

WHAT'S IN A COPYRIGHT? THE FORGOTTEN RIGHT "TO AUTHORIZE"

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For years, Congress and the Judiciary have wrestled with the problem of how to properly protect intellectual property rights while balancing them against the common good. One of the most active areas is that of indirect liability. The Patent Act of 1952 expressly codified liability for inducement and contributory infringement. However, the Copyright Act of 1976 failed to do the same. What should be made of Congress' codification of indirect liability in patent but not copyright law? This Note will argue that indirect liability for copyright infringement can be derived from the 1976 Act's use of the phrase "to authorize" when describing the exclusive rights of a copyright holder. This Note will consider the development of indirect liability in patent and copyright law, and compare the jurisprudence of America with that of Australia and England. Borrowing from the English and Australian copyright systems, this Note proposes that an appropriate authorization test would hold a party liable for (1) failing to take reasonable and effective measures to curtail infringement while (2) not enabling copyright owners to monitor infringement themselves. An additional authorization test would hold a party liable for granting or purporting to grant the authority to do an act exclusively reserved to the copyright owner. To highlight potential uses and effects of an authorization standard, this Note reviews the Supreme Court's *Grokster* decision and compares two recent Ninth Circuit decisions. The Note concludes that the proposed authorization standard comports with the Copyright Act of 1976. However, the Note also suggests the need for Congress to provide greater guidance in the area.

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INTRODUCTION

For years, Congress and the Judiciary have wrestled with the problem of how to properly protect intellectual property rights while balancing them against the common good. As enforcing these rights against direct infringers became more difficult, courts began to impose liability for indirect infringement. Subsequently, both patent and copyright law established and used vicarious, contributory, and active inducement liability doctrines to determine indirect infringement. Vicarious infringement, propagating from principal-agent doctrines,¹ holds a party liable, regardless of knowledge, if he or she had a right and ability to control, and derived a direct financial benefit from, the infringement.² Contributory infringement holds a party liable if he or she knew, or should have known, of the direct infringement and materially contributed to it.³ A party is liable for inducement when he or she intentionally promotes a product for use in, and encourages the act by the purchaser of, infringing another's rights.⁴ As these doctrines developed, the party's intent, knowledge, financial motive, right and ability to control, duty to ascertain the purchasers' intentions, and the product's legal and illegal capabilities have become central to the inquiry.⁵

The Constitution grants Congress the power "[t]o 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."⁶ With this power to legislate, Congress, for various reasons, created different statutory regimes for patents and copyrights. The Patent Act of 1952 expressly outlines liability for inducement and contributory infringement.⁷ However, the Copyright Act of 1976 lacks a directly analogous provision. Instead, it states that "[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 . . . is an infringer."⁸ Thus, the provision leaves any support for indirect liability to be derived either from common law, or from the violation of an exclusive right. This Note will

¹ *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

² *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005).

³ *Gershwin*, 443 F.2d at 1162 ("[O]ne 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." (footnote omitted)); *see also Grokster*, 545 U.S. at 930 ("One infringes contributorily by intentionally inducing or encouraging direct infringement . . .").

⁴ *Grokster*, 545 U.S. at 936-37 ("[O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.").

⁵ *See infra* Parts I and II.

⁶ U.S. Const. art. I, § 8, cl. 8.

⁷ 35 U.S.C. § 271(b)-(c) (2006).

⁸ 17 U.S.C. § 501 (2006).

argue that indirect liability for infringement can be derived from the 1976 Act's use of the phrase "to authorize" when describing the exclusive rights of a copyright holder in Section 106.⁹

Because of the similarities between patent and copyright law, this Note will consider the development of indirect liability in both, and compare the jurisprudence of America with that of Australia and England. Part I will discuss the development of indirect liability in the common law of patents. Part II will show how early patent law decisions supported the development of the common law of Copyright. Part III will discuss the importance and effect of Congress' inclusion of "to authorize" in the Copyright Act of 1976,¹⁰ again with a comparative analysis. Finally, Part IV will examine recent decisions dealing with alleged copyright violations involving peer-to-peer software, and argue that the incorporation of the inducement doctrine into copyright law was unnecessary.

I. DEVELOPMENT OF INDIRECT LIABILITY IN PATENT LAW

The Supreme Court has incorporated the contributory infringement and inducement doctrines from the Patent Act into current copyright law.¹¹ Regardless of the wisdom of these additions,¹² it is helpful to examine how the doctrines emerged and evolved in patent law. Although not a primary focus, at times this Note will discuss vicarious liability because of its widely accepted use in early patent and copyright cases to impose liability on a principal for the actions of its agent.¹³ This section will begin with a summary of some of the earliest patent cases which involved indirect liability, before describing the acknowledgment of the doctrine by the Supreme Court, and Congress' subsequent codification of indirect liability in the Patent Act of 1952.¹⁴ To highlight some of the key novelties of the American doctrine, comparisons with developments in England will be drawn throughout.

The first major expansion of indirect liability in American patent law was the relaxation of the privity or concert of action requirement in *Wallace v. Holmes*, the earliest case to adopt a

⁹ 17 U.S.C. § 106 (2006).

¹⁰ *Id.*

¹¹ See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 915-16 (2005) (adoption of 35 U.S.C. § 271(b) active inducement test); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439-42 (1984) (adoption of 35 U.S.C. § 271(c) staple article of commerce test).

¹² Due to the different interests of copyright and patent law, some justices and commentators have questioned the appropriateness of such blanket incorporation. See, e.g., *Sony*, 464 U.S. at 491 (Blackmun, J., dissenting) ("I do not agree that this technical judge-made doctrine of patent law, based in part on considerations irrelevant to the field of copyright should be imported wholesale into copyright law." (citations omitted)); see also Brief of Professors Peter S. Menell et al. as Amici Curiae in Support of Petitioners, *Grokster*, 545 U.S. 913 (No. 04-480).

¹³ See *infra* Part I.

¹⁴ 35 U.S.C. § 271(b)-(c) (2006).

contributory infringement standard.¹⁵ Finding that the defendants made and sold burners “with the express purpose of assisting, and making profit by assisting, in a gross infringement of the complainants’ patent [on an improved lamp],”¹⁶ the court rejected the contention that the defendants were not in pre-arrangement with any direct infringers.¹⁷ In finding concerted action, the court reasoned that every sale the defendants made was a proposal to use the product to infringe, and every purchase, an agreement to do so.¹⁸

A few years later, the defendant in *Bowker v. Dows*, advertised and sold an extract containing saponin—a chemical—with the intention that the purchasers would use the extract to infringe the plaintiff’s combination patent.¹⁹ The court found dispositive the defendant’s “express and avowed purpose” to sell the extract for use in the patented combination, despite the possible lack of knowledge or purpose of infringement by the purchasers.²⁰

Comparing *Bowker* with the English case of *Townsend v. Haworth* illustrates the American courts’ departure from the requirement of privity or concerted action.²¹ In *Townsend*, the defendant not only sold chemicals to be used by the purchaser to infringe the plaintiff’s

¹⁵ *Wallace v. Holmes*, 29 F. Cas. 74 (C.C.D. Conn. 1871) (No. 17,100). See also *Thomson-Houston Elec. Co. v. Kelsey Elec. Ry. Specialty Co.*, 75 F. 1005, 1010 (2d Cir. 1896) (“What contributory infringement is, and why it should be enjoined, was clearly shown in *Wallace v. Holmes* . . . the earliest case in this country upon the subject, and upon which the subsequent cases of contributory infringement rest.” (citation omitted)).

¹⁶ *Wallace*, 29 F. Cas. at 80.

¹⁷ *Id.*

¹⁸ *Id.* Today, the case would be decided the same way. The defendants would be liable for contributory infringement as their products were not staple articles of commerce, but instead were designed specifically to infringe. This conduct would also satisfy the Patent Act’s inducement doctrine, as the defendants’ products were made to assist infringement, and were advertised as such. Additionally, this case also supports a finding of authorization. See *infra* Part IV. The defendants had extended a general invitation to use their product with not only indifference, but encouragement that it would be used to infringe.

¹⁹ *Bowker v. Dows*, 3 F. Cas. 1070, 1070-71 (C.C.D. Mass. 1878) (No. 1,734).

²⁰ *Id.* Under the current Patent Act, the defendants would probably not be liable, for either inducement or contributory infringement. A case based on inducement liability would fail because the defendants neither encouraged nor advertised the use of the product to infringe. The facts show only that they knew infringement might occur, and did nothing to prevent it. The defendants would also probably escape liability for contributory infringement, because though although they knew their product could be used to infringe, the product itself was a staple article of commerce. Although the defendants personally intended the product to be used to infringe, because they did not advertise the infringing uses to purchasers, they should not be deemed to have granted or purported to grant the right to use the product to infringe. Additionally, because the product had more than one use, and the defendant did not advertise the infringing uses, the defendant should not be seen as extending a general invitation to use its products to infringe.

²¹ *Townsend v. Haworth* (1879), 48 L.J. (N.S.) 770 (Ch. 1875).

patent, but agreed to indemnify the purchaser if the patent was found valid.²² The English Court of Chancery found the defendant not liable since concerted action or privity was not shown:

Selling materials for the purpose of infringing a patent to the man who is going to infringe it, even although the party who sells it knows that he is going to infringe it and indemnifies him, does not by itself make the person who so sells an infringer. He must be a party with the man who so infringes, and actually infringe.²³

Notably, the court did not infer concerted action, even though the defendant sold the product with actual knowledge that the purchaser would use it to infringe. Nor did the court find privity in the seller's promise of indemnification.²⁴ One explanation is that the court, unlike in *Bowker*, was adopting a staple article of commerce doctrine.²⁵ Another, is that the court placed the responsibility of the infringement on the individual purchaser's autonomy.²⁶

Townsend was later distinguished by *Sykes v. Howarth* on the grounds that the direct infringer was an agent of the defendant.²⁷ As vicarious liability is derived from the doctrine of respondeat superior, the defendant was vicariously liable because he had the right and ability to control his agent and received a direct financial benefit from the agent's services. Revisiting *Bowker* under the holding of *Sykes*, the facts of *Bowker* would also support an additional finding of vicarious liability. Because the direct infringers may not have known that they were infringing, while the defendant knew and intended that they would, it could be argued that the purchasers were the unwitting accomplices of the defendant.

