringement, the authorization could not be considered a contributory act, and therefore, the plaintiff's claim based on the defendant's authorization was dismissed.<sup>108</sup> It must be noted, however, that this case dealt with an authorization that had never culminated in an actual act of infringement.<sup>109</sup> Also, the court in *Danjaq* never explicitly overturned *Peter Starr*, rather it narrowly construed the holding as applying only to the question of "subject matter jurisdiction and not to the sufficiency of the claim."<sup>110</sup> The court further concluded "it would be too facile . . . to conclude from [*Peter Starr*] that the Ninth Circuit approved of the imposition of liability in the circumstances described [that is, liability based on authorization of noninfringing activity]."<sup>111</sup> One year after *Danjaq*, just such a conclusion was reached by another California court in *ITSI T.V. Productions, Inc. v. California Authority of Racing Fairs*.<sup>112</sup> In *ITSI T.V.*, the plaintiff company specializing in the closed circuit broadcasts of horse races alleged that one of the defendants, Hipodromo de Agua Caliente (Caliente), was liable as a contributory infringer. The company's complaint urged that Caliente had constructive knowledge that their American contacts were committing infringing activities by authorizing the extraterritorial broadcasts of the plaintiff's horse racing shows.<sup>113</sup> The plaintiff's claim against defendant Caliente was rather strained and was eventually dismissed for lack of

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103. *Id.* at 1443.

104. In fact, these decisions go so far as to suggest that the authorization of the infringing act was a separate, direct act of infringement. *Id.*; *Thomas*, 672 F. Supp. at 241.

105. *Danjaq*, 773 F. Supp. 194 (C.D. Cal. 1991).

106. *Gershwin Publishing Corp. v. Columbia Artists Mgmt. Inc.*, 443 F.2d 1159 (2d Cir. 1971).

107. *Danjaq*, 773 F. Supp. at 201.

108. *Id.* at 201-04.

109. *Id.* at 202.

110. *Id.* at 203.

111. *Id.*

112. *ITSI T.V.*, 785 F. Supp. 854 (E.D. Cal. 1992).

113. *Id.* at 857.

subject matter jurisdiction.<sup>114</sup> However, in reaching its decision the court rejected much of the *Danjaq* opinion.<sup>115</sup>

The court began its analysis by finding that the “jurisdictional and substantive issues are so intertwined that the question of jurisdiction is dependent on the resolution of factual issues going to the merits.”<sup>116</sup> That is, because the plaintiff’s complaint alleged that the defendant authorized infringing acts which took place outside of the United States, the court had to determine if it had subject matter jurisdiction over such a claim under the Copyright Act.<sup>117</sup> Such a determination cannot be made without resolving the factual issues going to the merits of the case.<sup>118</sup> The court went on to make more important findings.

First, it stated that the act of an “authorization” could be actionable as a direct act of copyright infringement.<sup>119</sup> Second, the court concluded that whether “the act ‘authorized’ occurs abroad is irrelevant to the question whether the court has subject matter jurisdiction over a claim. . . .”<sup>120</sup> Third, the court expanded the scope of the Copyright Act by stating that “it is possible for a defendant to commit acts outside the United States sufficient to find it contributorily or vicariously liable for acts of infringement committed by others within the United States,”<sup>121</sup> even though the court may not have personal jurisdiction over that defendant. Finally, the court found no clear authority to exercise subject matter jurisdiction over an action based on the infringement of a foreign copyright law.<sup>122</sup>

#### IV. *SUBAFILMS*

“U.S. Copyright Law Isn’t Effective Abroad,” trumpeted the *National Law Journal*<sup>123</sup> after the Ninth Circuit handed down its decision in *Subafilms, Ltd. v. MGM-Pathe Communications Co.*<sup>124</sup> Although the National Law Journal overstated the court’s conclusion in *Subafilms*, the decision will have a major impact on the future victims of overseas infringement. The facts of this case extend back to 1966 when the Beatles

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114. *Id.* at 864.

