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# In Support of the White Paper: Why Online Service Providers Should not Receive Immunity from Traditional Notions of Vicarious and Contributory Liability for Copyright Infringement

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# IN SUPPORT OF THE *WHITE PAPER*: WHY ONLINE SERVICE PROVIDERS SHOULD NOT RECEIVE IMMUNITY FROM TRADITIONAL NOTIONS OF VICARIOUS AND CONTRIBUTORY LIABILITY FOR COPYRIGHT INFRINGEMENT

The object [in developing new communications technology] is not simply to create a zillion-channel cable-TV capacity. It is to empower the American people with interactive, multiway networks that allow the emergence of all these new services and products that we can't yet imagine. In a real sense, the printing press made possible the modern nation-state and representative democracy by giving citizens of a large geographic area enough civic knowledge to participate in decision-making. If the printing press did that, then how much richer in spirit can our country be if our people are empowered with the knowledge that these high-capacity computer networks can distribute? It's a very exciting prospect.<sup>1</sup>

## I. INTRODUCTION

### A. *A Vignette*

At two o'clock on a Friday morning in Sibly, Iowa, a thirteen-year-old boy, up past his bedtime, sits in front of a computer screen, bathed in the cool, gray glow of an eighteen-inch monitor. His stereo speakers, perched precariously above his bed, are running through his state-of-the-art, Pentium-powered personal computer.<sup>2</sup> He is exploring different areas within America Online ("AOL").<sup>3</sup> He finds the "Classic Rock Chat"

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1. Interview with Al Gore, Vice President of the United States, U.S. NEWS & WORLD REP., Mar. 8, 1993, at 30.

2. "Pentium" is the brand name of a computer chip manufactured by Intel. DENIS HOWE, FREE ON-LINE DICTIONARY OF COMPUTING, <http://wombat.doc.ic.ac.uk/> [hereinafter FODOC], (Mar. 30, 1996) (on file with *Loyola of Los Angeles Entertainment Law Journal*).

3. Founded in 1985, America Online, Inc. . . . is the global leader in the market for interactive services. AOL offers its more than 3.5 million members a wide variety of services via personal computer and other intelligent devices. These include

section on AOL and opens an intriguing file under the heading "Aerosmith - A Private Collection of Favorites." These files are comprised of video clips and segments of songs—specifically, Dave Johnson's favorite video clips and favorite song segments. Dave Johnson is a fifteen-year-old from Newport Beach, California, who has created a home page<sup>4</sup> on the Internet,<sup>5</sup> which among other things, contains computer files full of his favorite music and snippets of video.

Dave does not think of himself as a copyright infringer. Far from it. He is a high school junior who runs track and loves music. Because Dave's father works in the computer industry, the exposure to new technology interested him enough to create a virtual scrapbook embodying his myriad personal interests—a "home page." Dave created a home page that is maintained by Netcom, a service that creates and maintains home

electronic mail, conferencing, software, computing support, interactive magazines and newspapers, online classes, as well as easy and affordable access to the Internet. . . . Headquartered in Vienna, Virginia, AOL employs more than 2500 people located in 16 cities across the United States. . . . AOL plans to extend its global presence to Europe in 1995.

AMERICA ONLINE, INC., 1995 ANNUAL REPORT (1995).

4. On the *World Wide Web*, [a user friendly system for document access using a universal language, HyperText Markup] the top level document relates to an individual or institution. This page has a Uniform Resource Locator ("URL") [which guides users to a particular information resource on the Internet] consisting of just a *hostname*, e.g., <http://www.ncsa.uiuc.edu/>. All other pages on a server are usually accessible by following *links* from the home page. FODOC, *supra* note 2.

5. [T]he internet is the world's largest computer network. . . . The 'Net' evolved in the U.S. from a military research program in the late 1960s, but today the government has almost no role in its operation; the 'Net' is unregulated and extends far beyond America's boundaries. . . . In 1981 there were only about 200 'host' computers on the Internet [a host is a computer connected directly to the Internet]. The most recent survey puts the number at over 5 million. Each host can provide access for one person or an entire organization. . . . More than 30,000,000 people have access to the Internet worldwide.

*About the Internet Connection* (available in America Online, Internet Connection library); A key idea in the ARPA [Advanced Research Projects Agency, a group funded by the military to explore network technology] research was a new approach to interconnecting LANs [Local Area Networks, a computer network technology designed to connect computers across a short distance, e.g., inside a building] and WANs [Wide Area Networks, any network technology that can span large geographic distances] that became known as an *internetwork*. The term is usually abbreviated *internet*, and is applied to both the project and to the prototype network that was built. To distinguish their internet from other internets, researchers working on the ARPA project adopted the convention of writing *internet* in lowercase when referring to internetworks in general, and writing *Internet* with an uppercase I when referring to their experimental prototype. The convention persists. The key point is: *ARPA funded research to investigate ways to solve the problem of incompatible networks. Both the project and the prototype system that researchers built became known by the name Internet.*

DOUGLAS E. COMER, THE INTERNET BOOK 54 (1995) (footnote omitted).

pages for paying customers. So far, Dave's site has received 10,000 "hits," or requests from other computers to access his home page. One hit came from Anne Nelson, a less sophisticated but still Internet-savvy AOL subscriber from Tampa, Florida. She downloaded the Dave Johnson "Aerosmith" file onto her own PC, and later uploaded it onto an existing bulletin board section on AOL. Thus, it is accessible by any one of several million AOL subscribers—in Sibly, Iowa, for example.

This Comment answers the following query: Should America Online be held vicariously or contributorily liable for copyright infringement? As a natural corollary to that question, this Comment briefly, and somewhat summarily, considers the liability of Dave Johnson and Anne Nelson.

This Comment will show that under the current copyright regime, the distribution of Steven Tyler's<sup>6</sup> songs and Geffen Records' sound recordings and video clips is an unauthorized distribution and display of copyrighted materials. But that is merely a threshold inquiry. The more probing question is, assuming infringement, who is liable? Dave Johnson? Anne Nelson? AOL? The question is somewhat straightforward for Dave Johnson and Anne Nelson; it is more controversial, however, when applied to AOL.

This Comment analyzes these questions in light of the recent report by President Clinton's Information Infrastructure Task Force ("IITF"), entitled, *Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights*,<sup>7</sup> ("White Paper")<sup>8</sup> which became publicly available in September 1995.<sup>9</sup> In

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6. Steven Tyler is the lead singer and primary songwriter for the musical group, Aerosmith. Aerosmith's musical work was a product of Geffen Records. See *Aerosmith, Get a Grip* (Geffen Records 1994).

7. INFORMATION INFRASTRUCTURE TASK FORCE, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE: THE REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS (1995) [hereinafter WHITE PAPER]. The IITF consists of high-level representatives of the federal agencies that play a major role in the development and application of information and telecommunications technologies. Working together with the private sector, the participating agencies will develop comprehensive technology, telecommunications, and information policies and promote applications that aim to meet the needs of the federal agencies and the populace. The IITF tries to build consensus among the competing interests with a stake in these developing technologies. The late Ronald H. Brown, Secretary of Commerce, served as chair for the IITF at the time of the White Paper's publication. The Task Force operates under the authority of the White House Office and Technology Policy and the National Economic Council.

8. "White Paper" is a term applied to documents created at the request of the Presidential Administration containing legislative recommendations. In the world of copyright law, there is presently only one such document, and it can safely be referred to simply as the "White Paper."

9. WHITE PAPER, *supra* note 7, at 1.

February 1993, President Clinton formed the IITF to study and implement the Administration's vision for effective use of the National Information Infrastructure ("NII").<sup>10</sup>

A scholarly discussion on the state of copyright law in light of currently emerging technology is nothing new. This topic is the subject of numerous law review articles and other commentary, much of which will be referred to in this Comment.<sup>11</sup> The White Paper, however, is an enormously important document in the development of intellectual property rights as they relate to the Internet, and thus it stands apart from all other commentary on the subject.