²² *Id.*

²³ *Id.* at 773.

²⁴ The strict requirement of privity or concerted action will help explain later why English law differs in its application of the authorization test. *See infra*, Part III.

²⁵ Illegal intent cannot be inferred under this doctrine if the product is capable of substantial non-infringing uses. *See infra* Part III.

²⁶ Both of these explanations are supported by the court:

[N]o Judge has said, that the vendor of any ordinary ingredient commits a crime or an offence, or does even a wrong, if the purchaser coming to him says, "I want your compound, because I want to preserve my cloth from mildew, and you and I know there is a patent, but, still, I wish to try the question with the patentee." No one would doubt that the sale would be perfectly legal

Sykes v. Howarth, (1879) 48 L.J.Ch. 769, 771.

²⁷ *Id.* at 770.

The doctrine of contributory infringement was first acknowledged by the Supreme Court in *Cotton-Tie Co. v. Simmons*.²⁸ The question was whether the reconstruction of arrow ties constituted infringement. The Court answered affirmatively. In dicta, however, the Court accepted the proposition of *Bowker*, stating that it would have held the defendant liable for infringement because he sold his products with the purpose of having them combined with other components to infringe the patent.²⁹ The Court also noted that making and selling the products was not enough to establish liability without a showing of purpose.³⁰

Even after contributory infringement was recognized by the Supreme Court, the difference between *Bowker* and *Sykes* with regards to the staple article of commerce was not reconciled for many years. Because evidence of an express intent or purpose to infringe, as found in *Cotton-Tie*, was often lacking, liability began to hinge on whether the product sold had any non-infringing uses. Most courts, alluding to *Wallace*, inferred purpose and intent if an item did not have any non-infringing uses.³¹ One example, was *Thomson-Houston Electric Co. v. Kelsey Electric Railway Specialty Co.*³² In this case, the defendant manufactured, sold and advertised trolley stands which, when used in combination with other parts, would violate plaintiff's combination patent.³³ Because the majority felt that the trolley stands were designed solely for use in the plaintiff's patent, and that from its advertisements the defendant seemed

²⁸ *Cotton-Tie Co. v. Simmons*, 106 U.S. 89 (1882). In *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980), the court stated that *Morgan Envelope Co. v. Albany Paper Co.*, 152 U.S. 425 (1894) was the first case in which the doctrine of contributory infringement was addressed by the Supreme Court. *Dawson*, 448 U.S. at 189. In *Morgan Envelope*, the Court recognized "that the manufacture and sale of a single element of a combination, with intent that it shall be united to the other elements, and so complete the combination, is an infringement." *Morgan Envelope*, 152 U.S. at 433. However, the Court found the defendant not liable since they had merely replaced a non-patented perishable part of the patent. *Id.* at 435.

²⁹ *Cotton-Tie*, 106 U.S. at 94-95. This case also contains the elements necessary to find infringement by authorization. Even absent an intention by the defendant to have its customers use the parts to infringe another's patent, the fact that they sold the parts knowing they would not be bought unless they could be used in the plaintiff's patent, extended an invitation to any purchaser to use them to infringe; they had no motive to prevent infringement.

³⁰ *Id.*

³¹ E.g., *Rupp & Wittgenfeld Co. v. Elliott*, 131 F. 730, 733 (6th Cir. 1904). The defendant appealed a demurrer:

Thus the averments are that the wire sold by the defendants is, in the manner in which it is put up, in its size, color, and temper, especially adapted to use in the Elliott machines, and that "it is suitable for no other use." If this is true . . . then the intent that the [article sold] shall be used in an infringing way is made out.

Id. at 733.

³² *Thomson-Houston Elec. Co. v. Kelsey Elec. Ry. Specialty Co.*, 75 F. 1005 (2d Cir. 1896).

³³ *Id.* at 1006.

willing to sell “to any and all purchasers irrespective of their character as infringers,” the court felt that concerted action could be fairly inferred.³⁴ Disagreeing on the issue of whether there were non-infringing uses of the trolley stands, Judge Wallace, in dissent, argued that the defendant had no duty to ascertain the purchasers’ purposes: “participation in a wrong is not established by doing a lawful act, without evidence of an unlawful intention.”³⁵ If the trolley stands could be used only to infringe, Judge Wallace would probably have concurred with the majority, whose dicta would have expanded the doctrine of contributory infringement further:

[The defendant has] the duty of careful investigation into the objects of the purchasers of its stands, and of an abandonment of indifference as to whether they are seeking to trench upon the rights of the owners of the patent, or else, a liability to suffer the consequences of a violation of the injunction order.³⁶

The majority’s wording implies that a seller of a non-infringing product also has a duty to ascertain, for if the product had only infringing uses, the seller would not need to ascertain whether the buyer’s purpose was to infringe, he could infer it.

The general practice of inferring intent and purpose from the factual circumstances is exemplified in the Supreme Court’s decision in *Henry v. A.B. Dick Co.*³⁷ The defendants supplied ink to be used in the patentee’s invention, knowing that the purchasers’ licenses prohibited the use of ink not supplied by the patentee.³⁸ From these facts, the Court held that it was fair to infer “that the sale was with the purpose and intent that it would be so used.”³⁹ The Court articulated the basic staple article of commerce doctrine:

Undoubtedly a bare supposition that by a sale of an article which though adapted to an infringing use is also adapted to other and lawful uses, is not enough to make the seller a contributory infringer. Such a rule would block the wheels of commerce. There must be an intent and purpose that the article sold will be so used. Such a presumption arises when the article so sold is only adapted to an infringing use. It may also be inferred where its most conspicuous use is one

³⁴ *Id.* at 1008. The court’s holding seems to imply that a general invitation to sell a product for any purpose that the purchaser sees fit may lead to liability. See also *Wallace v. Holmes*, 29 F. Cas. 74 (C.C.D. Conn. 1871) (No. 17,100).

³⁵ *Thomson-Houston*, 75 F. at 1011 (Wallace, J., dissenting).

³⁶ *Id.* See also *Tubular Rivet & Stud Co. v. O’Brien*, 93 F. 200, 201-206 (C.C.D. Mass. 1898) (issuing an injunction where an indifferent defendant had knowledge of the patent, the purchaser’s restricting license, and the possibility that the parts may be used to infringe).

³⁷ *Henry v. A. B. Dick Co.*, 224 U.S. 1 (1912), *overruled on other grounds by Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). Admittedly, this case involved a breach of license rather than patent infringement.

³⁸ *Henry*, 224 U.S. at 49.

³⁹ *Id.*

which will cooperate in an infringement when sale to such user is invoked by advertisement.⁴⁰

The Court's further statement that "[when such intent is shown, it] is not open to [defendants] to say that it might be used in a non-infringing way,"⁴¹ seems to have been reinstated by Congress' adoption of active inducement liability in 35 U.S.C. § 271(b).⁴² In addition, the requirement of intent or purpose as opposed to mere knowledge when an item has substantial non-infringing uses coincides with the definition of contributory infringement codified in 35 U.S.C. § 271(c).⁴³ The outcome of this case therefore agrees favorably with *Bowker* and the current patent statute. Recall that in *Bowker*, the court found the defendant liable for selling an item with non-infringing uses because it was sold with the intent or purpose that the buyers use it to infringe a patent. Bearing in mind that the non-infringing/infringing uses inquiry was created to infer intent, it seems fair to preclude a defendant from providing an excuse that his product has non-infringing uses when actual intent is shown.

In 1952 Congress codified patent infringement.⁴⁴ According to 35 U.S.C. § 271(b), "[w]hoever actively induces infringement of a patent shall be liable as an infringer."⁴⁵ Indirect liability for contributory infringement and the staple article of commerce safe harbor were codified in 35 U.S.C. § 271(c):

Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.⁴⁶

⁴⁰ *Id.* at 48 (citing *Rupp & Wittgenfeld Co. v. Elliott*, 131 F. 730 (6th Cir. 1904)).

⁴¹ *Id.* at 49.

⁴² 35 U.S.C. § 271(b) (2006); *cf. Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 200-01 (1980) (discussing the interaction of the doctrines of contributory infringement and patent misuse in light of the statutory codification).

⁴³ 35 U.S.C. § 271(c) (2006).

⁴⁴ *See Aro Mfg. Co. v. Convertible Top Replacement Co. (Aro II)*, 377 U.S. 476, 485 (1964).

⁴⁵ 35 U.S.C. § 271(b) (2006).

⁴⁶ 35 U.S.C. § 271(c) (2006); *see also Aro II*, 377 U.S. at 487 ("In enacting § 271(c), Congress clearly succeeded in its objective of codifying this case law.").

The latter provision permits a manufacturer to escape liability as long as the product sold is a “staple article or commodity of commerce suitable for substantial noninfringing use.”⁴⁷ But should the staple article of commerce safe harbor limit the reach of active inducement liability? Some commentators argue that a reading of § 271(b) that imposed active inducement liability for selling an item with substantial non-infringing uses solely because the seller intended that the item be used to infringe would defeat the statutory scheme.⁴⁸ However, as *Bowker* and *Cotton-tie* suggest, the staple article of commerce safe harbor should not protect a seller with intent. Moreover, the purpose of the infringing/non-infringing uses inquiry is to determine if intent could be fairly inferred.