115. *Id.* at 863.

116. *Id.* at 858 (citing *Augustine v. United States*, 704 F.2d 1074, 1077 (9th Cir. 1983)).

117. *ITSI T.V.*, 785 F. Supp. at 858.

118. *Id.*

119. *Id.* at 860.

120. *Id.* at 863.

121. *Id.* at 864.

122. *Id.*

123. *U.S. Copyright Law Isn’t Effective Abroad*, NAT’L L.J., May 30, 1994, at B4.

124. *Subafilms*, 24 F.3d 1088, (9th Cir. 1994), *cert. denied*, 115 S. Ct. 512 (1994).

entered into an agreement with the plaintiffs to produce an animated motion picture based upon their song "Yellow Submarine."<sup>125</sup> The film was released in theatres two years later and received a rather tepid reaction from filmgoers.<sup>126</sup> United Artists Corporation (UA) owned the rights to the film from its initial distribution and into the home video market in the early 1980s. At that time UA began to enter several licensing agreements to distribute some of the films in its catalog on videocassette.<sup>127</sup> The film, *Yellow Submarine*,<sup>128</sup> was never released by UA because of uncertainty over whether it had the actual home video rights to the project. Before that determination could be made, UA was acquired by MGM, and the successor company that was created, MGM/UA Communications Co., authorized video distribution of the film. American distribution was handled through MGM/UA's home video subsidiary; foreign distribution was completed through Warner Home Video.<sup>129</sup>

In 1988, the producer of *Yellow Submarine*, Subafilms, brought suit against MGM/UA, Warner, and their respective subsidiaries alleging that the videocassette distribution constituted copyright infringement. The case was tried before a special master who found for Subafilms and awarded \$2.2 million in compensatory damages.<sup>130</sup> A panel of the Ninth Circuit affirmed the District Court's judgment in an unpublished disposition. The panel concluded it was bound by the *Peter Starr* decision with respect to foreign distribution of the picture.<sup>131</sup>

The appellants, MGM/UA, then requested a rehearing en banc in light of the Ninth Circuit's recent decision in *Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*<sup>132</sup> In that case, the court concluded that there could be no liability for authorizing a party to engage in an infringing act when the authorized party's "use would not violate the Copyright Act."<sup>133</sup> While this case did not involve extraterritorial infringement, it was highly relevant to the questions posed in *Subafilms*.

The Ninth Circuit wasted no time in attacking the holding of *Peter Starr*. The court in *Subafilms* cited copyright professor Melville Nimmer, when he noted "to the extent that an activity does not violate one of th[e]

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125. THE BEATLES, *YELLOW SUBMARINE* (Capitol Records 1966).

126. *Subafilms*, 24 F.3d at 1089.

127. *Id.*

128. *YELLOW SUBMARINE* (United Artists 1968).

129. *Subafilms*, 24 F.3d at 1089.

130. *Id.*

131. *Id.*

132. *Lewis Galoob*, 964 F.2d 965 (9th Cir. 1992), *cert. denied*, 113 S. Ct. 1582 (1993); *Subafilms*, 24 F.3d at 1090.

133. *Lewis Galoob*, 964 F.2d at 970.

five enumerated rights [contained in 17 U.S.C. § 106], authorizing such activity does not constitute copyright infringement.”<sup>134</sup> The court then rejected the idea that the words “to authorize” added in the 1976 Copyright Act were meant to “create a new form of liability.”<sup>135</sup> This is in line with Professor Nimmer’s belief that such an interpretation would be imprudent because “[i]n all but exceptional circumstances, the act of authorization *simpliciter* is unlikely to damage the copyright owner.”<sup>136</sup> The court then concluded its analysis of contributory infringement by citing cases that support the maxim that “there can be no liability for contributory infringement unless the authorized or otherwise encouraged activity could amount to infringement.”<sup>137</sup>

