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RECORD PIRACY AND MODERN PROBLEMS OF INNOCENT INFRINGEMENT: A COMPARATIVE ANALYSIS OF UNITED STATES AND BRITISH COPYRIGHT LAWS*

I. INTRODUCTION

One of the most deeply rooted problems in the United States and British copyright law is the question of how to treat the "innocent infringer,"¹ the person who infringes unknowingly or without reason to suspect that he is infringing. Historically, both Congress and Parliament have regarded special treatment for such infringers with ambivalence, and United States and British copyright law reflects this confusion. Each has at one time or another provided the innocent infringer with total immunity from liability, remedial relief, or no protection whatsoever.

The problem of innocent infringement has been revived by the record² piracy crisis gripping the American and British music industries. Because of the severe impact record piracy has had on music industry profits, copyright owners³ in musical works⁴ and sound re-

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1. For a thorough overview of the subject, see A. Latman and W. Tager, *Liability of Innocent Infringers of Copyrights*, STUDIES PREPARED FOR THE SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS OF THE COMMITTEE ON THE JUDICIARY, No. 25, 86th Cong., 2d Sess. 139 (1958) [hereinafter cited as Latman]. See also Yankwich, *Intent and Related Problems in Plagiarism*, 33 S. CAL. L. REV. 233 (1960); M. NIMMER, NIMMER ON COPYRIGHT § 13.08 (1978) [hereinafter cited as NIMMER].

2. When used herein, "record" denotes conventional records and tapes. Under the United States Copyright Act of 1976 [hereinafter cited as 1976 Act], the term of art for "record" is "phonorecord." 17 U.S.C. § 101 (1976) defines "phonorecords" as "material objects in which sounds . . . are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." The equivalent term of art under the British Copyright Act of 1956 [hereinafter cited as 1956 Act] is the term "record," which is defined as "any disc, tape . . . or other device in which sounds are embodied so as to be capable (with or without the aid of some other instrument) of being automatically reproduced therefrom. . . ." 4 & 5 Eliz. 2, c. 74, § 48.

3. The 1976 Act defines "copyright owner" indirectly. 17 U.S.C. § 101 (1976) states that " 'copyright owner', with respect to any one of the exclusive rights comprised in a copyright refers to the owner of that particular right." 17 U.S.C. § 201(a) (1976) adds that "[c]opyright in a work protected under this title vests initially in the author or authors of the work." Likewise, under the 1956 Act, "the author of a work shall be entitled to any copyright subsisting in the work. . . ." 4 & 5 Eliz. 2, c.74, § 4(1).

4. The 1976 Act does not specifically define "work" or "musical work." To be copyrightable, an "original work of authorship" must be "fixed in any tangible medium of ex-

cordings⁵ may no longer file lawsuits primarily against the pirates.⁶ There is evidence that copyright owners will litigate against *sellers* of pirated (or counterfeit) records with greater frequency.

For example, in the United States, the Recording Industry Association of America (RIAA) has used the mass media to drum up sentiment against the National Association of Recording Merchandisers (NARM). A popular American magazine recently published RIAA warnings to NARM that it will vigorously pursue civil actions for maximum damages against retailers who sell counterfeit records.⁷ The RIAA defends its litigious rhetoric by citing a study that it conducted, in which investigators allegedly found counterfeit merchandise in ninety percent of the 500 retail outlets checked.⁸ The RIAA claims that

pression, now known or later developed, from which [it] can be perceived, reproduced or otherwise communicated. . . ." 17 U.S.C. § 102(a) (1976). "Works of authorship include the following categories: (1) literary works; (2) *musical works, including any accompanying words*; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; and (7) sound recordings." *Id.* (emphasis added). The 1956 Act does not define "work" or "musical work." However, the Musical Copyright Act of 1902, which was repealed upon passage of the 1956 Act, defined a "musical work" as "any combination of melody and harmony, or either of them, printed, reduced to writing or otherwise graphically produced or reproduced." R.F. WHALE, COPYRIGHT (1971) at 38 [hereinafter cited as WHALE]. See also COPINGER AND SKONE JAMES ON COPYRIGHT § 172 (1965) [hereinafter cited as COPINGER].