Textually, that § 271(c) qualifies “infringer” with “contributory”, whereas § 271(b) does not, might indicate Congress’ belief that active inducement is a tort more akin to vicarious liability. The inducer is deemed to control the purchaser’s actions, much like a principal-agent relationship. Thus, the inducer is just as responsible for the infringement as the purchaser, and is not merely a contributor.⁴⁹

Because English law places the ultimate responsibility for infringement on the direct infringer, it differs from American law in that it disregards the purpose or intent of the seller.⁵⁰ In England, a seller only has to refrain from encouraging or procuring infringement, either of which are a distinct tort.⁵¹ One who procures infringement, though, is not liable as a joint infringer.⁵² At times, early American common law also equated active inducement with the distinct tort of procuring an infringement.⁵³ However, unlike the English courts, the American courts allowed evidence of the same conduct to prove both contributory infringement and the distinct tort of procuring infringement. The fundamental distinction—that the direct infringer is

⁴⁷ *Id.*

⁴⁸ For a detailed discussion, see Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. Davis L. Rev. 225, 232 (2005).

⁴⁹ See *Wallace v. Holmes*, 29 F. Cas. 74, 80 (C.C.D. Conn. 1871) (No. 17,100).

⁵⁰ See discussion *supra* Part I.

⁵¹ Cf. *Belegging-en Exploitatiemaatschappij Lavender B. V. v. Witten Indus. Diamonds Ltd.*, [1979] F.S.R. 59, 66. Buckley L.J. addressed this issue:

The plaintiffs do not only assert infringement by the defendants. They also say that the defendants have procured, counseled and/or aided other persons to infringe. This may perhaps amount to an allegation of indirect infringement by the defendants themselves, but I am inclined to think that it is a claim in respect of a distinct, suggested tort of procuring infringement by others . . .

Id. at 66 (citing *Lumley v. Gye*, 2 E. & B. 216, 231 (1853)).

⁵² See *infra* Part III.

⁵³ See *Henry v. A.B. Dick*, 224 U.S. 1, 14-15 (1912) (listing cases and also specifically citing *Excelsior Wooden Pipe Co. v. Pacific Bridge Co.*, 185 U.S. 282 (1902), in which “Mr. Justice Brown reviews the cases and shows so plainly why they were not patent cases”).

solely responsible for the infringement—raises the question of whether an English court would have found the operators of the peer-to-peer systems Grokster and Kazaa liable.⁵⁴

To summarize, American patent law expanded liability for infringement beyond the direct infringer and those in a principal-agent relationship with him. The first major expansion of the doctrine began with the relaxation of the privity or concerted requirement, which created contributory infringement. Courts continued to loosen this doctrine by inferring intent when an item was incapable of non-infringing uses. However, when the evidence revealed that the seller intended the purchaser to infringe, whether or not the product had non-infringing uses became irrelevant. These doctrines of indirect liability continued to be based on judicial decisions until Congress codified them in 1952.

II. FROM PATENT LAW TO COPYRIGHT LAW

This section will attempt to show how patent law has influenced copyright law, starting with a brief overview of early copyright cases, and concluding with the Supreme Court's *Sony* and *Grokster* decisions.⁵⁵ The historical development of indirect liability in copyright law should put the Supreme Court's recent decisions in better perspective.

A. Early Influences of Patent Common Law

In two early contributory infringement cases, findings of intent, and an expectation that an item be used to infringe, resulted in different outcomes. In *Harper v. Shoppell (Harper I)*, the defendant made an electrotype copy of “an important, substantial, and material part” of the plaintiffs’ copyrighted illustrated newspaper, and sold the plate to a competitor knowing that it would be used to infringe.⁵⁶ In *Harper v. Shoppell (Harper II)*, the defendant made and sold a plate from which a copy of a portion of the plaintiff’s newspaper could be produced.⁵⁷ Only the defendant in *Harper I* was found liable, because in *Harper I*, the court inferred concerted action from the defendant’s knowledge of the infringing use,⁵⁸ whereas in *Harper II*, the court found that the defendant had no expectation or intention that the cut would be used in competition with the plaintiff’s business,⁵⁹ emphasizing that the cut taken was capable of non-infringing uses.⁶⁰

⁵⁴ See discussion *infra* Part III.

⁵⁵ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

⁵⁶ *Harper v. Shoppell (Harper I)*, 28 F. 613, 615 (C.C.S.D.N.Y. 1886).

⁵⁷ *Harper v. Shoppell (Harper II)*, 26 F. 519, 520 (C.C.S.D.N.Y. 1886).

⁵⁸ *Harper I*, 28 F. at 615.

⁵⁹ *Harper II*, 26 F. at 521.

⁶⁰ *Id.*

Judge Wallace explained his decision: “[L]aw will not assume without evidence, or simply upon proof that the defendant sold the plate to the proprietors of a newspaper, that he intended to authorize a violation of the plaintiffs’ rights.”⁶¹ The different outcomes in these two cases foreshadowed the current standard in patent and copyright law, that an intention to infringe may be inferred when a product has no non-infringing uses. Moreover, Judge Wallace’s articulation of contributory infringement preceded the Copyright Act’s articulation of the scope of exclusive rights in 17 U.S.C. § 106, “to do or to authorize.”⁶²

The Supreme Court also addressed contributory copyright infringement in *Kalem Co. v. Harper Bros.* in 1911.⁶³ Kalem, the defendant, created a motion picture by taking photographs of an unlawful dramatization of the book *Ben Hur*, however, the company “did not produce the representations, but merely sold the films to jobbers.”⁶⁴ The Court found Kalem liable because Kalem had expected the films to be used to infringe plaintiff’s copyright, and encouraged such infringement by advertisement. The Court explained its holding:

It has been held that mere indifferent supposition or knowledge on the part of the seller that the buyer of spirituous liquor is contemplating such unlawful use is not enough to connect him with the possible unlawful consequences, but that if the sale was made with a view to the illegal resale the price could not be recovered.⁶⁵

The key elements for the Court were intent and advertisement. However, had the statute at the time included an authorization clause, this case might have been decided on the grounds that the defendant’s selling of the film was an authorization to show it in violation of the plaintiff’s copyrights.⁶⁶ Thus, as discussed below, the inclusion of the phrase “to authorize” in 17 U.S.C. § 106 is significant, because it may be used to infer liability for authorization.

⁶¹ *Id.*

⁶² 17 U.S.C. § 106 (2006).

⁶³ *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911).

⁶⁴ *Id.* at 62.

⁶⁵ *Id.* at 62 (citations omitted).

⁶⁶ See *C.B.S. Inc. v. Ames Records & Tapes Ltd.*, [1982] Ch. 91 (“[I]t is quite plain that a person who hires out a film to a cinema proprietor can sensibly be said to be purporting to grant authority for the showing of the film.”) (relying on the holding of *Falcon v. Famous Players Film Co.*, [1926] 2 K.B. 474); see also *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 436-37 (1984).

B. Adoption of the Staple Article of Commerce—*Sony v. Universal*

One of the most influential copyright decisions in modern times is the Supreme Court's in *Sony Corp. of Am. v. Universal City Studios, Inc.*⁶⁷ In *Sony*, Universal City, copyright owners in works representing roughly 10% of all televised content, sued Sony for manufacturing and selling the Betamax Video Tape Recorder (VTR) which Sony advertised as enabling users to record their "favorite shows" and thereby "build a library."⁶⁸ Finding the VTR "capable of substantial noninfringing uses," the Court held in favor of Sony.⁶⁹

C. Incorporation of the Active Inducement Test—*MGM v. Grokster*

Napster's central servers maintained a searchable list of the music located on each connected client, which individual users could query to locate and connect to a peer offering to share the requested files.⁷⁰ The defendant had a direct financial interest in the infringing activity,⁷¹ and failed to exercise its "right and ability" to police the system and prevent infringement.⁷² The Ninth Circuit, finding that Napster "ha[d] actual knowledge [of] specific infringing material" and had "materially contribute[d] to direct infringement," affirmed both the plaintiff's preliminary injunction,⁷³ and the district court's finding of vicarious infringement.⁷⁴ However, the possibility was left open that a distributor of a peer-to-peer system who could not

⁶⁷ *Sony*, 464 U.S. 417 (1984). The Sony Betamax is a good example of a "dual use" product; see Jane C. Ginsburg, *Copyright and Control Over New Technologies of Dissemination*, 101 Colum. L. Rev. 1613, 1641 (2001) (stating that "[s]plitting the difference by limiting the function of the [Betamax] to non-infringing uses was not a possibility because the same act—copying—might be fair use under some circumstances").

⁶⁸ *Sony*, 464 U.S. at 458-59 (1984) (Blackmun, J., dissenting).

⁶⁹ *Id.* at 455:

First, Sony demonstrated a significant likelihood that substantial numbers of copyright holders who license their works for broadcast on free television would not object to having their broadcasts time-shifted by private viewers. And second, respondents failed to demonstrate that time-shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, their copyrighted works. The Betamax is, therefore, capable of substantial noninfringing uses. Sony's sale of such equipment to the general public does not constitute contributory infringement of respondents' copyrights.

⁷⁰ *A&M Records v. Napster, Inc.*, 239 F.3d 1004, 1012-13 (9th Cir. 2001).

⁷¹ *Id.*

⁷² *Id.* at 1024.

⁷³ *Id.* at 1021-22.

⁷⁴ *Id.* at 1023.

monitor its user's activities, and who did not have actual knowledge of specific infringement, might escape liability.