The *Subafilms* court stated that an authorization could not stand alone as a direct act of infringement; it can only be the basis for a claim of contributory infringement. In turn, a claim of contributory infringement needs an accompanying act of direct infringement to sustain it. Accordingly, the court focused on whether such an act of direct infringement took place. This brought them in direct conflict with the *Peter Starr* decision. The court cited Nimmer:

Given the undisputed axiom that United States copyright law has no extraterritorial application, it would seem to necessarily follow that a primary activity outside the boundaries of the United States . . . cannot serve as the basis for holding liable under the Copyright Act one who is merely related to that activity within the United States.<sup>138</sup>

In sum, the court then employed this logic in forming the central holding of the opinion: An authorization can only form the basis for a claim of contributory infringement. Contributory infringement requires a direct act of infringement. A direct act of infringement cannot occur if none of the provisions of Section 106 of the Copyright Act is violated. The Copyright Act cannot be violated if the infringing act takes place in a foreign jurisdiction. Therefore, one cannot be held liable for authorizing acts of infringement that occur overseas.<sup>139</sup>

The decision in *Subafilms* clearly shows that future plaintiffs have few legal options they can use to protect themselves from deliberate infringements of their rights in overseas markets. There are two less attractive possible avenues for relief. The first is the *Update Art* doctrine which

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134. *Subafilms*, 24 F.3d at 1093 (quoting NIMMER, *supra* note 11, § 12.04[A][3][a]).

135. *Id.*

136. NIMMER, *supra* note 11, § 12.04[A][3][a].

137. *Subafilms*, 24 F.3d at 1093.

138. *Id.* (quoting NIMMER, *supra* note 11, § 12.04[A][3][b]).

139. *Id.* at 1094.

allows for extraterritorial copyright application "when the type of infringement permits further reproduction abroad."<sup>140</sup> However, the Second Circuit has not applied this exception to a case where the "infringement" is an authorization.<sup>141</sup> It appears as though an authorization would not meet this standard in the Ninth Circuit. The *Update Art*<sup>142</sup> decision, in the words of the *Subafilms* court, "is premised on the theory that the copyright holder may recover damages that stem from a direct infringement of its exclusive rights [under Section 106] that occur[s] within the United States."<sup>143</sup> The Ninth Circuit does not treat an authorization as a direct act. Therefore, only some other type of direct infringement could be used as a basis for liability.

The other option future plaintiffs may have, which is supported by Professor Nimmer,<sup>144</sup> is to use the court systems of the countries where the infringement occurred, or ask the U.S. courts to apply foreign copyright law. However, there are several problems with this option. In an often-cited law review note, David R. Toraya points out that the basic principle of national copyright law is "that a copyright can be infringed and thus exists only within the sovereign state whose law created it. Consequently th[at] foreign state . . . maintains its interest in interpreting and applying its own copyright law."<sup>145</sup> There are several factors to consider when using a foreign law, notwithstanding whether that nation's "intellectual property right requires administrative formalities."<sup>146</sup> One consideration is the potential financial burden U.S. plaintiffs would face "preserving the foreign country's sovereignty interest."<sup>147</sup> Remember one of the main reasons the United States finally joined Berne was to reduce the expenditures associated with using Berne's "back door" protections.<sup>148</sup> Forcing a plaintiff to use foreign law by denying a claim based on third-party infringement reestablishes these same financial burdens and inconveniences.

Although the *Subafilms* decision creates several problems, the court's dispensation of the core issue was, for the most part, sound. To find the

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140. *Id.* (quoting *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988)).

141. *Id.*

142. *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67 (2d Cir. 1988).

143. *Subafilms*, 24 F.3d at 1094.

144. NIMMER, *supra* note 11, § 17.03.

145. David R. Toraya, Note, *Federal Jurisdiction over Foreign Copyright Actions: An Unsolicited Reply to Professor Nimmer*, 70 CORNELL L. REV. 1165, 1193 (1985).

146. *Id.*

147. *Id.* at 1192.