The White Paper is worthy of in-depth analysis because the legislative recommendations it proposed were almost immediately turned into presently pending legislation. Senators Orrin Hatch (R-Utah) and Patrick Leahy (D-Vermont) authored Senate Bill 1284, entitled "NII Copyright Protection Act of 1995."<sup>12</sup> S.B. 1284 is a virtually unmodified version of legislative recommendations contained at the end of the White Paper.<sup>13</sup> Correspondingly, Representatives Carlos Moorhead (R-California), Patricia Schroeder (D-Colorado), and Howard Cable (R-North Carolina) authored House Bill 2441.<sup>14</sup>

Together, these bills represent a wholesale adoption of the IITF proposals. Virtually all of the stakeholders in this technology lobbied the IITF as though they were lobbying Congress because they knew that their recommendations likely would be immediately adopted by the intellectual property committees in the legislature.<sup>15</sup> One of the reasons why

10. *Id.* "National Information Infrastructure: The emerging information infrastructure in the United States; the Internet forms the first part of the infrastructure." COMER, *supra* note 5, at 294.

11. See, e.g., Niva Elkin-Koren, *Copyright Law and Social Dialogue on the Information Superhighway: The Case Against Copyright Liability of Bulletin Board Operators*, 13 CARDOZO ARTS & ENT. L.J. 345 (1995); I. Trotter Hardy, *The Proper Legal Regime for "Cyberspace"*, 55 U. PITT. L. REV. 993 (1994); Kelly Tickle, Comment, *The Vicarious Liability of Electronic Bulletin Board Operators for the Copyright Infringement Occurring on Their Bulletin Boards*, 80 IOWA L. REV. 391 (1995).

12. See generally Graeme Browning, *Copycats*, NAT'L J., Jan. 6, 1996, at 23.

13. The White Paper concludes with seven specific legislative recommendations for actual changes to the copyright law. WHITE PAPER, *supra* note 7, at 239.

14. "Authored" is a term used loosely here because each of these bills simply adopted the specific recommendations contained at the end of the White Paper.

15. Interview with Jeff Harleston, Staff Member of the Advisory Council of the National Information Infrastructure, (Jan. 29, 1996). The members of the Advisory Council include representatives of industry, labor, academia, public interest groups, and state and local governments. The council provides advice on all the issues facing the IITF and assembles groups of experts to work with the working groups of the IITF. The Advisory Council has 37 members, appointed by the United States Secretary of Commerce. *Id.*

Congress readily sponsored the White Paper recommendations was because of the tremendous volume of input from interested parties. The IITF received extensive feedback from online service providers, representatives of "copyright industries" such as the Recording Industry Association of America, publishers, performance rights societies, and potential users of the Internet.<sup>16</sup>

Additionally, the White Paper is significant because it is the first articulation by the current, or for that matter, any presidential administration regarding intellectual property law as it relates to the NII.<sup>17</sup> The combination of its novelty, broad-based input, and impact through legislative enactment makes the White Paper a subject worthy of intensive study and criticism.

Ultimately, legislation ensuing from White Paper recommendations will govern commerce on the Internet as it relates to copyright law. The subject of this Comment focuses not on a particular change suggested by the White Paper, but rather on equally important recommendation—preserving the existing vicarious liability standard under copyright law for online commercial service providers.

### *B. The Status Quo*

It is difficult to get excited about arguing for the status quo. Much of legal scholarship calls for change. But in this instance, given the strong arguments by online service providers for fundamental change in the Copyright Act,<sup>18</sup> support of the administration's recommendations on this topic is appropriate and perhaps essential. Simply put, the White Paper recommends that the Copyright Act maintain traditional standards of liability for online service providers in today's emerging, nontraditional

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16. *Id.*

17. *Id.*

18. 17 U.S.C. §§ 101-810 (1976).

environment.<sup>19</sup> In other words, the White Paper suggests that the law maintain the status quo.

This author concedes that at some point, technological advances will outstrip the ability of copyright law to adequately address the legal questions they raise.<sup>20</sup> That point has not yet arrived, however, and until it does, conventional notions of infringement and traditional standards of liability should apply. Internet technology is capable of many things, but at its core, it simply provides access to and transfer of documents, pictures, film, and audio with unprecedented ease. This developing network does not now, or in this author's opinion, in the foreseeable future, signal the end of intellectual property.

In order to discern whether the current copyright scheme is adequate to address liability questions for online service providers—and whether the White Paper recommendations on this topic are sound—an initial review of the current copyright scheme is necessary. This review of basic copyright law will show how the 1976 statute and relevant case law contemplate, and in fact require, vicarious liability for online service providers, as called for by the White Paper.

The fundamental source of protection for copyright owners derives from Article I, Section 8 of the United States Constitution, which provides

19. WHITE PAPER, *supra* note 7, at 137-38.

The Working Group believes it is—at best—premature to reduce the liability of any type of service provider in the NII environment. On-line service providers currently provide a number of services. With respect to the allowance of uploading of material by their subscribers, they are, in essence, acting as an electronic publisher. . . .

It would be unfair—and set a dangerous precedent—to allow one class of distributors to self-determine their liability by refusing to take responsibility. This would encourage intentional and willful ignorance.

Exempting or reducing the liability of service providers prematurely would choke development of marketplace tools that could be used to lessen their risk of liability and the risk to copyright owners, including insuring against harm caused by their customers, shifting responsibility for infringement to the infringing subscriber through indemnification and warranty agreements, licensing (including collective license agreements), educating their subscribers about infringement and using technological protections, such as tracking mechanisms. *Id.* (citation omitted).

20. See Larry Kenswil, *Is Copyright Adequate Protection in the Digital Age?*, 1 MULTIMEDIA L. REP. 25 (1995).

Eventually, the intellectual property laws that are now on the books will prove to be inadequate. You can extrapolate the law to accommodate new circumstances only so far. A law that was written when books could only be read after a press printed them and movies could only be viewed in theaters after studios printed reels of film doesn't easily adapt to the coming age of solid state memory storage of virtual reality.

*Id.* at 27.

that "the Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."<sup>21</sup> The implementation of this power, in its present form, is the Copyright Act of 1976.<sup>22</sup> In *Whelan Associates v. Jaslow Dental Laboratory*,<sup>23</sup> the court stated, "the purpose of the copyright law is to create the most efficient and productive balance between *protection* (incentive) and *dissemination* of information, to promote learning, culture and development."<sup>24</sup> Balancing society's interest in the freedom of information against the private economic needs of individual authors is central to the philosophy underlying copyright law.<sup>25</sup> To encourage individuals to create original works of authorship, Congress has granted a limited monopoly to authors, that gives them "the necessary bargaining capital to garner a fair price for the value of the works passing into public use."<sup>26</sup> In other words, this limited monopoly gives potential authors economic incentives to be creative.

Congress limited the monopoly granted to copyright holders to the following five exclusive rights, which owners may themselves exercise or license others to exercise:

- 1) to *reproduce* the copyrighted work in copies or phonorecords;
- 2) to *prepare derivative works* based upon the copyrighted work;
- 3) to *distribute copies* or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending;
- 4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to *perform the copyrighted work publicly*;
- 5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion

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21. U.S. CONST. art. I, § 8, cl. 8.

22. 17 U.S.C. §§ 101-810.

23. 797 F.2d 1222 (3d Cir. 1986), *cert. denied*, 479 U.S. 1031 (1987).

24. *Id.* at 1235 (emphasis added).

25. The copyright law . . . makes reward to the owner a secondary consideration. . . . "The sole interest of the United States and the primary object in conferring the [copyright] monopoly lie in the general benefits derived by the public from the labors of authors." It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius.

*Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 429 (1984) (citations omitted).