The defendants in *MGM v. Grokster* created and distributed a more decentralized peer-to-peer file-sharing system to exploit this possibility,⁷⁵ and enjoyed some initial success,⁷⁶ the district court denying summary judgment for the plaintiffs under contributory and vicarious infringement doctrines.⁷⁷ Following *Napster*, the court refused to impute knowledge because the system was capable of substantial non-infringing uses. Under contributory liability then, the relevant question was "whether actual knowledge of specific infringement accrue[d] at a time when [Grokster] materially contribute[d] to the alleged infringement, and [could] therefore do something about it."⁷⁸ The court also found that due to the system's design, there was no evidence of active and substantial contribution to the infringement.⁷⁹ As for vicarious liability, although the court found direct financial benefit, it concluded that the system's design eliminated the defendant's obligation to police, which arose only where the defendant had the right and ability to supervise the infringing conduct.⁸⁰

On appeal, the Ninth Circuit affirmed, interpreting the *Sony* doctrine as allowing a defendant "to defeat a claim of contributory copyright infringement if the defendant showed that the product was 'capable of substantial' or 'commercially significant noninfringing uses.'"⁸¹ Because the system had substantial non-infringing capabilities, such as sharing non-copyrighted works,⁸² the *Sony* safe harbor applied. Thus, the Ninth Circuit required the plaintiffs to show that the defendants had specific knowledge of infringement.⁸³ Ex post notifications of infringement were not considered relevant, because they came when the defendant was no longer facilitating the infringement, nor could do anything to prevent it from happening.⁸⁴ The court likewise dismissed the plaintiff's claim for vicarious liability, as the "monitoring and supervisory relationship that has supported vicarious liability in the past [was] completely absent."⁸⁵

⁷⁵ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1032 (C.D. Cal. 2003).

⁷⁶ For a discussion on avoidance see Tim Wu, *When Code Isn't Law*, 89 Va. L. Rev. 679 (2003).

⁷⁷ *Grokster*, 259 F. Supp. 2d at 1039.

⁷⁸ *Id.* at 1038.

⁷⁹ *Id.* at 1043.

⁸⁰ *Id.* at 1045.

⁸¹ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1160 (9th Cir. 2004) (quoting *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984)).

⁸² *Id.* at 1160-62; see also *Grokster*, 259 F. Supp. 2d at 1035-36.

⁸³ *Grokster*, 380 F.3d at 1162.

⁸⁴ *Id.*

⁸⁵ *Id.* at 1165.

The defendant's luck ran out when the case reached the Supreme Court. The Court reversed the Ninth Circuit's blanket use of the *Sony* safe harbor, which it felt "did not displace other theories of secondary liability."⁸⁶ Although acknowledging that control may have been lacking, the Court borrowed the inducement test from patent law, and held the defendant liable for inducement and contributory infringement.⁸⁷

III. SONY AND GROKSTER: EVALUATION AND ALTERNATE ROUTES

In both *Sony* and *Grokster*, the Supreme Court adopted statutory provisions from patent law and applied them to copyright law.⁸⁸ A shared basis in common law, and the similarity of their justifications, help explain why patent and copyright law have historically been intertwined.⁸⁹ But what should be made of Congress' codification of indirect liability in patent but not copyright law? Should its silence be seen as a reluctance to synchronize the two bodies of law, and if so, was the Court's adoption of active inducement an unconstitutional usurpation

⁸⁶ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 934 (2005).

⁸⁷ *Id.* at 936 ("[O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."). Noting that the case could be decided on contributory infringement grounds, the Court did not review vicarious liability. *Id.* at 929. The Court also found support for using the inducement test in the judicially created contributory infringement doctrine. *Id.* at 940 ("One infringes contributorily by intentionally inducing or encouraging direct infringement and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." (citing *Gershwin Pub. Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971), and *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963))).

⁸⁸ Matthew Helton, *Secondary Liability for Copyright Infringement: BitTorrent as a Vehicle for Establishing a New Copyright Definition for Staple Articles of Commerce*, 40 Colum. J.L. & Soc. Probs. 1, 15 (2006) ("Like the Sony Court, the Supreme Court in *Grokster* imported a theory from patent law into the copyright regime. Under the Court's holding in *Grokster*, the factors to be considered in a secondary liability analysis are now unclear.").

⁸⁹ *But see Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 491 (1984) (Blackmun, J., dissenting) ("Despite their common constitutional source, see U.S. Const., Art. I, § 8, cl. 8, patent and copyright protections have not developed in a parallel fashion, and this Court in copyright cases in the past has borrowed patent concepts only sparingly.").

of power?⁹⁰ On the other hand, did Congress merely decide to err on the side of judicial flexibility, at the expense of giving more prescriptive guidance?⁹¹

In *Grokster*, some amicus curiae argued that the Court should not solidify *Sony* to create a categorical fair use exemption whenever an item is capable of substantial non-infringing uses, because Congress had not expressly created such a rule in copyright law.⁹² To avoid disturbing *Sony*, the Court instead chose to borrow another doctrine from patent law, the active inducement test,⁹³ which even in patent law is anything but clear.⁹⁴ It is submitted that the Court could have based its decision on a right Congress had already provided in the Copyright Act, namely the owner's exclusive right "to authorize."

This section will analyze Congress' inclusion of the right "to authorize" in the Copyright Act of 1976, and the lack of case law concerning this right. Furthermore, to gain insight on how an authorization test might work, this section will examine liability based on authorization in English and Australian law, and conclude with a comparison between the current contributory infringement and active inducement doctrines post-*Grokster*, and a proposed authorization standard.

⁹⁰ See Brief of Professors Peter S. Menell et al. as Amici Curiae in Support of Petitioners at 8, *Grokster*, 545 U.S. 913 (No. 04-480) ("This manner of addressing indirect liability in the copyright law differs markedly from the way in which Congress delineated the boundaries of indirect liability in the Patent Act.").

⁹¹ *Id.* at 20 n.6 ("This Court asserted in *Sony* that the judiciary has been reluctant 'to expand the protections afforded by the copyright without explicit legislative guidance.' Yet, as noted above, it was the judiciary, and not Congress, that brought doctrines of indirect liability into copyright law." (citations omitted)).

⁹² *Id.* at 29 ("But given the general infringement default regime that has served copyright law well for over two centuries, courts should not bind themselves in advance through adoption of prospective, non-statutory safe harbors.").

⁹³ Admittedly, the Court also supported its inducement liability theory through the contributory doctrine stated in *Gershwin Pub. Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). However, in the standard set out in *Gershwin* the act of inducement must be accompanied with knowledge. See *A&M Records v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001) ("Traditionally, '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.'" (quoting *Gershwin* 443 F.2d at 1162)).

⁹⁴ See Lemley *supra* note 48; Pamela Samuelson, *Three Reactions to MGM v. Grokster*, 13 Mich. Telecomm. & Tech. L. Rev. 177, 182 (2006); John M. Moye, *How Sony Survived: Peer-to-Peer Software, Grokster, and Contributory Copyright Liability in the Twenty-First Century*, 84 N.C. L. Rev. 646, 648 (2006) (illustrating difficulty to prove intent and difficulty to establish liability using Bookster hypothetical).

A. Congress' Inclusion of "To Authorize" in the Copyright Act and the Dearth of Case Law Concerning This Right.

In 1976, Congress inserted "to authorize" into 17 U.S.C. § 106: "[T]he owner of copyright under this title has the exclusive rights to do and to authorize any of the following"⁹⁵ According to the House Report accompanying the bill "[u]se of the phrase 'to authorize' is intended to avoid any questions as to the liability of contributory infringers."⁹⁶ As noted by Judge Karlton in *ITSI T.V. Productions v. California Authority of Racing Fairs*, this express incorporation of indirect liability has been, for the most part, ignored by the judiciary.⁹⁷ Instead, the courts have continued to rely on judicially created doctrines established before the 1976 Act.⁹⁸

The Supreme Court reduced the impact of this insertion when it decided to incorporate the active inducement test from patent law, rather than deciding whether *Grokster* "authorized" infringement, stating that the "Copyright Act does not expressly render anyone liable for infringement committed by another"⁹⁹ This treatment is in stark contrast to *Sony*, in which the Court discussed the right "to authorize" and its use in finding liability in *Kalem Co. v. Harper Bros.*¹⁰⁰ In *Kalem*, the defendant was found liable because it sold an unauthorized

⁹⁵ 17 U.S.C. § 106 (2006). See also *Danjaq, S.A. v. MGM/UA Commc'ns Co.*, 773 F. Supp. 194, 201 (C.D. Cal. 1991) ("The word 'authorize' did not appear in the Copyright Act of 1909, but was added by Congress in 1976."); Cf. Lynda J. Oswald, *The Intent Element of "Inducement to Infringe" Under Patent Law: Reflections on Grokster*, 13 Mich. Telecomm. & Tech. L. Rev. 225, 240-44 (2006) (discussing the dangers of importing secondary liability from patent law wholesale into copyright law).

⁹⁶ H.R. Rep. No. 94-1476 at 61 (1976).

⁹⁷ *ITSI T.V. Prods., Inc. v. California Auth. of Racing Fairs*, 785 F. Supp. 854, 860-61 (E.D. Cal. 1992):

The change in statutory language, however, has not led to a significant change in the way the courts have dealt with indirect infringers. Under the 1909 Act, the courts developed theories of contributory and vicarious liability for acts of infringement committed by others. Despite the change in language in the 1976 Act, the courts have continued to find individuals liable for copyright infringement as contributory or vicarious infringers without limiting such third-party liability to those who have 'authorized' others to commit direct acts of infringement.(citations omitted).

⁹⁸ *Id.* But see *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986) (finding that the owner of a video rental store that allowed videos to be viewed on the premises infringed the owner's exclusive right to authorize such performances).

⁹⁹ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005) (quoting *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 434 (1984)).