148. *Id.*

defendants liable on the basis of their authorization would have required the court to overcome the presumption against extraterritorial application of American laws, in the absence of a clear legislative intent.<sup>149</sup> The court correctly noted that in the cases where this presumption was overcome, a statute gave Congress broad remedial powers, usually based on the Commerce Clause.<sup>150</sup> Absent such a statute, the court can do little to overcome the presumption. The court in *Subafilms* correctly refused to extend the limits of U.S. copyright law by judicial fiat and deferred to the legislative branch to create a solution.

The major flaw in the opinion is the court's misplaced concern that expanding the reach of the Copyright Act would in some way interfere with international copyright relations. Another controversial conclusion of the court is its outright denial that an authorization can be treated as a direct act of infringement.<sup>151</sup> However, addressing this question would exceed the scope of this Note.<sup>152</sup> Here an authorization will only be discussed as a basis for contributory/vicarious liability; it will not be addressed as a potential direct act of infringement.

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149. *Subafilms*, 24 F.3d at 1095 (citing *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991)). The *Arabian Am. Oil* decision denied extraterritorial application of a provision contained in Title VII of the Civil Rights Act.

150. *Id.* at 1096. The examples used by the court are the Lanham Trademark Act, the Sherman Antitrust Act, and other securities laws.

151. *Id.* at 1092. "[T]he addition of the words 'to authorize' in the Copyright Act was not meant to create a new form of liability for 'authorization' that was divorced completely from the legal consequences of authorized conduct : . . ." *Id.* The court felt it was necessary to state explicitly that an authorization could not be a direct infringement, thus denying any possible alternative avenue of relief for the plaintiff. If it had recognized the authorization as a direct act, the plaintiffs could have amended their complaint and started over. Nothing in the court's opinion, however, provides a satisfactory explanation for why an authorization is not a direct act of infringement, nor for that matter why Congress included the words "to authorize" in the 1976 Copyright Act. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 61 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5674; NIMMER, *supra* note 11, § 12.04[A][3][a]. *ITSI T.V. Prods., Inc. v. California Auth. of Racing Fairs* supported the idea that "Congress created a new form of 'direct' infringement when it amended the Act to include the words 'to authorize'." *ITSI T.V.*, 785 F. Supp. 854, 860. (E.D. Cal. 1992). It is difficult to view the mere act of an authorization as a direct act of infringement. An authorization is merely a consent or an order, and as soon as it is accompanied by an act of direct infringement, it must be analyzed in conjunction with that act of infringement. If the direct act is not violative of a copyright holder's § 106 rights, then obviously the "authorizer" cannot be a contributory infringer. *Id.*

152. There is much confusion about the inclusion of "to authorize." It is not disputed that a copyright holder secures the right to engage in any of the specified acts mentioned in § 106, and if anyone else engages in those acts without the permission of the copyright holder, that person is a direct infringer. However, the statute explicitly provides the copyright holder with the right "to authorize" any § 106 act. Why then does an authorization by someone other than the copyright holder not constitute copyright infringement unless it is also accompanied by an unauthorized action of a § 106 right?

## V. EXTRATERRITORIAL APPLICATION OF THE COPYRIGHT ACT

Nimmer's ideas on extraterritorial application of the Copyright Act heavily influenced the *Subafilms* decision. Clearly, Nimmer rejects the idea that liability can befall a defendant who has authorized an act of infringement occurring abroad.<sup>153</sup> This conclusion is drawn from two hypotheticals mentioned in Nimmer's treatise, where individuals authorize an activity that would constitute infringement in their own country, but not in the country where the activity is to be carried out.<sup>154</sup> Nimmer concludes that such individuals cannot be held liable for a violation of U.S. copyright law. However, if the authorization takes place in a foreign jurisdiction and the infringing act takes place in the United States, the infringer can be found liable under American copyright law.<sup>155</sup> It should be noted that Nimmer's hypotheticals conspicuously avoid situations where the infringing act would violate foreign law. This is because in these situations, Nimmer would encourage the use of the foreign statute by a U.S. court, under the assumption that infringement is a transitory tort. As mentioned earlier, there are drawbacks to this suggested course of action.<sup>156</sup>