5. Congress created a copyright for owners of sound recordings in 1971. Act of October 15, 1971, Pub. L. No. 92-140, § 1(f), 85 Stat. 391 [amending 17 U.S.C. § 1 (repealed 1976)]. The 1976 Act defines "sound recordings" as "works that result from the fixation of a series of musical, spoken, or other sounds . . . regardless of the nature of the material objects, such as discs, tapes, or other phonorecords, in which they are embodied." 17 U.S.C. § 101 (1976). The 1956 Act defines a "sound recording" as "the aggregate of the sounds embodied in, and capable of being reproduced by means of, a record of any description. . . ." 4 & 5 Eliz. 2, c.74, § 12(9).

6. A sampling of the record piracy litigation directed against pirates includes: *A & M Records, Inc. v. M.V.C. Distrib. Corp.*, 574 F.2d 312 (6th Cir. 1978); *Pickwick Music Corp. v. Record Prods., Inc.*, 292 F. Supp. 39 (S.D.N.Y. 1968); *Chappell & Co. v. Frankel*, 285 F. Supp. 798 (S.D.N.Y. 1968); *Beechwood Music Corp. v. Vee Jay Records, Inc.*, 226 F. Supp. 8 (S.D.N.Y. 1964); and *Reeve Music Co. v. Crest Records, Inc.*, 190 F. Supp. 272 (E.D.N.Y. 1959). In contrast, only a handful of reported cases involve vendor liability for the sale of infringing records. See *Miller v. Goody*, 139 F. Supp. 176 (S.D.N.Y. 1956), *rev'd*, *Shapiro, Bernstein & Co. v. Goody*, 248 F.2d 260 (2d Cir. 1957) (large record dealer); *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963) (department store chain); *Harms Inc. v. F.W. Woolworth Co.*, 163 F. Supp. 484 (S.D.Cal. 1958) (department store chain).

7. At the annual meeting of the National Association of Recording Merchandisers in March 1980, Stanley Gortikov, president of the Recording Industry Association of America, reportedly warned the retailers that "if you buy or sell counterfeits, we shall do everything possible not only to encourage maximum criminal penalties, but also maximum civil damages. *We want you to hurt, badly.*" ROLLING STONE, May 15, 1980 at 28 (emphasis added).

8. *Id.*

such a proliferation of counterfeit product in the retail community could not occur without the retailers' knowledge that they are dealing in infringing records.⁹

Zealously seeking relief against the infringing retailer, the RIAA has overlooked a more likely explanation for its incredible ninety percent finding. As the president of one large record chain has observed, counterfeit records would not circulate in most retail outlets if the records did not defy detection by the retailers involved.¹⁰ Contrary to the RIAA's position, if there is widespread retailer involvement in counterfeit sales, many infringing retailers may be innocent.

The current dispute between the RIAA and NARM is a modern reenactment of the historical conflict between copyright owners and innocent infringers. Copyright owners have traditionally claimed that injunctive and monetary relief should be available against all who commercially exploit an infringing work, including those who deal in unauthorized copies¹¹ of an infringing work. Conversely, persons who deal as a matter of course in copies of works that are copyrightable claim that they should be provided a defense of innocence.

The purpose of this article is to analyze and compare the historical and current treatment of innocent infringers under the United States and British copyright laws. In light of the growing danger of suits against record retailers, some emphasis will be given to the treatment of retailers who innocently sell counterfeit records.

It is asserted that the United States Copyright Act of 1976 (1976 Act) does not adequately reconcile the just concerns of copyright owners and innocent infringers. It gives copyright owners the right to injunctive relief against exploitation of infringing works as well as a right to defendant's profits or unjust enrichment—regardless of the infringer's innocence. However, the Act also allows the recovery of actual damages against the innocent infringer, which, in combination with the other remedies, effectively shifts the copyright owner's risk of

9. *Id.*

10. ROLLING STONE, April 17, 1980 at 27.

11. The 1976 Act defines "copies" as "material objects, *other than phonorecords*, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 101 (1976) (emphasis added). The 1956 Act does not define "copy" per se, but does define an infringing copy. An "infringing copy," with respect to literary, dramatic, musical or artistic work "means a reproduction otherwise than in the form of a cinematograph film [and] in relation to a sound recording, means a record embodying that recording. . . ." 4 & 5 Eliz. 2, c.74, § 18(3)(a)-(b). When used herein, "copy" denotes the reproduction of any work, including a sound recording, in the form of records or other material objects.

loss to the infringer. Whenever the innocent infringer is compelled to pay the copyright owner's actual damages, the infringer insures the owner against losses attributable to exploitation of unauthorized copies.