26. John Gastineau, *Bent Fish: Issues of Ownership and Infringement in Digitally Processed Images*, 67 IND. L.J. 95, 125 (1991).



picture or other audiovisual work, to *display the copyrighted work publicly*.<sup>27</sup>

Additionally, the copyright owner has the exclusive right to authorize the foregoing.<sup>28</sup>

The Copyright Act defines a copyright infringer as: "anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 . . . or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright."<sup>29</sup>

The elements of infringement are:

(1) *substantial similarity* as a result of (2) *copying* (3) *protected material*. Stated differently, in order to win an infringement lawsuit, a plaintiff must prove three things: (1) that the defendant's work was copied from the plaintiff's (i.e., "derivation"); (2) that the copying amounted to excessive appropriation of protected material; and (3) as a result, the defendant's work is substantially similar to the plaintiff's.<sup>30</sup>

Similarity of unprotected material, even as a result of copying, is not infringement. Furthermore, an independent creation is not infringement, no matter how similar the defendant's work is to the plaintiff's work.<sup>31</sup>

Returning to the hypothetical scenario involving Anne Nelson, Dave Johnson, and AOL,<sup>32</sup> the foregoing discussion of exclusive rights and the definitions of infringement arguably show that Dave Johnson is a copyright infringer. Geffen Records owns the copyright in Aerosmith's sound recordings and videos; likewise, Steven Tyler and his publishing company own the copyright in the musical compositions.<sup>33</sup>

Under § 106 of the 1976 Copyright Act, both Geffen Records and Steven Tyler have the *exclusive* right to *reproduce* the copyrighted works, to *distribute copies* of the copyrighted works, and, in the case of the video, to *display* the copyrighted work publicly. Additionally, both parties have the right to *perform the copyrighted work publicly*.<sup>34</sup>

27. 17 U.S.C. § 106 (1988) (emphasis added).

28. *Id.*

29. *Id.* § 501(a) (emphasis added).

30. LIONEL S. SOBEL, MATERIALS ON AMERICAN AND INTERNATIONAL COPYRIGHT LAW 350 (1995). Lionel S. Sobel is a Professor of Copyright Law at Loyola Law School, Los Angeles.

31. *Id.*

32. *See supra* part I.

33. *See supra*, note 6.

34. Songwriters have a traditionally recognized public performance right, and various performance rights societies exist to police the public performance of music. DONALD S.

In creating a home page containing the copyrighted material, including the songs, the sound recordings and the audiovisual works, Dave Johnson directly infringed upon Steven Tyler's exclusive right to reproduce, distribute copies of, and perform the copyrighted songs publicly. Similarly, Dave Johnson infringed upon Geffen Records' rights to reproduce, distribute, and possibly publicly perform the sound recordings and audiovisual works under the Digital Performance Right in Sound Recordings Act of 1995.<sup>35</sup>

By later uploading Dave Johnson's files onto AOL, Anne Nelson is directly infringing on Steven Tyler's and Geffen Records' exclusive rights to distribute, display, and reproduce copies of the protected material.<sup>36</sup>

PASSMAN, ALL YOU NEED TO KNOW ABOUT THE MUSIC BUSINESS 233 (2d ed. 1994). More recently, Congress passed legislation, which may well encompass this type of digital transmission of sound recordings and audiovisual works, but that discussion is beyond the scope of this Comment. 17 U.S.C. § 101, 106, 111, 114, 115, 119, 801-03 (1996).

35. H.R. 1506, 104th Cong., 1st Sess. (1995).

Introduced in January of this year, the bill's purpose is to grant copyright owners of sound recordings the right to authorize certain digital transmissions of their works, and to be compensated for others. An exclusive right is provided for interactive services such as audio-on-demand, celestial jukeboxes and pay-per-listen. It's important to note that until this bill was enacted sound recordings were the only U.S. copyrighted work [sic] denied the right of public performance.

*Performance Rights Bill Finally Passed and Signed*, *Quarterly Newsletter* (RECORDING INDUS. ASS'N OF AM.), Fall 1995, at 1-2.

36. Suppose a cyberspace user receives an interesting personal message by electronic mail from a friend. This recipient decides to forward a copy of the message, also by electronic mail, to a third party. The third party, who does not know the message's author, then decides to forward the message to all the members of an on-line discussion group. . . . Perhaps this forum has several hundred members, all of whom now receive the original message.

Does the original author of the message, who . . . is unhappy and surprised by this extensive publication of the message, have a cause of action against either the friend or the third party?

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Copying and forwarding mail is a common practice in cyberspace, but many cyber residents have not considered its possible unlawfulness. . . . [T]here are laws of . . . copyright in "real" space, but they were designed for a world in which copying a message to thousands of people took considerable time, effort and expense, and naturally gave the would-be forwarder pause for thought about issues such as privacy and copyright. With cyberspace, the argument goes, it's a new ball game.

The facts may be generalized more abstractly, however: someone takes a work of authorship, makes thousands of copies of it, and distributes them to a segment of the public with no compelling educational, charitable, or other worthy-purpose reason for doing so. At this level, the question is not new at all. It is, in fact, an *easy case*: the described conduct is clearly within the letter and spirit of the Copyright Act's prohibition against reproduction of copyrighted material without authorization.

Hardy, *supra* note 1, at 997-98 (emphasis added). The term *Cyberspace* was popularized in 1984 by William Gibson, a science fiction writer, who used the phrase in his novel, "Neuromancer."

While it is possible to debate Dave Johnson's and Anne Nelson's liability, the existing copyright law, in § 106, which sets forth the exclusive rights of a copyright owner, and § 501(a), which defines infringement, arguably contemplates liability for both Dave Johnson and Anne Nelson. These conclusory opinions regarding the liability of the direct infringers are a backdrop to the more complex question of whether vicarious liability should attach to AOL.

### C. Vicarious Infringement

The infringement analysis takes on a different character when the defendant does not actually copy the plaintiff's protected work, but rather provides a forum or an opportunity within which infringement takes place. For example, should AOL be liable for merely providing and maintaining the hypothetical "Classic Rock" bulletin board section on its service?<sup>37</sup> In 1963, the Second Circuit addressed the notion of vicarious infringement in *Shapiro, Bernstein & Co. v. H.L. Green Co.*<sup>38</sup>

This action for copyright infringement presents us with a picture all too familiar in copyright litigation: a legal problem vexing in its difficulty, a dearth of squarely applicable precedents, a business setting so common that the dearth of precedents seems inexplicable, and an almost complete absence of guidance from the terms of the Copyright Act.<sup>39</sup>

In this case, Shapiro, Bernstein & Co. sued Jalen Amusement Company, Inc. for copyright infringement.<sup>40</sup> Jalen operated the phonograph record department in several stores of the H.L. Green Company ("Green"), under written licenses from Green.<sup>41</sup> The District Court Judge found Jalen liable as a direct infringer, but did not impose liability on Green as a vicarious infringer.<sup>42</sup> On appeal, the Second Circuit held in relevant part, that:

the imposition of liability upon the Green Company, even in the absence of an intention to infringe or knowledge of infringe-

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See WILLIAM GIBSON, *NEUROMANCER*, 55-56 (1984).

37. The "Classic Rock" bulletin board section is a fiction included merely to illustrate the types of bulletin boards or forums maintained by various online services. The author does not intend to imply that this particular bulletin board exists on AOL or that AOL has actually engaged in any infringing activity.

38. 316 F.2d 304 (2d Cir. 1963).

39. *Id.* at 305.

40. *Id.*

41. *Id.* at 306.