Nimmer developed three hypotheticals in support of his rejection of extraterritorial copyright application based on domestic authorization. The first of these invites closer examination. Nimmer outlined a scenario where an individual in New York authorizes public display of a copyrighted work of art in Canada, where the right of public display is not recognized. He avers that it would be "perverse to construe Congress's intention as holding liable a person who authorizes an activity abroad that is perfectly legal abroad."<sup>157</sup> Such a conclusion is overly simplistic. For example, copying American-made videotapes, books, and software may be "legal" in some countries because no bilateral agreements exist with them, nor do those nations belong to the UCC or the Berne Convention.<sup>158</sup> Recall that under Section 602(b) of the Copyright Act,<sup>159</sup> if these items are copied in South Korea without the consent of the American copyright holder, their importation can be prohibited by the Customs Service. Congress obviously was concerned about the impact of such piratical copies on the American

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153. *Subafilms*, 24 F.3d at 1095 (citing NIMMER, *supra* note 11, § 12.04[A][3][b]).

154. NIMMER, *supra* note 11, § 12.04[A][3][b].

155. *Id.*

156. *See supra* note 144.

157. NIMMER, *supra* note 11, § 12.04[A][3][b].

158. *See generally* 17 U.S.C. § 104 (1994) (providing, in notes, a table of bilateral treaties).

159. 17 U.S.C. § 602(b) (1988).

economy. So, are we to assume that Congress is not concerned if an American company authorizes infringement to take place in that country and directly profits from it?

The following five plausible arguments could be advanced against such an extension of the Copyright Act.

A. *The United States Does Not Have a Significant Interest in Allowing the Copyright Act to Extend to Acts of Infringement Occurring Overseas.*

Losses to U.S. copyright holders due to foreign infringement were estimated to be \$6.2 billion in 1986, up from \$1.5 billion only four years before.<sup>160</sup> It is inconceivable that Congress would intentionally provide immunity for American companies who contribute to this problem by authorizing infringement activities abroad and then profiting from them. An "authorization" can serve as a link to corporations who may contribute to the problem by their infringing actions in the United States. Finding these corporations liable on third-party liability theories would give aggrieved parties another avenue for relief.

B. *Plaintiffs in Future Actions Have Several Potential Remedies Available, and, Therefore, It Is Not Necessary to Create a New One.*

The *Subafilms* court suggests the existence of other possible remedies for the plaintiffs, such as breach of contract or bringing suit under the copyright laws of another nation.<sup>161</sup> Of course, breach of contract is only available if a contract exists between the authorizer and the aggrieved third party. In the scenario presented above, where one authorizes reproduction of a copyrighted videocassette in South Korea, this remedy obviously could not apply because no contract exists.

Similarly, in such a situation the victim of the infringement could not take advantage of South Korea's copyright law because one does not exist. Even if South Korea had a copyright law, use of that law would involve considerable additional expense, making it a less palatable alternative.<sup>162</sup> Simply because the activity took place in a Berne nation does not mean that nation has a copyright law and system of civil procedure identical or even similar to that of the United States. Also, if infringing activity were spread

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160. U.S. INT'L TRADE COMM'N, PUB. NO. 2065, FOREIGN PROTECTION OF INTELLECTUAL PROPERTY RIGHTS AND THE EFFECT ON U.S. INDUSTRY AND TRADE §§ 4-6 to -8 (1988).

161. *Subafilms*, 24 F.3d 1088, 1095 (9th Cir. 1994), cert. denied, 115 S.Ct. 512 (1994).