¹⁰⁰ *Sony*, 464 U.S. at 435-36:

In *Kalem*, the Court held that the producer of an unauthorized film dramatization of the copyrighted book *Ben Hur* was liable for his sale of the motion picture to jobbers,

derivative work of Ben Hur to jobbers, who arranged for the film to be shown.¹⁰¹ The Court felt that not finding the defendant liable would be too narrow a definition of infringement.¹⁰²

Thus, an overlooked aspect of *Sony* is the Court's finding that Sony had not authorized its users to violate the plaintiff's copyrights, since it controlled neither the copyrighted works, nor the purchasers' post-sale actions.¹⁰³ In other words, Sony neither granted, nor purported to grant

who in turn arranged for the commercial exhibition of the film. Justice Holmes, writing for the Court, explained:

“The defendant not only expected but invoked by advertisement the use of its films for dramatic reproduction of the story. That was the most conspicuous purpose for which they could be used, and the one for which especially they were made. If the defendant did not contribute to the infringement it is impossible to do so except by taking part in the final act. It is liable on principles recognized in every part of the law.”

The use for which the item sold in *Kalem* had been “especially” made was, of course, to display the performance that had already been recorded upon it. The producer had personally appropriated the copyright owner's protected work and, as the owner of the tangible medium of expression upon which the protected work was recorded, authorized that use by his sale of the film to jobbers. But that use of the film was not his to authorize: the copyright owner possessed the exclusive right to authorize public performances of his work. Further, the producer personally advertised the unauthorized public performances, dispelling any possible doubt as to the use of the film which he had authorized.

(quoting *Kalem Co. v. Harper Brothers*, 222 U.S. 55 (1911)) (citations omitted).

¹⁰¹ *Sony*, 464 U.S. 417.

¹⁰² *Id.* at 499.

¹⁰³ *Id.* at 437-38:

In such cases, as in other situations in which the imposition of vicarious liability is manifestly just, the “contributory” infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner. This case, however, plainly does not fall in that category. The only contact between Sony and the users of the Betamax that is disclosed by this record occurred at the moment of sale. The District Court expressly found that “no employee of Sony, Sonam or DDBI had either direct involvement with the allegedly infringing activity or direct contact with purchasers of Betamax who recorded copyrighted works off-the-air.” And it further found that “there was no evidence that any of the copies made by Griffiths or the other individual witnesses in this suit were influenced or encouraged by [Sony's] advertisements.”

its customers the right to copy the plaintiffs' works. On the other hand, Sony's advertisements highlighted the capability of a VTR to make libraries of a customer's favorite shows, a use which probably would have been unauthorized.¹⁰⁴ Perhaps the main reason Sony escaped liability was that technology to prevent illegal use, while still allowing legal use, did not exist. Sony's inability to prevent only illegal uses would have also precluded liability under an authorization test that prohibited extending to others a general or specific invitation to use products or services without taking reasonable means to prevent infringement. However, in the digital age, restricting the illegal use of a modern equivalent such as a DVD Recorder is possible, since the technology is digital and encrypted.¹⁰⁵

The Supreme Court could have followed its discussion of *Kalem* and decided *Grokster* based on an authorization test. Borrowing from the English and Australian copyright systems described in the next section, this Note proposes that an appropriate authorization test would hold a party liable for (1) failing to take reasonable and effective measures to curtail infringement while (2) not enabling copyright owners to monitor infringement themselves.

The following section will review how the Courts in England and Australia have used authorization to find liability in cases similar to *Kalem* and *Grokster*.

B. English and Australian Authorization Tests

Although England and Australia differ on the elements of authorization, examining each country's related copyright cases illustrates how the Supreme Court could find indirect liability without relying on other areas of law.

i. English Authorization Statute and Related Cases

It is helpful to start with an examination of English copyright law, from which both American and Australian systems are partially derived.¹⁰⁶ Much like England's patent system,¹⁰⁷ the English copyright scheme does not comport with the broad imposition of indirect liability found in America. A 1924 English case, *Performing Right Society Ltd. v. Caryl Theatrical Syndicate Ltd.*, highlights the background of the "to authorize" standard in the English copyright

(quoting *Universal City Studios, Inc. v. Sony Corp. of Am.*, 480 F. Supp. 429, 460 (C.D. Cal. 1979)) (brackets in original) (citations omitted)

¹⁰⁴ *Sony*, 464 U.S. at 459.

¹⁰⁵ See Lionel S. Sobel, *DRM as an Enabler of Business Models: ISPs as Digital Retailers*, 18 Berkeley Tech. L.J. 667, 675 (2003).

¹⁰⁶ Australia did not separate itself legally from British governance until the Australia Act of 1986. See John Warhurst, *Nationalism and Republicanism in Australia: The Evolution of Institutions, Citizenship and Symbols*, 28 Aust. J. Pol. Sci. 100, 115 (1993) (Special Edition).

¹⁰⁷ See *supra* Part I.

statute.¹⁰⁸ In this case, the Lords explained that Parliament changed the statutory text from “to cause” to “to authorize” to avoid the result in *Karno v. Path*.¹⁰⁹ In *Karno*, the defendant escaped liability under the “to cause” standard because the direct infringer was not a servant or agent of the defendant.¹¹⁰ Thus, to expand the possible relationships where indirect liability could be found, Parliament changed the statute to “to authorize.”¹¹¹

English courts were reluctant to extend patent or copyright infringement liability beyond the statutory language, even by using accepted common law tort principles. For instance, in *C.B.S. Songs Ltd. v. Amstrad Consumer Elec. Plc.*, the House of Lords noted that since copyrights, like patents, were already exceptions to the bar against monopolies, which have historically been considered contrary to the public good, infringement should only be found according to the range dictated by statute.¹¹² In contrast, recent developments in American law have minimized the presumption that patents create monopolies that are per se contrary to the public good.¹¹³ By analogy, if the same were said to be true of copyrights, the concern in *Amstrad* with extending monopoly rights beyond their statutory definition would seem to have been marginalized as merely theoretical by the American judiciary.

Although in 1988 the English Parliament revised its Copyright, Designs and Patents Act (CDPA) to explicitly define indirect (“secondary”) liability,¹¹⁴ the metes and bounds of the authorization test may be garnered from an examination of prior cases.

¹⁰⁸ *Performing Right Society Ltd. v. Cyril Theatrical Syndicate Ltd.*, [1924] 1 K.B. 1. In this case, the defendant company was held liable for “authorizing” the performance of plaintiff’s work. However, the managing director was found not liable, since he was not in privity with the performers, did not know what pieces were to be performed, and gave no instructions to the band.

¹⁰⁹ *Id.*

¹¹⁰ *Karno v. Path Freres Ltd.*, (1909) 100 L.T. 260.

¹¹¹ In comparison, by this time American courts had also begun to expand the relationships needed to find vicarious copyright infringement liability. See *Harms v. Cohen*, 279 F. 276, 278 (E.D. Pa. 1922). Cf. Recent Cases, *Copyrights – Infringement – Hirer’s Liability for Infringement by Independent Contractor*, 43 Harv. L. Rev. 828, 828-29 (1930) (listing American cases creating a unanimous standard, which extended vicarious liability from English common law).

¹¹² *C.B.S. Songs Ltd. v. Amstrad Consumer Elec. Plc.*, [1988] A.C. 1013; Cf. *Aro Mfg. Co. v. Convertible Top Replacement Co. (Aro II)*, 377 U.S. 476, 522 (1964) (Black, J., dissenting) (“The granting of patent monopolies under [U.S. Const. art. I, § 8] represents a very minor exception to the Nation’s traditional policy of a competitive business economy, such as is safe guarded by the antitrust laws.”).

¹¹³ *Illinois Tool Works v. Indep. Ink, Inc.*, 547 U.S. 28 (2006) (eliminating the presumption that a patent creates a market power that is contrary to the public good).

¹¹⁴ Copyright, Designs and Patents Act, 1988, c. 48:

§16 (2). “Copyright in a work is infringed by a person who without the licence of the copyright owner does, or authorises another to do, any of the acts restricted by the copyright.”

....

§23. Secondary infringement: possessing or dealing with infringing copy.

The copyright in a work is infringed by a person who, without the licence of the copyright owner—

- (a) possesses in the course of a business,
- (b) sells or lets for hire, or offers or exposes for sale or hire,
- (c) in the course of a business exhibits in public or distributes, or
 - (d) distributes otherwise than in the course of a business to such an extent as to affect prejudicially the owner of the copyright, an article which is, and which he knows or has reason to believe is, an infringing copy of the work.

§24. Secondary infringement: providing means for making infringing copies.

(1) Copyright in a work is infringed by a person who, without the licence of the copyright owner—

- (a) makes,
- (b) imports into the United Kingdom,
- (c) possesses in the course of a business, or
 - (d) sells or lets for hire, or offers or exposes for sale or hire, an article specifically designed or adapted for making copies of that work, knowing or having reason to believe that it is to be used to make infringing copies.

(2) Copyright in a work is infringed by a person who without the licence of the copyright owner transmits the work by means of a telecommunications system (otherwise than by broadcasting or inclusion in a cable programme service), knowing or having reason to believe that infringing copies of the work will be made by means of the reception of the transmission in the United Kingdom or elsewhere.

§25. Secondary infringement: permitting use of premises for infringing performance.

In *C.B.S. Inc. v. Ames Records & Tapes Ltd.*, the defendant Ames set up a record lending library in its chain of retail stores, allegedly with the knowledge that this would likely lead to “home taping”.¹¹⁵ Ames hoped this business plan would increase foot traffic in its stores, which had declined in the depressed economy.¹¹⁶ The court accepted this as Ames’ true purpose and rejected the plaintiff’s contention that Ames’ purpose was to encourage infringement.¹¹⁷ In fact, the court stated the inquiry of intent or purpose was irrelevant, since Ames had never purported to have the authority to control the infringing act.¹¹⁸ Finding Ames not liable,¹¹⁹ the court added that mere enablement, assistance, or encouragement is not authorization.¹²⁰ One key element the court found lacking was Ames’ ability to control the use of the material after it left the store.¹²¹ If Ames had also provided the means by which copying could occur at the store, this may have constituted authorization.¹²² In essence, the decision in *Ames* is in accordance with the Supreme Court’s holding in *Sony* and other relevant American cases in which the defendant, absent inducing infringement, is not liable for actions of a third party as long as the product sold or rented has non-infringing uses, and the defendant no longer retains control.¹²³

(1) Where the copyright in a literary, dramatic or musical work is infringed by a performance at a place of public entertainment, any person who gave permission for that place to be used for the performance is also liable for the infringement unless when he gave permission he believed on reasonable grounds that the performance would not infringe copyright.