42. *Id.*

ment, is not unusual. As one observer has noted, “Although copyright infringements are quite generally termed piracy, only a minority of infringers fly the Jolly Roger.” . . . While there have been some complaints concerning the harshness of the principle of strict liability in copyright law . . . courts have consistently refused to honor the defense of absence of knowledge or intention. The reasons have been variously stated. “[T]he protection accorded literary property would be of little value if . . . insulation from payment of damages could be secured . . . by merely refraining from making inquiry.” . . . “It is the *innocent infringer who must suffer*, since he, unlike the copyright owner, either has an opportunity to guard against the infringement (by diligent inquiry), or at least the ability to guard against the infringement (by an indemnity agreement . . . and/or by insurance).”<sup>43</sup>

The court extended this reasoning, which was traditionally used to support liability against innocent infringers, to encompass the vicarious infringer scenario:

[T]he imposition of *vicarious* liability in the case cannot be deemed unduly harsh or unfair. Green has the power to police carefully the conduct of its concessionaire Jalen; our judgment will simply encourage it to do so, thus placing responsibility where it can and should be effectively exercised.<sup>44</sup> Green’s burden will not be unlike that quite commonly imposed upon publishers, printers, and vendors of copyrighted materials.<sup>45</sup>

The court’s ultimate justification for holding Green liable was that:

[I]n many cases, the party found strictly liable is in a position to police the conduct of the “primary” infringer. Were we to hold otherwise, we might foresee the prospect—not wholly unreal—of . . . “dummy” concessions and shielding their own eyes from the possibility of copyright infringement, thus creating a buffer against liability while reaping the proceeds of infringement.<sup>46</sup>

The logic of this holding is inescapable. If the threshold of liability allowed facilitators of infringement to escape by claiming lack of

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43. 316 F.2d at 308 (emphasis added) (citations omitted).

44. Online service providers object to vicarious liability in part because they claim they have no way of adequately policing information on their services. See *infra* part II.A.

45. *Shapiro, Bernstein & Co.*, 316 F.2d at 308 (citations omitted).

46. *Id.* at 309.

knowledge, there would be virtually no "downside" to infringement as a profitable enterprise. An individual could benefit from infringing activity for as long as possible. When the copyright holder finally becomes aware of the infringement and takes action, the vicarious infringer can simply claim lack of knowledge and smugly deposit into its own account the revenue rightfully owed the copyright owner.

In *Sony Corp. of America v. Universal City Studios, Inc.*,<sup>47</sup> a leading copyright case, Universal City Studios and Walt Disney Productions sued Sony Corporation on a contributory infringement theory.<sup>48</sup> The plaintiffs' essential argument was that by manufacturing and distributing Betamax video tape recorders, Sony was contributing to the infringement that would take place once consumers taped television programs and engaged in unauthorized "time-shifting."<sup>49</sup> As a justification for vicarious and contributory liability, the Supreme Court stated:

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 . . . 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. For vicarious liability is imposed in virtually *all areas of the law*, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.<sup>50</sup>

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47. 464 U.S. 417 (1984).

48. *Id.* at 425. This case is famous perhaps because of the notoriety of the parties and the significance of the decision for consumers. Universal Studios and Walt Disney Productions ultimately lost the case because the Supreme Court held that time shifting, while unauthorized, is not necessarily an infringement. *Id.* at 456. "Time-shifting" is the practice of recording a program that is aired at one time in order to view it at a later time. *Id.* at 421. The Court stated that a manufacturer is not liable for contributory infringement as long as the product is "capable of substantial noninfringing uses." *Id.* at 417.

The product and/or service that most online service providers furnish is capable of noninfringing uses. See discussion *infra* part III. The Supreme Court in *Sony* did recognize the validity of imposing vicarious and/or contributory liability for copyright infringement on third parties where appropriate. For a discussion of contributory liability, see *infra* part III.

49. *Id.* at 421.

50. *Id.* at 434-35 (emphasis added) (citations omitted).

The Copyright Act of 1976 specifically recognizes an exception to vicarious liability for "passive carriers."<sup>51</sup> Where a third-party transmitter has *no direct or indirect control* over the content or selection of the primary transmissions or the particular recipients of those transmissions, vicarious liability will not attach.<sup>52</sup> Specifically, section 111(a) reads:

The secondary transmission of a primary transmission embodying a performance or display of a work is not an infringement of copyright if . . . (3) the secondary transmission is made by any carrier who has no direct or indirect control over the content or selection of the primary transmission or over the particular recipients of the secondary transmission, and whose activities with respect to the secondary transmission consist *solely of providing wires, cables, or other communications channels for the use of others . . .*<sup>53</sup>

From its plain language, § 111(a)(3) does not provide the narrow escape from vicarious liability that would relieve online service providers. For reasons that are clear from a cursory reading of the statute, online service providers may not be exempt under this provision.<sup>54</sup>

The foregoing highlights the basic structure of liability for direct and vicarious copyright infringement. This structure provides a framework for analyzing the White Paper recommendation that, in appropriate instances, the online service providers should be held vicariously liable for copyright infringement. The preceding discussion of the status quo for third party liability through vicarious and contributory infringement demonstrates how neatly online service providers fit within this existing structure.

## II. SUPPORTING THE WHITE PAPER'S KEY ASSERTIONS REGARDING VICARIOUS LIABILITY

The White Paper's central arguments for holding online service providers vicariously liable include the following: (1) Online service providers have a business relationship with their subscribers and may seek indemnification from their subscribers. They are in a better position than the copyright owner to stop infringing activity.<sup>55</sup> (2) Online service

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51. 17 U.S.C. § 111(a) (1976).

52. *Id.*

53. *Id.* (emphasis added).

54. The White Paper does concede, however, that where an online service provider provides only the "wires and conduits" for transmission, it would have a good argument for an exemption from liability. WHITE PAPER, *supra* note 7, at 137.

55. *Id.* at 131-32.

providers are analogous to various other types of intermediaries who deal in copyright-protected works and require no exceptional treatment.<sup>56</sup>

(3) The legislative history for the 1976 Copyright Act reflects that Congress considered and rejected altering the standards of liability for intermediaries.<sup>57</sup> This Comment examines each of these arguments in turn.

*A. The Business Relationship Between Online Service Providers and Subscribers*

The White Paper states:

Online service providers have a business relationship with their subscribers. They—and, perhaps only they—are in the position to know the identity and activities of their subscribers and to stop unlawful activities. And, although indemnification from their subscribers may not reimburse them to the full extent of their liability and other measures may add to their cost of doing business, they are still in a better position to prevent or stop infringement than the copyright owner.<sup>58</sup>

This argument focuses on the degree of control the service providers have over the infringers. The degree of control is significant because liability for vicarious infringement is determined by examining the defendant's relationship to the direct infringer.<sup>59</sup> Essentially, the more control the defendant has over the activities of the direct infringer, coupled with the defendant's direct financial benefit from the infringing activity, the more likely the defendant will be found vicariously liable.<sup>60</sup>

The drafters of the White Paper apparently are cognizant of this tradition. They state:

With respect to the allowance of uploading by their subscribers, they are, in essence, acting as an electronic publisher. In other instances, they perform other functions. *No one rule may be appropriate.* If an entity provided only the wires and conduits—such as the telephone company, it would have a good argument for an exemption if it was truly in the same position as a common carrier and could not *control* who or what was on its

56. *Id.* at 130.

57. *Id.* at 133-35.

58. *Id.* at 131-32 (citation omitted).

59. PAUL GOLDSTEIN, COPYRIGHT PRINCIPLES, § 6.1 at 708 (1989) (citing F. HARPER, F. JAMES & O. GRAY, THE LAW OF TORTS, §10.1 (2d ed. 1986)).

60. *Id.* (citations omitted).

system. The same could be true for an on-line service provider who unknowingly transmitted encrypted infringing material.<sup>61</sup>

The recommendations that “no one rule may be appropriate,” and that the online service provider should be held liable only to the degree it had control over the direct infringer’s activity, seem reasonable. Unfortunately, this does not create a bright-line rule. Furthermore, it engenders criticism from some commentators who believe that because intermediaries are liable even if they have only theoretical control, they will exercise it in all instances.<sup>62</sup> The argument suggests this practice will lead to censorship and the restriction of the free flow of information.<sup>63</sup>

The critics are correct. The result may lead to a restriction on the free flow of information—hopefully only properly protected information. This criticism, however, regarding the “restriction of free flow of information” does not rebut the element of the vicarious infringement analysis that focuses on the relationship between the defendant and the infringer. One of two questions concerning this element of the analysis is whether the defendant service providers derive direct financial benefit from the infringing activity sufficient to bring them within the scope of a “business relationship”<sup>64</sup> as defined in the White Paper. It seems reasonable to conclude that if uploading and downloading files containing copyright protected material serves as an inducement to potential subscribers, then that inducement materially benefits the online service provider.