162. See *supra* note 144.



out over several countries, the plaintiff would have to satisfy the legal standards of copyright infringement of several different nations—a most onerous burden.<sup>163</sup>

C. *Such an Extension Would Disrupt the Pending GATT Agreement.*

In extensive dicta, the Ninth Circuit expresses concern over how an extraterritorial application of the Copyright Act in a situation like the one in *Subafilms* would somehow disrupt “Congress’s efforts to secure a more stable international environment.”<sup>164</sup> The court marches out its “parade of horrors” pointing out how such an extension “contravenes the spirit of Berne.” An extension would weaken the credibility of the U.S. in trade negotiations and would create a choice of law problem. The court never explains just how this will occur. If the appellants in *Subafilms* had been found liable as contributory infringers for their authorization of the overseas infringement, they would have been in violation of the U.S. Copyright Act. That is, an American defendant corporation would have been in violation of an American law. How could this be found to affect the “delicate field of international relations”?

Perhaps what actually concerns the court is how such an extension would affect Congress’s attempts “to secure a multilateral regime of intellectual property protection.”<sup>165</sup> The court then makes reference to the Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods (TRIPS or TRIPS Agreement)<sup>166</sup>—the compromise reached by participating nations concerning intellectual property protection under the revised GATT—as an example of such a multilateral regime.<sup>167</sup> The TRIPS Agreement will certainly be a powerful weapon against foreign piracy, but it is not a panacea and needs to be supplemented by extending the reach of the Copyright Act.

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163. See *High Court Torpedoes “Yellow Submarine,”* OREGONIAN (Portland), Nov. 15, 1994, at B12.

164. *Subafilms*, 24 F.3d at 1097-98.

165. *Id.*

166. Agreement on Trade-Related Aspects of Intellectual Property Rights, reprinted in 33 INT’L LEGAL MATERIALS 1197 (1994).

167. This agreement calls for the “National Treatment” standard, found in the Berne Convention, to be adopted by all nations signing the agreement. TRIPS articulates standards covering the availability, scope, and use of all forms of intellectual property. All signing nations must comply with the copyright provisions of Berne. TRIPS does increase the protection for performers, producers of sound recordings, and broadcasting organizations over that which they normally received under Berne. *Id.*

*D. The Pending TRIPS Agreement Obliterates the Need for Extension of the U.S. Copyright Act.*

The TRIPS Agreement will provide for the minimum standards of the Berne Convention, but note that the dispute in *Subafilms* involved an infringing act which took place in countries acceding to the Convention. Simply because each country provides the same minimum standards does not mean each nation's copyright law must be exactly alike. The Berne Convention recognized that each nation tailored its copyright law to meet the needs of its economy. The United States certainly has an interest in enforcing its copyright law against violations committed by its citizens or corporations located within its borders. Providing a basis for liability through an authorization taking place in the United States does not interfere with the interest of other nations because neither their citizens nor their laws are involved.<sup>168</sup> Remember, while the act of infringement may have occurred overseas, the proposed changes focus on U.S. defendants, not non-U.S. defendants. While TRIPS may serve to bring the conduct of the international intellectual property community up to a certain level, it is still the duty of the United States to govern the conduct of its citizens.

*E. An Extension of the U.S. Copyright Act Would Allow One to Be Liable for an Act of Contributory Infringement Without an Accompanying Act of Primary Infringement.*

It is up to the Congress of the United States to define "infringement." The reason such liability has been denied in the past is because an overseas act of infringement was not recognizable under the Copyright Act. Amending the Act would change this and make such an overseas act of infringement recognizable. Note the situation where third-party involvement is not actionable because the primary act was never carried out. Finding liability based on an authorization assumes that an authorization is a separate and direct act of infringement. In *Subafilms*, the primary act of infringement was not recognized merely because it transpired abroad, but because it never occurred.

In sum, extending liability to third-party infringers for authorizations taking place in the United States is one effective way to provide protection against overseas infringement. The Ninth Circuit wisely left it to Congress

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168. A foreign corporation might be affected, for example, if it contracted with an American company to distribute a videocassette, and the foreign corporation discovered that the American corporation never had the right to authorize distribution. The foreign corporation can sue on the contract, using either the laws of its home nation or those of the United States.

to extend the Copyright Act in such a manner, but the court may have gone too far in expressing its concern that such an extension would interfere with U.S. participation in TRIPS. Such an extension of the Copyright Act would be an effective way to supplement TRIPS and is fully within the United States's interests in protecting its industry and governing the conduct of citizens.