It is also asserted that the "strict liability" approach of the 1976 Act toward innocent infringers is unjustifiable. There is no persuasive public policy that requires a shift of the copyright owner's risk of loss to the innocent infringer, and particularly not to the record retailer. Moreover, the availability of actual damages, no matter how slight, may unnecessarily burden the infringer's First Amendment interest in disseminating artistic, literary, and musical works to the public.

In contrast to the 1976 Act, the British Copyright Act of 1956 (1956 Act) strikes a sensitive balance between the copyright owner's desire to prevent the commercial exploitation of unauthorized copies and the need to protect innocent infringers. The 1956 Act provides that if the infringer can prove his innocence, the copyright owner's remedies include injunctive relief and the infringer's profits, but not actual damages.

II. RECORD PIRACY IN THE UNITED STATES

In the last ten years, record piracy has become an enormously lucrative business. In 1971, a House Report stated that at that time the annual volume of business conducted by record pirates in the United States exceeded \$100 million.¹² Recent estimates indicate that record piracy costs the American record industry more than \$400 million annually,¹³ compared with annual legal sales of \$3.5 billion.¹⁴ It may be that the current record industry slump is largely attributable to counterfeit sales.

A. Relief for Copyright Owners

Under the 1976 Act, copyright owners in musical works and sound recordings who are victimized by record piracy (generally music publishers and record companies, respectively)¹⁵ can obtain relief in sev-

12. H.R. REP. NO. 487, 92d Cong., 1st Sess. 2 (1971).

13. TIME, March 10, 1980 at 70.

14. NEW YORKER, April 16, 1979 at 31.

15. Although the "author" of a musical work is originally its composer, ownership of the work is usually assigned to a music publisher. The 1976 Act provides that "ownership of a copyright may be transferred in whole or in part by any means of conveyance. . . ." 17 U.S.C. § 201(d)(1) (1976). See 4 & 5 Eliz. 2, c.74, § 36 for the British equivalent to § 201(d)(1). The 1976 Act also provides that a sound recording may be protected by copyright. 17 U.S.C. § 114(a) (1976). The initial owner of the copyright in a sound recording is

eral ways.

First, the copyright owner may file an infringement action against the record pirate himself.¹⁶ The Act provides that the duplication of a sound recording in the form of records for public distribution without the permission of the copyright owner of the sound recording is actionable as an infringement of the owner's copyright.¹⁷ Likewise, if the pirate fails to pay the required compulsory license fees to the copyright owner of the musical work embodied in the duplicated sound recording, such conduct constitutes infringement of the rights of the copyright owner of the musical work.¹⁸ Neither copyright owner must prove an

its "author," *Id.* § 201(a) (1976), or in other words, the maker of the recording. Record companies are frequently the copyright owner of sound recordings released to the public in the form of records because the sound recordings are usually financed by and recorded under the supervision of record manufacturers. Under the 1956 Act, "[c]opyright shall subsist . . . in every sound recording of which the *maker* was a qualified person. . . ." 4 & 5 Eliz. 2, c.74, § 12(1) (emphasis added).

16. As of January 1, 1978 (the effective date of the 1976 Act) common law copyright was preempted. 17 U.S.C. § 301(a) (1976) provides that "all legal or equitable rights that are the equivalent to any of the exclusive rights within the general scope of copyright," including rights in musical works and sound recordings, are governed exclusively by the 1976 Act. After January 1, 1978, "no person is entitled to any such right or *equivalent right* in any such work under the common law or statutes of any State." *Id.* (emphasis added). The words "equivalent right" should not be interpreted in the sense of substantively equal protection under common law and Federal statute. "As long as a work fits within one of the general subject matter categories . . . the bill prevents the States from protecting it. . . ." H.R. REP. NO. 1476, 94th Cong., 2d Sess. 131 (1976), "even if the precise contours of the right differ. . . ." NIMMER, *supra* note 1, at § 2.01[B]. It is therefore highly questionable that common law copyright in the form of conversion will survive in the United States. However, the 1976 Act provides that "[w]ith respect to sound recordings fixed before February 15, 1972, any rights or remedies under the common law or statutes of any State shall not be annulled or limited by this title until February 15, 2047." 17 U.S.C. § 301(c) (1976). On preemption, *see* Note, *The Case of Droit de Suite*, 47 GEO. WASH. L. REV. 200, 206-14 (1978). The 1956 Act also abolishes common law copyright. With the exception of university, Crown copyright, and rules of equity, "no copyright, or right in the nature of copyright, shall subsist otherwise than by virtue of this Act. . . ." 4 & 5 Eliz. 2, c.74, § 46(5). *See also* Aldous, *The Philosophy Behind the English Copyright Law*, 10 BULL. COPYRIGHT SOC'Y 302, 305 and COPINGER, *supra* note 4, at §§ 21-44.