(2) In this section “place of public entertainment” includes premises which are occupied mainly for other purposes but are from time to time made available for hire for the purposes of public entertainment.

¹¹⁵ *C.B.S. Inc. v. Ames Records & Tapes Ltd.*, [1982] Ch. 91, 94.

¹¹⁶ *Id.* at 103.

¹¹⁷ *Id.* (Whitford, J.) (“I may at this stage add that I am satisfied on the evidenced that at no time has Mr. Ames expressly sanctioned, approved, or encouraged home taping.”).

¹¹⁸ *Id.* at 106.

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ *Id.* at 117.

¹²² *Id.*

¹²³ See *Elektra Records Co. v. Gem Elec. Distribs., Inc.*, 360 F. Supp. 821, 825 (E.D.N.Y. 1973) (finding liability where defendant sold blank tapes and facilitated copying by providing easy access to the Make-A-Tape on site); *RCA Records v. All-Fast Sys., Inc.*, 594 F. Supp. 335, 339 (S.D.N.Y. 1984) (distinguishing *Sony* since defendant was in a position to exercise complete control over the machine at all times); *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 800 F.2d 59, 64 (3d Cir. 1986) (finding that the

Considering *Ames* to be directly on point, the House of Lords in *Amstrad* unanimously affirmed the Court of Appeals holding that the defendant had not authorized infringement.¹²⁴ The defendant, Amstrad, had manufactured and sold home-taping devices, which were advertised as double speed twin-tape recorders. Even though the court acknowledged that “Amstrad’s advertisement was cynical because Amstrad advertised the increased efficiency of a product capable of being employed to break the law,” the Lords felt that the advertisement was not sufficient to show procurement.¹²⁵ In addition, Amstrad was not indirectly liable since it had not procured infringement or shared a common design that infringement occur.¹²⁶

As a prime example of a dual use product, it is notable that the Lords said nothing about attempting to prevent infringement, a key factor when determining liability for active inducement or authorization. Instead, the court’s decision rested heavily on the direct infringer’s free will: “Amstrad sold a machine and the purchaser or the operator of the machine decided the purpose for which the machine should from time to time be used. The machine was capable of being used for lawful or unlawful purposes.”¹²⁷ This statement implicitly references the element of control, which the Court of Appeals had noted when distinguishing this case from the High Court of Australia’s decision in *University of New South Wales v. Moorhouse*.¹²⁸

With respect to procurement, the Lords again leaned heavily on the end-users final decision to operate the machine unlawfully:

But in the present case Amstrad do not procure infringement by offering for sale a machine which may be used for lawful or unlawful copying and they do not procure infringement by advertising the attractions of their machine to any purchaser who may decide to copy unlawfully. Amstrad are not concerned to procure and cannot procure unlawful copying. The purchaser will not make unlawful copies because he has been induced or incited or persuaded to do so by Amstrad. The purchaser will make unlawful copies for his own use because he chooses to do so. Amstrad’s advertisements may persuade the purchaser to buy an Amstrad machine but will not influence the purchaser’s later decision to infringe copyright.¹²⁹

owner of a video rental store that allowed videos to be viewed on the premises infringed the owner’s exclusive right to authorize such performances).

¹²⁴ *C.B.S. Songs Ltd. v. Amstrad Consumer Elec. Plc.*, [1988] A.C. 1013, 1013.

¹²⁵ *Id.* at 1053.

¹²⁶ *Id.* at 1056.

¹²⁷ *Id.* at 1057 (“Amstrad conferred on the purchaser the power to copy but did not grant or purport to grant the right to copy.”).

¹²⁸ *See University of New South Wales v. Moorhouse* (1975) 133 C.L.R. 1.

¹²⁹ *Amstrad*, [1988] A.C. 1013, 1058.

This lack of finding indirect liability for active inducement differs from the American standard, and parallels the separation between the two countries' doctrines of indirect liability for patent infringement.¹³⁰

In summary, outside of vicarious liability, the English courts have been reluctant to find indirect liability absent concerted action or privity. Furthermore, they have substantially limited liability for authorization to those cases in which the defendant granted or purported to grant the authority to do an act exclusively reserved to the copyright owner. The unifying themes underlying these decisions seem to be a concern with expanding a right that is already an exception to the safeguarding of the public good,¹³¹ and an unwillingness to impose liability on defendants for decisions made outside of their control.¹³² However, this regard for individual accountability for the final infringing act seems to ignore all accountability for the defendant's initial choice to create a dual use product without effective measures to prevent the infringing use. This last factor is the most salient difference between the English and Australian jurisprudence.

ii. Australian Authorization Statute and Related Cases

This section will review the relevant pre-codification cases, in particular *Universal Australia v. Sharman License Holdings*, the Australian equivalent to the Supreme Court's *Grokster* decision.¹³³

The Australian legal system is congruent with the American doctrine of indirect liability, in that the Australian copyright statute also includes an exclusive right "to authorize."¹³⁴ However, one significant difference is that, in 2000, the Australian Parliament codified a non-exhaustive list of factors to help the Justices determine whether a defendant authorized an infringing act:¹³⁵

¹³⁰ See discussion *supra* Part I.

¹³¹ *Id.*

¹³² *Id.*

¹³³ *Universal Australia Pty. v. Sharman License Holdings Ltd.*, (2005) 220 A.L.R. 1.

¹³⁴ Copyright Act, 1968, § 13:

Acts comprised in copyright

(1) A reference in this Act to an act comprised in the copyright in a work or other subject-matter shall be read as a reference to any act that, under this Act, the owner of the copyright has the exclusive right to do.

(2) For the purposes of this Act, the exclusive right to do an act in relation to a work, an adaptation of a work or any other subject-matter includes the exclusive right to authorize a person to do that act in relation to that work, adaptation or other subject-matter.

¹³⁵ *Sharman*, 220 A.L.R. at 98 (citing *Universal Australia Pty. v. Cooper* (2005) FCA 972, at para 81). Copyright Act, 1968, § 36:

- (a) the extent (if any) of the person's power to prevent the doing of the act concerned;
- (b) the nature of any relationship existing between the person and the person who did the act concerned;
- (c) whether the person took any reasonable steps to prevent or avoid the doing of the act, including whether the person complied with any relevant industry codes of practice.

The remainder of this section will describe the relevant Australian authorization cases.

In *Winstone v. Wurlitzer*, the defendant owned and rented out a coin-operated gramophone, and supplied records to play on the machine.¹³⁶ The Supreme Court of Victoria, in dicta, made some interesting remarks:

[I]t would seem relevant to apply the test of Atkin L.J. in *Falcon v. Famous Players Film Co.* [and ask whether] the defendant granted or purported to grant to [the renter] and his customers the right to do the act complained of, to know whether or not they controlled the selection of the records that were to be placed in the 'juke box' from time to time, and so determined what musical compositions could, if and when it was put in operation by renter's customers, be performed thereon.¹³⁷

36 *Infringement by doing acts comprised in the copyright*

(1) Subject to this Act, the copyright in a literary, dramatic, musical or artistic work is infringed by a person who, not being the owner of the copyright, and without the licence of the owner of the copyright, does in Australia, or authorizes the doing in Australia of, any act comprised in the copyright.

(1A) In determining, for the purposes of subsection(1), whether or not a person has authorised the doing in Australia of any act comprised in the copyright in a work, without the licence of the owner of the copyright, the matters that must be taken into account include the following:

- (a) the extent (if any) of the person's power to prevent the doing of the act concerned;
- (b) the nature of any relationship existing between the person and the person who did the act concerned;
- (c) whether the person took any reasonable steps to prevent or avoid the doing of the act, including whether the person complied with any relevant industry codes of practice.

¹³⁶ *Winstone v. Wurlitzer Automatic Phonograph Co. of Australia Pty. Ltd.* [1946] V.L.R. 338.

¹³⁷ *Id.* at 352-53.

Sidestepping Parliament's list of factors, the court found a joint venture between the defendant and the renter,¹³⁸ and therefore held the defendant liable for authorizing the performance of plaintiff's copyrights.¹³⁹ Notwithstanding the joint venture, the court could have found liability for authorization. By controlling which musical compositions were in the jukebox, the defendants controlled which compositions could be played. Without any notice to the customers that some of these compositions had not been authorized for such use by the copyright owner, the customer would reasonably believe that they were properly licensed to the defendant. Thus, the defendants purported to grant a right which they did not have.

A more influential case, *University of New South Wales v. Moorhouse*, involved a copyright owner suing the University of New South Wales for unlawfully authorizing the copying of his book.¹⁴⁰ The High Court of Australia affirmed the lower court's ruling that the University had authorized infringement of the plaintiff's copyright, generally and particularly, where a Mr. Brennan had copied ten pages using the University's photocopiers.¹⁴¹

In finding general authorization, Justice Gibbs felt that the University had constructive knowledge that infringement was occurring, and had control of both the content and the means to infringe.¹⁴² Justice Jacobs, finding liability for authorization, argued that an unlimited invitation is an authorization, if the invitation to infringe is accepted and infringement occurs.¹⁴³ Such unlimited invitation was evident given that the University owned and controlled the photocopier, failed to take adequate steps to detect and limit infringement, provided inadequate notice of the bounds of fair use, and prevented the copyright owners from monitoring the photocopiers to limit infringement.¹⁴⁴

In reversing the lower court and finding specific authorization of Mr. Brennan's acts, Justice Gibbs reasoned that providing the means to infringe without adopting reasonable measures to curtail infringement constituted authorization.¹⁴⁵ Justice Jacobs, after finding no express authorization to infringe, analogized the University's conduct to an unqualified invitation which amounted to authorization: "The unqualified nature of the invitation sufficiently caused him to do the acts which he did and which were composed in the copyright of the [plaintiff]."¹⁴⁶ In dicta, Justice Jacobs also noted that if the invitation had been limited, then knowledge would

¹³⁸ *Id.* at 353.