American copyright law before the Berne Convention had a decidedly nationalistic focus that hampered the ability of the United States to shape multinational agreements for the protection of intellectual property rights. Extending the reach of the Copyright Act should not be perceived as a return to the pre-Berne days of isolationist policy. Rather, it is simply a way to bolster the protection against overseas piracy and infringement in conjunction with TRIPS. The Agreement is well within the spirit of Berne, because it allows American plaintiffs the option of using American courts, rather than facing the cost and complexity of foreign courts. Finally, the proposed extension is certainly not radical; it fits easily into the well-developed doctrines of contributory and vicarious liability.

## VI. SOLUTIONS

The solution to overseas piracy is intimated by the *Subafilms* court and *Nimmer*, when both point to the patent law case of *Deepsouth Packing Co. v. Laitram Corp.*<sup>169</sup> The Supreme Court stated that a manufacturer who produced components of a combination patent and then shipped them abroad for reassembly was not liable as a direct or contributory infringer.<sup>170</sup> The core of the Court's holding was that assembly in another country of the several components of a combination patent was not infringement because it took place overseas, out of the reach of U.S. patent law.<sup>171</sup> Congress recognized the loophole created by the decision and acted to close it. The language of the 1984 amendment makes it a violation of the Patent Act when one "without authority supplies . . . all or a substantial portion of the components of a patented invention . . . in such a manner as to actively induce the combination of such components outside the United States in a manner that would infringe the patent if the combination occurred within the United States."<sup>172</sup>

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169. *Deepsouth Packing*, 406 U.S. 518 (1972). See *Subafilms*, 24 F.3d 1088, 1093 (9th Cir. 1994); *NIMMER*, *supra* note 11, § 12.04[A][b].

170. *Deepsouth Packing*, 406 U.S. at 519.

171. *Id.* at 524-32.

172. 35 U.S.C. § 271(f)(1) (1988); *NIMMER*, *supra* note 11, § 12.04[A][3][b] n.98. See also *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 657-58 (1834); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 131 (1932); *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417,

The kinship between patent law and copyright law can be traced to the fact that both spring from the same section of the Constitution.<sup>173</sup> Like contributory infringement in the copyright sphere, patent contributory infringement requires a direct act of infringement to provide a basis for the claim. Also, lack of intent is not a defense to a claim of contributory patent infringement.<sup>174</sup> The biggest difference in the two doctrines is that contributory patent infringement is provided by statute, while the courts' contributory copyright infringement has very uncertain boundaries and limits.<sup>175</sup>

The *Update Art*<sup>176</sup> standard is very similar to the language of the Patent Act amendment. The amendment deals with a situation where the shipment of components would permit reproduction of the patented product abroad. Similarly, the Second Circuit held in *Update Art* that the presumption against extraterritorial application can be overcome if the type of infringement permits further reproduction abroad.<sup>177</sup> The example of such infringement mentioned by the court is the "unauthorized manufacture of copyrighted material in the United States."<sup>178</sup> This language can serve as the core for an amendment to the Copyright Act. However, it needs to be expanded to include all types of infringement that may take place overseas, not just reproductions. To this end, the following amendments are suggested.

Congress should add to the Copyright Act the following language at Section 501<sup>179</sup> after the words "as the case may be." Thus, the Section should read: "Liability for infringement may either be direct or contributory or vicarious as defined in Section 501(a)(1) and (2)." Then, add the following language at Section 501(a)(1):<sup>180</sup>

Anyone who, with knowledge of an infringing activity, induces, causes, or materially contributes to the infringing conduct of another, may be held liable as a contributory infringer, where 'infringement' is defined as a violation of the exclusive rights

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438 (1984) (citing *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 157-58 (1948)). For a good discussion of the difference in the two types of intellectual property, see *Mazor v. Stein*, 347 U.S. 201, 218 (1954).