A recently decided case, *Sega Enterprises Ltd. v. MAPHIA*,<sup>65</sup> one of the few precedent-setting cases in this emerging body of “cyberspace” law,<sup>66</sup> justified holding an online service provider liable. The court reasoned that the provider induced subscribers to become members by offering as a service the capacity to upload and download copyright protected video games.<sup>67</sup> The court stated:

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61. WHITE PAPER, *supra* note 7, at 137 (citation omitted) (emphasis added).

62. See generally Pamela Samuelson, *The Copyright Grab*, WIREd, Jan. 1996, at 36; Niva Elkin-Koren, *supra* note 11.

63. Elkin-Koren, *supra* note 11, at 348.

64. GOLDSTEIN, *supra* note 59, § 6.2, at 708; see *Shapiro, Bernstein & Co.*, 316 F.2d at 304 (outlining the test for vicarious liability, and stating that where a court cannot find contributory infringement because defendant has no knowledge and did not induce the direct infringer, liability may still attach where the defendant had (1) the power to exercise control over the infringing activity, and (2) a direct financial interest in the infringement).

65. 857 F. Supp. 679 (N.D. Cal. 1994).

66. It has been noted that there is a pressing need for binding precedent in the emerging area of “cyberspace” law. See e.g., Peter H. Lewis, *Judge Stands by Ruling on Prodigy’s Liability*, N.Y. TIMES, Dec. 14, 1995, at D1.

67. *Sega*, 857 F. Supp. at 687.



Because users of the MAPHIA bulletin board are likely and encouraged to download Sega games therefrom to avoid having to buy video game cartridges from Sega, by which avoidance such users and Defendants *both profit*, the commercial purpose and character of the unauthorized copying weighs against a finding of fair use.<sup>68</sup>

This notion, touched on by the court in *Sega*, of an online service provider profiting, at least potentially, from subscribers who desire a service that actually encourages willful copyright infringement, as was the case in *Sega*,<sup>69</sup> is a fairly clear example of dubious motives on the part of the BBS operator. Not all circumstances are as glaring, which is why it is significant that the White Paper points out that “[n]o one rule may be appropriate.”<sup>70</sup>

For example, in *Frank Music Corp. v. CompuServe*,<sup>71</sup> a music publisher filed a class-action suit on behalf of more than 140 music publisher-principals of the Harry Fox Agency,<sup>72</sup> alleging copyright infringement of Frank Music’s copyrighted musical composition *Unchained Melody*.<sup>73</sup> CompuServe and Frank Music settled the suit, leaving the legal issues unresolved.<sup>74</sup> The settlement terms, however, give some insight as to how these issues might be resolved between parties.

The settlement requires CompuServe to pay \$500 for each of the nearly 1000 compositions published by the plaintiffs that were uploaded to and downloaded from CompuServe, or \$473,500 collectively, including

68. *Id.* (emphasis added).

69. *Id.*

70. WHITE PAPER, *supra* note 7, at 137.

71. No. 93-8153 JFK (S.D.N.Y., filed Nov. 29, 1994) (on file with the *Loyola of Los Angeles Entertainment Law Journal*).

72. The Harry Fox Agency is a clearinghouse that collects mechanical royalties on behalf of writers of musical compositions. Mechanical royalties are payable to copyright owners when their works are reproduced mechanically on configurations including records, tapes and compact discs. PASSMAN, *supra* note 34, at 222.

73. *Frank Music Sues CompuServe in NY Over Music in Bulletin Board*, ENT. LITIG. REP., (Feb. 25, 1994), available in LEXIS, Nexis library, Cumwvs file.

74. While this case has generated debate among copyright circles, it centered on amateur activities of a small circle of hobbyists. Most of the alleged infringements occurred on CompuServe’s MIDI/Music forum, where musical instrument digital interface files can be uploaded and downloaded. MIDI files resemble piano player rolls that enable a computer to generate musical notes and rhythms. Most of the files on the forum are created by musical enthusiasts using synthesizers, according to Jim Maki, the forum manager. Popular files are downloaded fewer than two hundred times per year. *What’s the Score: Frank Music Settlement Leaves Law Unsettled But Confirms Online Licensing Possibilities*, VOORHEES REP., Nov. 17, 1995, available in LEXIS, Nexis library, Cumwvs file.

\$94,500 in attorney's fees.<sup>75</sup> The \$500-per-work settlement represents the minimum amount available under statutory damages in cases of non-innocent infringement.<sup>76</sup>

The parties also negotiated a licensing arrangement that requires the managers of music forums to receive licenses from the Harry Fox Agency.<sup>77</sup> The forum managers will pay the statutory rate, currently 6.6 cents per downloaded copy of a protected work.<sup>78</sup>

Perhaps the most sensitive and vexing question in negotiating the settlement agreement was how to assign responsibility to CompuServe. CompuServe never conceded that it was a vicarious or contributory infringer, and did not agree to license downloaded music. Conversely, CompuServe is now requiring its managers to "take licenses and guarantee[s] payments under those licenses."<sup>79</sup>

Given the nature of the settlement agreement, this author believes that CompuServe could not escape copyright liability in the future under a set of facts similar to those faced in *Frank Music*.<sup>80</sup> In the words of Frank Music's counsel, the agreement and the licensing arrangement effectively

75. *Id.*

76. *Id.*

77. *Id.*

78. *Id.*

79. *Voorhees Rep.*, *supra* note 74.

One of the most difficult aspects of negotiating the agreement was clarifying CompuServe's role in the licensing arrangement. CompuServe did not admit liability and will not take out a license for downloaded music. But it has agreed to require its managers to take licenses and guarantee payments under those licenses.

The two sides see that arrangement differently. Shulman [Alan Shulman of Silverman & Shulman, counsel for Frank Music Corporation] says that while CompuServe has protected its ability to make legal arguments in future cases, it, as a practical matter, is accountable. "If the managers don't do what they are supposed to do, CompuServe is on the hook," Shulman said.

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CompuServe's counsel, Keller, says the guarantee was an accommodation to facilitate settlement, not an admission of liability. *Id.*

80. Excerpt from settlement agreement between Frank Music Corp. and CompuServe states:

To the extent, if any, it is an infringement under applicable copyright laws for any unauthorized use on CompuServe's Information Services of a musical composition covered by this Agreement, CompuServe shall be liable therefor and, in addition, any use of a licensable song for which a Mechanical License is revoked and terminated by the reason of failure to pay royalties not timely cured after notice shall be actionable as an act of copyright infringement as provided in such Mechanical Licenses and under Section 115 of the U.S. Copyright Act but nothing in this Agreement shall limit any rights or defenses of CompuServe or the Managers under the Copyright Act in any action based on the foregoing.

*Id.* (citations omitted).

leaves the information service provider “on the hook.”<sup>81</sup> The thirty-three-year-old test outlined in *Shapiro, Bernstein & Co.*, requires the plaintiff, in order to prove vicarious liability, to show that the defendant had the ability to control the direct infringer’s activity and financially benefit from the infringement.<sup>82</sup> This author believes the CompuServe settlement arrangement exculpates neither CompuServe nor any other information service provider in analogous circumstances.

The difference between *Sega* and *Frank Music* is that the defendant BBS operator in *Sega* was a less sympathetic defendant than CompuServe in *Frank Music*. The hobbyists sharing their music via an open forum on CompuServe appeal to all the best intentions of the information superhighway: people in different locations, united in a common interest, brought together through a technology that makes otherwise unfeasible interaction possible. By contrast, in *Sega*, the defendant was baldly enticing members to use its service in order to obtain free video game software.<sup>83</sup>

But despite this essential difference—CompuServe’s innocuous intentions—*Sega* and *Frank Music* both involve defendants who could have been held vicariously liable under the test outlined in *Shapiro, Bernstein & Co.* Both defendants had control over the activities of the direct infringers, or at least the hypothetical ability to exercise control, and both derived financial benefit from the infringing activity.