¹³⁹ *Id.* at 355.

¹⁴⁰ *University of New South Wales v. Moorhouse* (1975) 133 C.L.R. 1 (Austl.).

¹⁴¹ *Id.* at 7.

¹⁴² *Id.* at 16-17.

¹⁴³ *Id.* at 21.

¹⁴⁴ *Id.* at 14-15.

¹⁴⁵ *Id.*

¹⁴⁶ *Id.* at 23.

be a factor in the determination of liability.¹⁴⁷ Either way, this case shows that under Australian law actual knowledge of the specific infringing acts is not required to find liability for authorization.¹⁴⁸ The core of the *Moorhouse* decision was codified in 2000, and had a direct impact thirty years after its pronouncement in *Universal Australia Pty. v. Sharman License Holdings Ltd.*¹⁴⁹

In *Sharman*, the plaintiffs sued Sharman, its affiliates, and its directors, for authorizing massive copyright infringement.¹⁵⁰ Sharman controlled the Kazaa peer-to-peer file-sharing system, but other than the names of the owners and operators, and the territorial jurisdiction, the facts of the case are almost indistinguishable from *Grokster*.¹⁵¹ After noting that the amendment had codified the common law decisions regarding liability for authorization and that this list of factors was non-exhaustive,¹⁵² the Australian Federal Court of Appeals accepted the “continuing applicability of the *Moorhouse* test” adding that “inactivity or indifference, exhibited by acts of commission or omission may reach such a degree as to support an inference of authorisation of infringement.”¹⁵³

After establishing the standard, the court highlighted the relevant elements present in the case: financial interest, positive acts to encourage infringement through advertisements, knowledge that majority of the files were copyrighted, and control of infringement.¹⁵⁴ Despite the lack of control at the time a user infringed, the court inferred control from Sharman’s ability to implement a keyword filter or gold file flood filter,¹⁵⁵ as either would have enabled it to

¹⁴⁷ *Id.* at 22.

¹⁴⁸ One major fact distinguishes *Moorhouse* from *Amstrad*. In *Moorhouse*, the University at all times controlled the content and the means that were used to infringe the plaintiff’s copyright. *Moorhouse* (1975) 133 C.L.R. at 3. Thus, the English, Australian, and American jurisprudence at least agree that liability may be found where a defendant retains control of the means to infringe. See cases cited *supra* notes 99, 115, 124, and *infra* note 170. *Grokster* and *Sharman* also support finding liability where the defendant no longer has current control of the user’s activities. See Graeme W. Austin, *Importing Kazaa—Exporting Grokster*, 22 Santa Clara Computer & High Tech. L.J. 577, 582-83 (2006) (suggesting that the Australian statute also provides for a “finding of authorization in situations in which the authorizing defendant cannot control the end user”).

¹⁴⁹ *Universal Australia Pty. v. Sharman License Holdings Ltd.*, (2005) 220 A.L.R. 1 (Austl).

¹⁵⁰ *Id.*

¹⁵¹ *Metro-Goldwyn-Mayer Studios, Inc., v. Grokster, Ltd.*, 545 U.S. 913 (2005).

¹⁵² *Universal Australia Pty. v. Sharman License Holdings Ltd.*, (2005) 65 I.P.R. 289, 387 (Austl.).

¹⁵³ *Id.* at 402.

¹⁵⁴ *Id.* at 404-06, 414.

¹⁵⁵ *Id.* at 310 (“The Respondents could have created Gold Files which consisted simply of a copyright infringement warning, 200 copies of which appeared in response to a keyword search associated with the Applicants’ sound recordings . . . [flooding] the Kazaa user’s search results page.” (citation omitted)).

prevent or restrict users' access to identified copyrighted works.¹⁵⁶ Thus, the court concluded that Sharman "could control users' copyright infringing activities" and "did not do so."¹⁵⁷

In finding liability for authorization, the court referred to the High Court of Australia's decision in *Australian Tape Manufacturers Association Ltd v. Commonwealth* and that case's reference to *Amstrad* and *Sony*.¹⁵⁸ The court noted that in *Australian Tape* the High Court of Australia held that the "sale of a blank tape does not constitute an authorization by the vendor to infringe copyright . . . principally because the vendor has no control over the ultimate uses of the blank tape."¹⁵⁹ Looking to American copyright law for persuasive support, the court noted that the *Grokster* decision "affirmed the continuing correctness of *Sony*,"¹⁶⁰ although it did not comment on whether *Grokster* could have been decided based on an authorization test.

In sum, parties can be liable for authorization if they purport to grant the exclusive rights of another, or extend a specific or general invitation to use their products or services without taking reasonable measures to prevent infringement. The relevant provisions of the Australian statute provide guidance, and grant the courts discretion over the factors to consider.

C. Comparison with *Grokster*

This section will compare the English and Australian interpretation of "to authorize" with the Court's approach in *Grokster* and its aftermath, and argue that there is adequate support for an authorization standard in American common law.

In *Grokster*, the Supreme Court held that three factors together would establish active inducement: (1) advertising services, especially to a known copyright infringing community; (2) failing to develop filtering tools or other mechanisms to reduce infringement; and (3) designing a business based on massive infringement.¹⁶¹ The Court noted that in the absence of other evidence, failing to develop filtering tools or other mechanisms to reduce infringement would not, on its own, lead to liability because it would tread too closely on the *Sony* safe harbor.¹⁶² However, under an authorization test

¹⁵⁶ *Id.* at 409-414.

¹⁵⁷ *Id.* at 414.

¹⁵⁸ *Australian Tape Mfrs. Ass'n Ltd. v. Commonwealth* (1993) 176 C.L.R. 480 (Austl.) (citing *C.B.S. Songs Ltd. v. Amstrad Consumer Elec. Plc.*, [1988] A.C. 1013, and *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984)).

¹⁵⁹ *Australian Tape*, 176 C.L.R. at 482.

¹⁶⁰ *Sharman*, 65 I.P.R. at 379.

¹⁶¹ *Metro-Goldwyn-Mayer Studios, Inc., v. Grokster, Ltd.*, 545 U.S. 913, 938 (2005).

¹⁶² *Id.* at 938 n.12:

Of course, in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to

as applied in Australia, the second factor alone could support a finding of authorization, especially if copyright owners were prevented from directly monitoring infringement, as in *Moorhouse*.¹⁶³ In *Moorhouse*, the University neither promoted its photocopiers as mechanisms to infringe, nor did it design a business around massive infringement.¹⁶⁴ However, it was still held liable for extending an unqualified invitation to infringe.¹⁶⁵ Likewise, the *Sharman* decision turned on the simple principle that the defendant's failure to filter results when they had the power to do so was tantamount to extending an unqualified invitation to infringe.¹⁶⁶ A similar type of invitation was referred to in the early patent cases *Wallace v. Holmes* and *Thomson-Houston*.¹⁶⁷ Recall in those cases, the defendants were held liable for selling products that could be used to infringe another's patent, even if it could not be shown that subsequent infringement was their intention.¹⁶⁸

At a minimum, an American authorization test should establish liability where a party (1) failed to take reasonable and effective measures to curtail infringement while (2) not enabling copyright owners to monitor infringement themselves.¹⁶⁹ Under this test, capacity for substantial non-infringing use should be irrelevant. This is amply supported by the 'dancehall' line of vicarious liability cases, in which dancehall operators were liable if a hired artist was given general authority to play anything it wanted.¹⁷⁰

prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the Sony safe harbor.

¹⁶³ *University of New South Wales v. Moorhouse* (1975) 133 C.L.R. 1 (Austl.).

¹⁶⁴ *Id.*

¹⁶⁵ *Id.*

¹⁶⁶ *Universal Australia Pty. v. Sharman License Holdings Ltd.*, (2005) 220 A.L.R. 1 (Austl.).

¹⁶⁷ *See supra* Part I.

¹⁶⁸ *Id.*

¹⁶⁹ A similar test for inducement liability is proposed by Lemley. Lemley argues that because infringement is tort-based liability could be found if there was a Reasonable Alternative Design as in products liability cases. *See* Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. Davis L. Rev. 225, 232 (2005).

¹⁷⁰ Compare *Australasian Performing Right Ass'n Ltd. v. Metro on George Pty. Ltd.* (2004) 210 A.L.R. 244 (Austl.) (finding that a club owner had authorized infringement of copyright by allowing musical acts to perform copyrighted songs), and *Australian Performing Right Ass'n Ltd. v. Canterbury-Bankstown League Club Ltd.* (1964) 5 F.L.R. 415 (Austl.) (finding club owner liable for authorization where a performer hired to play music was given general authority to play whatever he liked irrespective of copyright), with *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304 (2d Cir. 1963) (finding that the proprietor of a mega store who licensed operation of its record-selling division to a third party was liable when that third party sold boot-leg records), and *Monaghan v. Taylor*, (1886) 2 T.L.R. 685 (Q.B.) (finding the owner of a music hall liable for copyright violation when he permitted a singer to perform a copyrighted work).

This approach has much to recommend it. First, it would eliminate the requirement of finding actual or imputed intent, although intent could still help support a finding of liability.¹⁷¹ Secondly, this formulation would not extend copyright protection beyond that already provided by Congress in the Copyright Act.¹⁷² Thirdly, this standard would strike a balance between the costs to the innovator and those to the copyright owner, the innovator choosing to either take reasonable and effective measures to curtail infringement, thereby trading off some autonomy; or enabling the copyright owner to monitor infringement, a burden which many of the larger copyright holders already shoulder.¹⁷³ Thus, innovators who attempt to avoid all costs should be found liable.