173. U.S. CONST. art. I, § 8, cl. 8.

174. Alfred P. Ewert et al., *Will the New Information Superhighway Create 'Super' Problems for Software Engineers? Contributory Infringement of Patented or Copyrighted Software Applications*, 4 ALB. L.J. SCI. TECH. 155, 182 (1994).

175. *Id.* at 183.

176. *Update Art, Inc. v. Modiin Publishing*, 843 F.2d 67, 73 (2d Cir. 1988).

177. *Id.* at 71.

178. *Id.*

179. 17 U.S.C. § 501 (1994).

180. 17 U.S.C. § 501(a)(1) (1994).

afforded the copyright holder by Sections 106 through 118 of this Chapter. This may include anyone providing a copyrighted work to another with the knowledge that it will be reproduced in violation of the right provided the holder of the copyright by Section 106(1), or anyone who provides another with a copyrighted work, and the means to produce an infringing copy of that work, and who knows or should know that the other person will make infringing copies of the copyrighted work, or anyone providing an infringer with technology not capable of a substantial noninfringing use.

This is language embracing the general view of contributory liability where the defendant is "participating" in the infringement as opposed to providing a means to infringe. Additional language may also be included to bring the theory up to date with the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*,<sup>181</sup> and to allow for contributory infringers to be found liable for providing the means to infringe.

Next, add the following language at Section 501(a)(2):<sup>182</sup>

One who has an agency or partnership relationship with an infringer, or in the absence of such a special relationship, has the right and ability to supervise infringing activity and has a direct financial interest in such an activity, may be held liable as a vicarious infringer, where infringement is defined as a violation of the exclusive rights afforded the copyright holder by Sections 106 through 118 of this Chapter.

These two sections are merely recitations of doctrines formulated by the courts, but it is important that both are enumerated to avoid the seemingly inevitable confusion and overlap that exists between them.

The following language needs to be added to explain the use of the words "to authorize" at Section 501(a)(3):<sup>183</sup> "An authorization which violates the exclusive rights of the copyright holder as provided by Sections 106 through 118 may be the basis for a finding of contributory infringement, if that authorization induces, causes, or materially contributes to the infringing activity of another."<sup>184</sup> The first sentence allows a defendant to be found guilty of contributory infringement on the basis of constructive knowledge; that is, the contributory infringer can be found liable on the theory that he should have known his authorization would lead to an

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181. *Sony*, 464 U.S. 417 (1984).

182. 17 U.S.C. § 501(a)(2) (1994)

183. 17 U.S.C. § 501(a)(3) (1994).

184. The following language could be added if an authorization were to be treated as a direct infringement: "Such an authorization may also be the basis for a finding of direct liability if it is given with the knowledge that it would accomplish an infringing activity, regardless of whether such infringing activity is fully or partially completed."

infringement.

The final revision would provide limited extraterritorial application of the Copyright Act in certain situations. This language could be placed in a new subsection, "(f)," of Section 501 and would read:

(1) 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, even though the infringing activity was carried out in a foreign jurisdiction, provided such contributory infringement took place within the boundaries of the United States, or was performed by a citizen of the United States living in a foreign jurisdiction, or by a corporation chartered in the United States over which personal jurisdiction can be exercised.

(2) An authorization may be considered an act of contributory infringement, even if the primary infringing activity were carried out in a foreign jurisdiction, provided that such authorization induces, causes, or materially contributes to the infringing activity of another.

(3) An authorization may be considered an act of vicarious infringement even if the primary infringing activity were carried out in a foreign jurisdiction, provided that such authorization has been given by an individual or corporation with the right and ability to supervise infringing activity, and has a direct financial interest in such an activity.

In sum, these suggested changes will finally provide statutory recognition of the theories of contributory and vicarious infringement and will allow extraterritorial application of the Copyright Act in special circumstances. The changes will give future plaintiffs the option of pursuing either a theory of contributory or vicarious infringement, depending on the facts of the instant case.