When the IITF refers to a “business relationship” justifying vicarious liability in appropriate cases, the analysis is incomplete when it alludes to the policy enunciated in *Shapiro, Bernstein & Co.*,<sup>84</sup> namely that online service providers “are still in a better position to prevent or stop infringement than the copyright owner. Between these two relatively *innocent parties* [the information service provider and the copyright holder], the best policy is to hold the service provider liable.”<sup>85</sup>

One of the strongest reasons the information service provider is in a “better” position than the copyright owner is because of the attendant “anonymity” of the information service provider’s subscribers in cyberspace.<sup>86</sup> For example, “[e]ncoded pictures of child pornography and

81. *Id.*

82. *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (1963).

83. *Sega Enters. Ltd.*, 857 F. Supp. at 683.

84. *See* 316 F.2d at 308.

85. WHITE PAPER, *supra* note 7, at 132 (emphasis added).

86. *See* George P. Long, III, Comment, *Who Are You? Identity and Anonymity in Cyberspace*, 55 U. PITT. L. REV. 1177 (1994). Long argues against liability for service providers, stating in part that:

various copyrighted materials are often scanned into a computer and anonymously posted to the Internet."<sup>87</sup> Additionally, support groups that rely on anonymity for participation regularly communicate via the Internet.<sup>88</sup>

This Comment does not attempt to determine the merit of anonymous communication on the Internet, but merely argues that critics of vicarious liability, who simultaneously support anonymity, cannot have it both ways. If information service providers allow anonymous communication but have the power to exercise control over a direct infringer and derive benefit from the infringing activity, they should be responsible for communications and file transfers therein.

The copyright owner cannot sue an anonymous entity, though perhaps the copyright owner could gather information from the service provider through discovery. But the system administrator, through its business relationship with its subscribers, is clearly in the "best position" to prevent copyright infringement.

Ultimately, where a service provider has a "business relationship" with its subscribers that encompasses the two prongs of the vicarious liability analysis, control over infringing activity and derivation of direct financial benefit, the service provider should be held vicariously liable for any copyright infringement.

### B. *Analogy to Other Types of Intermediaries*

The White Paper cites an important law review article, *The Proper Legal Regime for Cyberspace*,<sup>89</sup> which attempts to sort out the truly "new" issues presented by Internet technology—requiring new law—from those that may appear new but that may be resolved merely by applying existing law to new technology.<sup>90</sup> This type of analysis should be Congress'

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Server administrators, Usenet site providers, and bulletin board operators should not be held liable merely for distributing anonymous messages that contain illegal material. The probable cause standard allows authorities to determine the identity of the person directly responsible for such material, without implicating the distributor. It would not be feasible for distributors to personally check the vast amount of messages that are transmitted daily, and they do not have the acumen to pass judgment on the legality of a particular message. Imposing responsibility on distributors would have the effect of chilling electronic communication by discouraging [system operators] who are concerned with liability.

*Id.* at 1213.

87. *Id.* at 1179 n.10.

88. *Id.* at 1184.

89. Hardy, *supra* note 11.

90. *Id.* at 994-95.

central task when it considers amending the copyright statute to accommodate technological development. No other bodies of statutory law are likely to be as sensitive to changes in technology, save perhaps for Federal Communications Commission regulations.

For this reason, Congress must be cautious not to overreact to the changes that Internet technology brings. The White Paper draws analogies between online service providers and photo finishers, book sellers, record stores, newsstands, and computer software retailers, all of whom could incur direct liability as distributors of copyrighted material, or vicarious liability if the circumstances warrant such a finding.<sup>91</sup>

The White Paper merely references these entities but does not elaborate on their potential liabilities. The problem with such analogies is that they are simply too malleable in the hands of the advocate to be instructive.

For example, in a recently published scholarly discussion concerning vicarious liability for bulletin board operators,<sup>92</sup> the author concluded that the best analogy to an existing body of law is the landlord-tenant relationship. The author reasoned that the landlord is like the BBS operator because the landlord has limited control over the activities of the tenants. Courts traditionally have held that landlords do not have as great a duty of care to guard against illegal actions of lessees. By analogy, BBS operators would not be responsible for copyright infringement by users. However, BBS operators retain the ability to monitor activities occurring on their bulletin boards. The author ultimately suggests the application of that same lowered standard of care traditionally reserved for the landlords, so that BBS operators would be liable only if they knew or had reason to know of the copyright infringement.<sup>93</sup>

91. WHITE PAPER, *supra* note 7, at 130. See generally *Olan Mills, Inc. v. Linn Photo Co.*, 23 F.3d 1345 (8th Cir. 1994).

92. Tickle, *supra* note 11.

93. *Id.* at 416-17.

The standard of liability imposed by the lessor-lessee model appears to best represent the situation faced by the BBS operator. Like the BBS operator, the landlord has limited control over the activities occurring in the leased property. As a result, courts imposed a less stringent duty of care on the landlord. The BBS operator, however does not technically fit the facts of this model because the operator retains the ability to monitor the activities occurring on the bulletin board. Instead of forcing the innocent BBS operator's dilemma into the old form of the lessor-lessee model, courts should extend the standard of liability of that model to apply to the BBS operator. . . . BBS operators should be liable for the copyright infringement occurring on their bulletin boards only if they knew, or had reason to know, of the presence of copyrighted material.

The problem with this analogy is that it extracts a conclusion from the landlord-lessee model when it is clear that the landlord-lessee model does not conform to the contours of the Internet. It seems far better to apply the conceptual law of vicarious liability, rather than draw a specious conclusion based on fact patterns that simply do not apply to Internet transfers of copyright protected material. Consider how the landlord-lessee model fails when held to the light of the accepted vicarious liability test.

The argument should be rejected because it disregards the sound policy against qualified liability articulated by *Shapiro, Bernstein & Co.*,<sup>94</sup> which provides that despite the tough strict liability policy applied in copyright law, the "ostrich" defense has and should continue to be rejected by courts because the protections conveyed by copyright law would have limited application if an "innocent infringer" could bury its head in the sand, blithely ignore infringement and thereafter disclaim responsibility.<sup>95</sup>

In other words, courts have traditionally disallowed vicarious copyright infringers to turn a blind eye to infringement. This statement presupposes the two prongs of the vicarious-liability test, namely that the defendant has power to exercise control over the direct infringer's activities and has a direct financial interest in the infringement.<sup>96</sup> While the landlord lacks "power to exercise control" over the infringing lessee's activities in many instances, the BBS operators retain control over the infringing online user's activities in many instances.

Some BBS operators do not have a direct financial interest in the infringement. Others, such as CompuServe, a defendant in *Frank Music*,<sup>97</sup> require membership fees that accrue based on the amount of time a member spends online. The more time the member spends online, the more money the service makes. If members are spending time online to transfer copyright-protected information, it follows that infringement is a direct financial benefit to the information service provider.

This is a good example of why Internet-related legal issues should be analyzed on a case-by-case basis, using traditional principles of vicarious liability, rather than anticipated through a wholesale change in copyright statutes. The White Paper aptly acknowledges that "[n]o one rule may be appropriate" under the exception in the Copyright Act for common carriers.<sup>98</sup> This is one of the White Paper's most prudent statements and

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94. 316 F.2d 304 (2d Cir. 1963).

95. See discussion part I.C.

96. See text accompanying note 46.

97. *Frank Music Corp. v. CompuServe*, No. 93-8153 JFK (S.D.N.Y., filed Nov. 29, 1994).

98. WHITE PAPER, *supra* note 7, at 137.

should be broadly applied. Additionally, analogies to other intermediaries that are not presented in the context of accepted vicarious liability principles should be viewed with professional skepticism because they are confusingly pliant when applied in a vacuum.