To understand the implications of an authorization test, it is helpful to compare *Sharman* with *Grokster*.¹⁷⁴ On remand, the District Court in *Grokster*, following the inducement test set forth by the Supreme Court, examined several factors: (1) the system being almost entirely devoted to infringing uses; (2) the defendant's targeting of known infringers; (3) the active steps taken to prevent detection of illegal file-sharing; (4) the business model depending on massive infringement; and (5) the lack of meaningful, affirmative steps to prevent infringement, either through acoustic fingerprinting, or metadata filtering.¹⁷⁵ The *Sharman* court based its decision on somewhat different

¹⁷¹ For example, if a party creates a device or system with no design for massive infringement and does not advertise its infringing capabilities, according to *Metro-Goldwyn-Mayer Studios, Inc., v. Grokster, Ltd.*, 545 U.S. 913, 939 n.12 (2005), liability should not be imposed. *But see Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 727 (9th Cir. 2007) (applying *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) and *Grokster* to impute intent "if the actor knowingly takes steps that are substantially certain to result in such direct infringement" (citing Restatement (Second) of Torts § 8A (1965))).

¹⁷² *See Bauer & Cie v. O'Donnell*, 229 U.S. 1, 10 (1913) ("With these beneficent purposes in view the act of Congress should be fairly or even liberally construed; yet, while this principle is generally recognized, care should be taken not to extend by judicial construction the rights and privileges which it was the purpose of Congress to bestow.").

¹⁷³ *See i2hub Shut Down for Good*, Colum. Spectator (N.Y.), Nov. 16, 2005, available at <http://columbiaspectator.com/node/19329> (reporting that the RIAA has sued at least 15,000 users since 2003).

¹⁷⁴ *Universal Australia Pty. v. Sharman License Holdings Ltd.*, [2005] FCA 1242; *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 933 (2005).

¹⁷⁵ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 454 F. Supp. 2d 966, 983-92 (C.D. Cal. 2006) (finding that the defendant had violated the test for infringement set forth by the Supreme Court). Ironically, the *Grokster* plaintiff's initial motion for summary judgment had stated all the necessary elements that the district court later used to find liability through inducement. Notice of Motion and Motion by Plaintiffs for Summary Judgment on Liability or, Alternatively, Partial Summary Judgment Against Defendants at 46-48, *Metro-Goldwyn-Mayer Studios, Inc., v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003) (No. 01-08541), available at http://w2.eff.org/IP/P2P/MGM_v_Grokster/20020913_mgm_summary_judgement.pdf (Plaintiff stated four reasons to distinguish case from *Sony*: (1) On-going relationship between defendant and end-users (2) end product is not private home copying; (3) if possible, must block infringing activity; and (4)

factors: (1) the defendant's financial interest in massive infringement; (2) the positive acts to encourage infringement through advertisements; (3) the defendant's knowledge that the majority of files were copyrighted; and (4) the defendant's control of infringement.¹⁷⁶ Even though the Australian court did not find that the defendant took steps to ensure that the technology had infringing capabilities, the *Sharman* court found the defendant liable. The court inferred an element of control from the defendant's purposeful design, which did not attempt to curtail infringement.

A comparison of two recent Ninth Circuit decisions offers another example of the potential uses and effects of an authorization standard. In *Perfect 10 v. Amazon*, Perfect 10 sued Google, among others, for linking users to Stolen Content Websites (SCWs) that republished Perfect 10's copyrighted images without authorization.¹⁷⁷ Finding evidence lacking, the Court of Appeals limited the direct infringement claim to the SCWs' reproduction, display, and distribution of unauthorized copies of Perfect 10's images on the internet.¹⁷⁸ Interpreting *Grokster* as endorsing fault-based liability, the court held that Google could be contributorily liable for intentionally encouraging direct infringement, if it knowingly took steps that were substantially certain to result in such direct infringement.¹⁷⁹ However, the courts approach is somewhat puzzling. The court acknowledged that *Grokster* required intent to find contributory liability, but relying on *Sony*, found that such intent could be imputed. This logic is troubling. The problem lies in the court's reasoning that even though Google's search engine was capable of substantial non-infringing uses, intent should still be inferred. Why should Google be substantially certain that infringement would occur by allowing a user to search for an image? According to the court's own limitation, the direct infringement in question, the SCWs' reproduction, display, and distribution of Perfect 10's images, occurred before the user conducted a search, and could still occur without any search taking place.¹⁸⁰

In *Perfect 10 v. Visa*, another lawsuit involving Perfect 10 and SCWs, the Ninth Circuit moved deftly to distinguish *Amazon*.¹⁸¹ This time, Perfect 10 sued Visa and other credit card companies for contributory infringement for processing credit charges incurred by customers to acquire infringing images on SCWs. The court distinguished Google's linking system from Visa's payment system by causal nexus. Unlike Visa,

specific design to infringe. The plaintiff also argued for finding of control through lack of filtering and prevention of allowing copyright holders to monitor possible infringements).

¹⁷⁶ *Universal Music Australia Pty. Ltd. v. Sharman License Holdings Ltd.* (2005) 65 I.P.R. 289 (Austl.).

¹⁷⁷ *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007).

¹⁷⁸ *Id.* at 713.

¹⁷⁹ *Id.* at 727.

¹⁸⁰ *Id.* at 725-32.

¹⁸¹ *Perfect 10, Inc. v. Visa Int'l Service Ass'n*, 494 F.3d 788 (9th Cir. 2007).

Google was liable because it facilitated the connection between the infringing users, and the SCWs. Visa did not assist users to find stolen content; it merely processed payments after the infringement had occurred. However, as Judge Kozinski highlighted in dissent, without the aid of credit card companies the profitability of operating an SCW would be greatly diminished.¹⁸² The dissent further claimed that given the alleged specialized contractual relationship between the credit card companies and the SCWs, vicarious liability was properly found since the credit card companies had both a right and ability to control, and a direct financial interest.¹⁸³

Under the proposed authorization standard, the outcome of both cases would be reversed. The first authorization inquiry asks whether Google or Visa granted or purported to grant to the SCW or the searcher the authority to enjoy any of Perfect 10's exclusive rights. Google's search engine certainly did not. Admittedly, the search engine makes it easier for the searcher to find unauthorized copies of Perfect 10's images, but it makes it easier for anyone to find any content on the internet. In no regards should this be considered a grant or purported grant of authority. On the other hand, if Visa knew the SCWs were offering stolen content, it could be argued by analogy to the 'dancehall' cases that it, as the provider of a mechanism for payment, did grant authority.¹⁸⁴ Even without knowledge, Visa would still be providing a general authority to infringe for its own financial gain, which is not dissimilar to a dancehall owner permitting a hired artist to perform anything irrespective of copyright.¹⁸⁵ As the dissent noted, Visa's actions facilitated infringement of the copyright owner's "exclusive right to 'distribute copies [of its works] . . . to the public by sale.'"¹⁸⁶

The second authorization inquiry asks whether Visa or Google failed to take reasonable and effective measures to prevent infringement while not enabling Perfect 10 to monitor infringement. Because the "Stolen Content Websites [allegedly] 'maintain[ed] no physical presence in the United States in order to evade criminal and civil liability for their illegal conduct,'"¹⁸⁷ enabling Perfect 10 to monitor infringement is useless as it will not be able to enforce its copyrights. However, as long as Visa or Google permitted Perfect 10 to monitor infringement, this second inquiry should not apply.¹⁸⁸ Although, at first, this conclusion seems unjust, it is fair as it attempts to strike

¹⁸² *Id.* at 812.

¹⁸³ *Id.* at 819-20 (Kozinski, J., dissenting).

¹⁸⁴ See cases cited *supra* note 170.

¹⁸⁵ *Id.*

¹⁸⁶ *Perfect 10, Inc. v. Visa Int'l Service Ass'n*, 494 F.3d 788, 810 (9th Cir. 2007) (Kozinski, J., dissenting) (quoting 17 U.S.C. § 106 (2006)).

¹⁸⁷ *Id.*

¹⁸⁸ Because the second inquiry is more appropriate for imposing liability on a party providing an online service or distribution, this prong inadequately applies to Visa. However, Visa should not escape all liability, as it has already failed the first inquiry.

a balance between the costs of the innovator and the copyright owner. A key factor in Google's profitable operation is its ability to be primarily automated. Any process requiring human oversight adds costs. In this case, Google would have to know when to restrict every new SCW and also update its search engine every time Perfect 10 released a new image. By refusing to impose liability on Google, this outcome forces the copyright owner to compensate Google for any costs Google would incur to prevent the infringement. In addition, although Google's search engine may allow users to find SCWs, it also allows the copyright owner's to detect and monitor SCWs.

The foregoing discussion hopefully illustrates a plausible authorization standard that the courts and Congress could implement. If nothing else, the Ninth Circuit's stretch to distinguish these two cases should alert Congress that greater guidance is needed.

CONCLUSION

With the ever-advancing technology, problems with copyright law's current indirect liability doctrine are constantly arising. As the U.S. courts continually patch over these problems using various doctrines borrowed from other areas of law, predictability and certainty are being sacrificed. Additionally, this borrowing of external doctrine separates the copyright law from its statutory grounding. Even if the courts were to acknowledge that the inclusion of "to authorize" in the 1976 Copyright Act expressly created third-party liability for another person's infringement, the phrase itself provides no guidance to the courts on what it means to authorize. It is becoming apparent that Congress needs to provide more guidance. For direction or inspiration, Congress needs only to turn to England and Australia for decent examples on how to properly codify American common-law principles for indirect liability. If and when Congress finally relieves the courts of their valiant efforts and resumes its Constitutional responsibility "to Promote the progress of Science and the useful Arts," perhaps then, these turbulent times for indirect liability will be calmed.