17. 17 U.S.C. § 114(b) (1976) provides that "[t]he exclusive right[s] of the owner of copyright in a sound recording [include] the right to duplicate the sound recording in the form of phonorecords. . . ." *See generally*, Meyers, *Sound Recordings and the New Copyright Act*, 22 N.Y.L. SCH. L. REV. 573 (1977) reprinted in *THE COMPLETE GUIDE TO THE NEW COPYRIGHT LAW* (N.Y. Law School L. Rev. ed. 1977). 17 U.S.C. § 501(a) (1976) provides that "[a]nyone who violates any of the exclusive rights of the copyright owner . . . is an infringer of the copyright." The 1956 Act provides that "[t]he acts restricted by the copyright in a sound recording [include] making a record embodying the recording. . . ." 4 & 5 Eliz. 2, c.74, § 12(5)(a).

18. 17 U.S.C. § 115(a)(1) (1976) provides that "[w]hen phonorecords of a nondramatic musical work have been distributed to the public in the United States under the authority of the copyright owner, any other person may, by complying with the provisions of this section,

intent to infringe in order to establish an infringement.¹⁹

The 1976 Act also provides that copyright owners in musical works and sound recordings may sue vendors in an infringement action for the sale of counterfeit records.²⁰ As with the record pirate, the ven-

obtain a compulsory license to make and distribute phonorecords of the work." 17 U.S.C. § 115(b)(1) (1976) provides that "[a]ny person who wishes to obtain a compulsory license . . . shall . . . serve notice of intention to do so on the copyright owner." 17 U.S.C. § 115(b)(2) (1976) provides that "[f]ailure to serve or file the notice required by clause (1) forecloses the possibility of a compulsory license and, in the absence of a negotiated license, renders the making and distribution of phonorecords actionable as acts of infringement under section 501. . . ." For the British analogue to § 115, see § 8(1) of the 1956 Act.

19. The often cited rule is that "[i]ntention to infringe is not essential under the Act." *Buck v. Jewell-La Salle Realty Co.*, 283 U.S. 191, 198 (1931) (Brandeis, J.).

4 & 5 Eliz. 2, c.74, § 2(5)(a) provides that "[t]he acts restricted by the copyright in a . . . musical work [include] reproducing the work in any material form. . . ." See also § 12(5)(a) *supra* note 17. Under the 1956 Act, the state of mind of the pirate is relevant only to the remedies available to the copyright owner and not to the question of infringement. 4 & 5 Eliz. 2, c.74, § 17(2)(a)-(b) provide that "[w]here in an action for infringement of copyright it is proved or admitted—(a) that an infringement was committed, but (b) that at the time of the infringement the defendant was not aware, and had no reasonable grounds for suspecting, that copyright subsisted in the work or other subject-matter to which the action relates, the plaintiff shall not be entitled under this section to any damages against the defendant in respect of the infringement, but shall be entitled to an account of profits. . . ."