*C. The Legislature Rejected Modification of Traditional Standards of Liability*

As an additional justification for maintaining traditional standards of liability for Internet service providers, the White Paper examines the legislative deliberations preceding enactment of the 1976 general revision of the Copyright Act.<sup>99</sup> The IITF notes that “changes to the standards of liability were ‘considered and rejected’.”<sup>100</sup> Quoting from the legislative history on the issue of vicarious liability for business owners whose independent contractors directly infringe the public performance right in copyrighted works, the White Paper states:

A well-established principle of copyright law is that a person who violates any of the exclusive rights of the copyright owner is an infringer, including persons who can be considered related or vicarious infringers. . . . The committee has decided that no justification exists for changing existing law, and causing a significant erosion of the public performance right.<sup>101</sup>

In a parenthetical, the White Paper alludes to the “dance-hall cases,” indicating they were the subject of the Congressional comment regarding independent contractor liability.<sup>102</sup> The dance hall cases illustrated the rather extensive reach of the vicarious-liability doctrine. In these cases, dance hall owners were liable for actions of independent contractors (usually musicians), even where the contract expressly renounced all control over the independent contractor’s infringing activities.<sup>103</sup>

The legislative history generally supports the proposition that, since 1976, Congress contemplated third-party liability for copyright infringe-

99. *Id.* at 133-35.

100. *Id.* at 133 (citation omitted).

101. *Id.* at 134 (quoting H.R. REP. No. 1476, 94th Cong., 2d Sess. 47 (1976), reprinted in 1976 U.S.C.A.N. 5775-76 [hereinafter HOUSE REPORT]).

102. WHITE PAPER, *supra* note 7, at 122-27.

103. See *Buck v. Russo*, 25 F. Supp. 317, 321 (D. Mass. 1938) (holding that by employing an orchestra the owner approved the infringing actions of the independent contractor); *M. Witmark & Sons v. Pastime Amusement Co.*, 298 F. 470, 475 (E.D.S.C. 1924), *aff'd*, 2 F.2d 1020 (4th Cir. 1924) (holding that the employer of a musician vicariously violates public performance right where the contract allowed the musician to choose songs to perform); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929).

ment. However, Congress did not specifically anticipate the era of the online service provider, and it is clear that in most cases online service providers are not independent contractors, like musicians in the dance-hall scenario.<sup>104</sup>

Those arguing against copyright liability for online service providers would likely, and perhaps justifiably, exploit that weakness and contend that any legislative history from 1976 is moot in the wake of the Internet evolution, and they would have a point. Obviously, there is nothing preventing Congress from changing its position. The 1976 legislative history, however, is merely one brick in a much larger wall suggesting that online service providers should be held to traditional standards of vicarious liability.

The White Paper quotes further from the Copyright Act's legislative history:

Congress also determined that the innocent infringer provision, which allows reduction of damages for innocent infringers "is sufficient to protect against unwarranted liability in cases of occasional or isolated innocent infringement, and it offers adequate insulation to users, such as broadcasters and newspaper publishers, who are particularly vulnerable to this type of infringement suit." Congress believed that "by establishing a realistic floor for liability, the provision preserves its intended deterrent effect; and it would not allow an infringer to escape simply because the plaintiff failed to disprove the defendant's claim of innocence."<sup>105</sup>

This recognition is significant for the online service providers because it emphasizes the importance of the innocent-infringer provision. In fairness, however, the innocent-infringer provision may need an overhaul, not just for the sake of online service providers, but because it simply is outmoded. The Copyright Act provides different remedies for different degrees of infringement.<sup>106</sup> Specifically, § 504(c)(2) provides that: "[Where] the court finds that [the] infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court . . . may reduce the award of statutory damages to a sum of not less than \$200."<sup>107</sup>

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104. See Tickle, *supra* note 11, at 413.

105. WHITE PAPER, *supra* note 7, at 134 (quoting HOUSE REPORT, *supra* note 101, at 163) (citations omitted).

106. GOLDSTEIN, *supra* note 59, § 12.2.1 at 341.

107. 17 U.S.C. § 504(c)(2) (1988).



Just as other aspects of copyright law should remain—those which the online service providers may abhor, such as strict liability standards for infringement—so should other principles, which serve to ameliorate damages for parties acting in good faith and to balance a harsh standard of strict liability. This traditional provision contained in § 504(c)(2) will protect some online service providers from undue losses resulting from direct infringement by their users or subscribers. However, it is not the impenetrable shield they may hope for because in order for an infringer to be entitled to the lowered floor for recovery, the infringer must prove it did not know its acts constituted copyright infringement and also that it had *no reason to believe* they constituted infringement.<sup>108</sup>

Given the sophistication of most online service providers and the attention that Internet-related intellectual property issues have received, it may be difficult for an online service provider to successfully claim unawareness under § 504(c)(2). In *D.C. Comics Inc. v. Mini Gift Shop*,<sup>109</sup> the defendant's lack of sophistication and the absence of copyright notices on the copyrighted material were sufficient reasons for the court to apply § 504(c)(2). Perhaps the legislature could make some concession in this provision by stating that where an entity has taken reasonable, good faith steps to guard against infringement and an infringement still takes place, it may be entitled to the lowered floor for infringement. Should the

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108. Innocence is generally no defense to copyright infringement. Section 504(c)(2) partially moderates the harshness of this rule by lowering the statutory floor for innocent infringers. . . . It is questionable whether § 504(c)(2) is, as the House Report states, "sufficient to protect against unwarranted liability in cases of occasional or isolated innocent infringement," and whether "it offers adequate insulation to users, such as broadcasters and newspaper publishers, who are particularly vulnerable to this type of infringement suit." One reason the provision for innocent infringement contained in § 504(c)(2) may be insufficient is that, to be entitled to the lowered floor for recovery, the infringer must sustain the burden of proving not only that it was unaware that its acts constituted copyright infringement but also that it had no reason to believe that they constituted infringement.

GOLDSTEIN, *supra* note 59, § 12.2.1, at 341; *see, e.g.*, *Broadcast Music, Inc. v. Lyndon Lanes, Inc.*, 227 U.S.P.Q. (BNA) 731, 733 (Oct. 2, 1985) (awarding statutory damages of \$250 for each infringement, declining to reduce the award to the then-applicable \$100 minimum; although defendants did not act willfully, they did not meet their burden of proving that they had no reason to believe their act constituted copyright infringement).

109. 912 F.2d 29 (2d Cir. 1990) *cited in* WHITE PAPER, *supra* note 7, at 140 n.402. The owner of the "Batman" copyrights sued several flea markets and retail stores for copyright infringement. *D.C. Comics, Inc.*, 912 F.2d at 35. The defendants had the burden under § 504(c)(2) to establish innocent infringement. *Id.* The district court held the retail store's infringement was innocent, because of evidence that the infringing goods had no copyright notices, and that a layperson would be unable to identify the infringing goods from the genuine goods, based on their style, artwork and quality. *Id.*

legislature adopt this approach, the court should be given broad discretion to evaluate the genuine nature of the defendant's good faith.

This is not an entirely satisfying conclusion for the online service providers, but the lowered damage provision for innocent infringement must be balanced with the policy articulated in *Shapiro, Bernstein & Co.*,<sup>110</sup> which disallows even innocent infringers from turning a blind eye lest it become a popular way to avoid liability.<sup>111</sup>

Unfortunately, there is no neat conclusion on this issue. Congress may want to reexamine what constitutes an "innocent" infringer in the information age. Perhaps this is one area where legislative change is appropriate. This change should not come, however, solely at the request of the online service providers, but rather as a response to the high, perhaps increasingly unreasonable burden of showing "innocent infringement."

The fact that the legislature considered and rejected liability for intermediaries when developing the 1976 Copyright Act is certainly not a controlling justification to maintain that policy against online service providers today. The law must change in many instances to embrace technological development. Rather, it is merely one indication that the policy of vicarious infringement has a significant history not only at common law, but also in the statutory realm. This policy should not be summarily discarded in the advent of a new medium that, at its core, simply improves the facility with which individuals may transfer protected works.

### III. CONTRIBUTORY LIABILITY

The White Paper states:

Copyright law imposes different standards of liability for direct, contributory and vicarious liability. Direct infringers are held to a standard of strict liability. Liability for direct infringement is . . . generally determined without regard to the intent of the infringer. However, the Copyright Act gives courts the discretion to consider the innocent intent of the infringer in determining the amount of damages to be awarded. Related infringers—those found to be contributory infringers or vicariously liable—are not held to strict liability, but rather to a higher threshold for liability.<sup>112</sup>

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110. 316 F.2d 304 (2d Cir. 1963).

111. *Id.* at 308.

112. WHITE PAPER, *supra* note 7, at 129.

This is an extremely dense summary of the difference between direct and related infringers. In its attempt to be comprehensive, the White Paper sacrifices detail on the two connected but distinct doctrines of vicarious and contributory liability. Since the primary thrust of the White Paper recommendation on online service provider liability is that the existing body of statutory and common law should be used to analyze novel issues, it is somewhat disappointing that the IITF did not spend more effort reviewing the doctrines of vicarious and contributory liability. For clarity, the doctrines have been analyzed separately. To this point, this Comment has addressed vicarious liability. From this point forward, the Comment reviews the doctrine of contributory liability.

The White Paper enumerates the various reasons asserted by online service providers to justify categorizing providers as “related” infringers, rather than as “direct, contributory or vicarious” infringers.<sup>113</sup> The White Paper rejects these arguments while favoring a higher threshold of liability, a view this Comment supports. These issues should be resolved by applying existing copyright law on a case-by-case basis. Although contributory liability should be considered by the courts as they evaluate these Internet-related issues, it should be applied to online service providers very cautiously, more so than vicarious infringement.

A defendant must have acted in cooperation with the direct infringer and must have known of the direct infringement in order to be held liable for contributory infringement.<sup>114</sup> The more the defendant’s acts are intertwined with the infringing activity, the stronger the inference that the defendant knew of the infringement.<sup>115</sup> Where it is obvious the defendant and the direct infringer acted in collaboration, partnership, or agreement, the court often will not consider the knowledge requirement because it will be self-evident from the facts.<sup>116</sup>

Contributory infringement generally takes one of two forms:

First, the defendant may act in concert with the direct infringer by contributing labor to the infringing activity. The personal element involved in the contribution of labor will sometimes, but not always, also form the basis for an inference that the defendant knew of the infringing activity. Second, the defendant may act in concert with the direct infringer by providing materials or equipment necessary for the infringement to occur.

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113. *Id.* at 129-30.

114. GOLDSTEIN, *supra* note 59, § 6.2, at 708.

115. *Id.*

116. *Id.* § 6.2, at 709.

The defendant's lack of personal involvement in the contribution of materials or equipment will sometimes, but not always, imply the absence of actual knowledge of the directly infringing activity.<sup>117</sup>

Contributory infringement is distinguishable from vicarious infringement because it requires knowledge of infringing activity and some sort of cooperation between the defendant and the direct infringer. Vicarious infringement merely requires possible control over the direct infringer's activity and direct financial benefit from the infringing activity.<sup>118</sup> In *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*,<sup>119</sup> the Second Circuit held that it would impose liability on one who knowingly aids, organizes, supervises or controls a copyright infringement by another.<sup>120</sup> This remains the general framework for assessing contributory liability.

In *Sony Corp. of America v. Universal City Studios, Inc.*,<sup>121</sup> the Court added a requirement. This was a difficult case because the facts strained the then-existing notions of contributory infringement. A critical issue in this case was whether a party who supplied the means to infringe and had no direct contact with the direct infringer, yet encouraged the infringer through advertising, would be liable as a contributory infringer.<sup>122</sup> The Court held that the mere sale of the product does not constitute infringement provided the product is "widely used for legitimate, unobjectionable purposes."<sup>123</sup> This is a critical requirement and remains good law today.

Envision for a moment a somewhat diabolical scenario: assume an online service provider knows that certain members will increase use of its service if it provided a mechanism for infringement. The service provider knows unquestionably that its service is being used for infringing activity, satisfying the first prong of the contributory liability test. Further, this service provider makes it known that this is an intended use of its service, satisfying the second prong of the contributory infringement analysis, by acting in concert with the direct infringer.

After *Sony*, the question remained whether a service provider for contributory infringement fails merely because its service is capable of

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117. *Id.*

118. *Id.* § 6.1, at 708.

119. 312 F. Supp. 581 (S.D.N.Y. 1970).

120. *Id.* at 583.

121. 464 U.S. 417 (1984); see discussion *supra* part II.C.

122. *Sony*, 464 U.S. at 420.

123. *Id.* at 442.

“substantial noninfringing uses,” such as distributing news reports, properly licensed copyrighted material, and facilitating communication between its members. According to the court in *Sega*,<sup>124</sup> the answer is no. This is a difficult decision because it seems at first glance to abandon stare decisis.

In *Sega*, the court found that the defendant was a contributory infringer, even though theoretically the bulletin board operated by the defendant was capable of substantial noninfringing uses.<sup>125</sup> The court may have decided that since MAPHIA used its board almost exclusively for the promotion of transferring protected software, this ameliorated the substantial noninfringing use consideration from *Sony*.

Perhaps the court found that, unlike *Sony*, where the defendant relinquished all control over the VCR after it was sold, the BBS operator retained control during the infringement and therefore satisfied one of the key requirements for contributory infringement.

Courts should rarely, if ever, apply the contributory infringement doctrine to online service providers. The Supreme Court has been unequivocal in its assertion that where a product is capable of substantial noninfringing uses, its creator should not be held liable for contributory infringement.

The public policy underpinnings of this statement are not difficult to imagine. Intellectual property law strikes a balance between providing just enough incentive through a limited monopoly to inspire creation, but not so much that it deprives the public of any more creative genius than is necessary. Internet technology is extremely beneficial to the public. If the words of the Supreme Court in *Sony* are to be given any effect, contributory infringement must not apply unless the scope of the services it offers are so narrow as to be incapable of any other use but an infringing one.

#### IV. CONCLUSION

Copyright law provides an incentive for citizens to create works of authorship. It is not designed to confer a private benefit; rather it is aimed at providing for the common good.

The monopoly privileges that Congress may authorize are neither unlimited nor primarily designed to provide a special private benefit. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to

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124. 857 F. Supp. 679 (N.D. Cal. 1994).

125. *Id.* at 686-87.

motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.<sup>126</sup>

Justice Stevens went on to observe that:

The immediate effect of our copyright law is to secure a fair return for an 'author's' creative labor. But the ultimate aim, is by this incentive, to stimulate artistic creativity for the general public good.<sup>127</sup>

There is no reason why Internet technology should dramatically alter the underlying premise of copyright law merely because it provides ease of access in an unprecedented fashion. A work is no less protected by copyright, nor should it be, just because it may be transferred via exciting new Internet technology. If there is an extant notion that information wants to be free, particularly in the "coming age of solid state memory storage of virtual reality,"<sup>128</sup> it is a woefully misguided one.

The time-tested principles of vicarious and contributory infringement will not apply in all cases involving information service providers, nor should they. The White Paper acknowledges this when it states that "[n]o one rule may be appropriate,"<sup>129</sup> but that does not mean that online service providers should be exempt from vicarious or contributory liability in every case either.

Courts must apply the existing body of law to the Internet in a conceptual manner and not attempt to determine precisely whether a record store, a landlord or a photofinisher provides a pristine analogy to Internet service providers. The common law has articulated clear tests for vicarious and contributory liability, and those tests must be applied to this new technology.

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126. *Sony*, 464 U.S. at 429.

127. *Id.* at 432.

128. Larry Kenswil, *Is Copyright Adequate Protection in the Digital Age*, 1 MULTIMEDIA L. REP. 25, 27 (1995).

129. WHITE PAPER, *supra* note 7, at 137.

The present copyright regime and the attendant body of common law provides an adequate basis upon which the courts may rely, and, as a result, a dramatic change in the Copyright Act exempting online service providers from liability, in the words of the White Paper, “is—at best—premature.”<sup>130</sup>

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130. *Id.*

\* This Comment is dedicated to Dr. Richard Etlinger, Professor and Chair, Entertainment Management program, University of the Pacific. The author thanks Sara Schroeder, Fara Daun and Tom Kosakowski for their editorial contributions to this Comment.