20. 17 U.S.C. § 106(3) (1976) provides that the copyright owner of a musical work has the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership. . . ." The House Report adds that "any unauthorized public distribution of copies or phonorecords that were unlawfully made would be an infringement." H.R. REP. NO. 1476, 94th Cong., 2d Sess. 62 (1976). The copyright owner of a sound recording may assert the same right of distribution against a vendor of unauthorized phonorecords. See 17 U.S.C. § 114(a) (1976). For a general background on vendor liability for the sale of unauthorized phonorecords, see Note, *Copyright: Liability of Seller of Unlicensed Phonograph Record*, 46 CALIF. L. REV. 621 (1958). Under the 1956 Act, copyright owners of musical works and sound recordings have rights parallel to those provided by the 1976 Act. 4 & 5 Eliz. 2, c.74, § 5(3)(a) provides that "[t]he copyright in a . . . musical . . . work is infringed by any person who, in the United Kingdom, or in any other country to which this section extends, and without the license of the owner of the copyright—(a) sells, lets for hire, or by way of trade offers or exposes for sale or hire any article . . . if to his knowledge the making of the article constituted an infringement of that copyright, or (in the case of an imported article) would have constituted an infringement of that copyright if the article had been made in the place into which it was imported." The 1956 Act gives copyright owners of sound recordings the same right against vendors that owners in musical works enjoy under the Act. However, unlike the 1976 Act, the 1956 Act provides that owners of sound recordings have a cause of action against vendors of unauthorized copies *not* in the form of records. 4 & 5 Eliz. 2, c.74, § 16(3)(a) provides that the copyright in a sound recording is infringed by any person who "(a) sells, lets for hire, or by way of trade offers or exposes for sale or hire *any article* . . . if to his knowledge the making of the article constituted an infringement. . . ." (emphasis added).

The impact of the 1976 Act and the 1956 Act on vendors of unauthorized records may be modified by international agreement. The United States and Great Britain are parties to the Universal Copyright Convention, which provides that published and unpublished works of nationals of each contracting State shall enjoy in every other contracting State the same

dor's intent to infringe is irrelevant in establishing the infringement.²¹

B. The Problem of Direct and Indirect Infringement

The record pirate and the infringing record retailer are two different types of infringer. The pirate is a "direct" infringer—one who creates an infringing product for commercial purposes. Like the copyist who appropriates another's literary or artistic work as his own, the record pirate is a deliberate or willing infringer.²² In the words of Justice

protection as that other State accords to works of its nationals. Universal Copyright Convention, Geneva Text, September 6, 1952, 6 U.S.T. 2731, T.I.A.S. No. 3324. See also Paris Text, July 24, 1971, 25 U.S.T. 1341, T.I.A.S. No. 7868. The Geneva and Paris texts went into force in the United States on September 16, 1955 and July 10, 1974, respectively. These texts went into force in the United Kingdom on September 27, 1957 and July 10, 1974, respectively. See generally, A. BOGSCH, THE LAW OF COPYRIGHT UNDER THE UNIVERSAL CONVENTION (3d ed. 1972). The United States and Great Britain are also parties to the Convention for the Protection of Producers of Phonograms, which obligates each contracting State to protect producers against the importation of unauthorized records. Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms, October 29, 1971, 25 U.S.T. 309, T.I.A.S. No. 7808. However, the Convention left open the means of implementing its mandate to each contracting State.

21. *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 334 U.S. 228, 229 (1952) (held, in action for infringement based on sale of infringing statuettes, innocence of seller was irrelevant: "Unbeknown to Woolworth, these dogs have been copied from respondent's and by marketing them it became an infringer") (Jackson, J.) (emphasis added); *Harms, supra* note 6 (department store chain held liable for sale of infringing records, court citing above quotation with approval); *McCulloch v. Zapun Ceramics, Inc.*, 97 U.S.P.Q. 12 (S.D.N.Y. 1953) (infringing figurines). In contrast, under the 1956 Act, the copyright owner in a musical or sound recording does not establish an infringement against the vendor unless "to his knowledge the making of the article constituted an infringement of that copyright. . . ." 4 & 5 Eliz. 2, c.74, §§ 5(3)(a) and 16(3)(a). Knowledge in this context means actual, not constructive knowledge. Knowledge could nonetheless be imputed when the average vendor would have knowledge, unless the vendor can refute this inference with contrary evidence. *R.C.A. Corp. v. Custom Cleared Sales Pty.* [1978] F.L.R. 576 (Supr. Ct. N.S.W.) (interpreting the Australian copyright statute, which is an adaptation of the 1956 Act).

22. "Record pirates or 'diskleggers' as they have been called, are *manufacturers* who re-record or 'dub' recordings made by legitimate companies and sell them competitively. In this manner, they avoid having to pay the performers for their time, and they have the benefit of the initial recording company's talents in getting the finest rendition possible. Ordinarily, they also omit payment of the copyright, although, as far as the copyright law is concerned, even a pirate has the right to record copyrighted musical compositions provided he files notice of intent and pays the royalties." *Miller v. Goody*, 139 F. Supp. 176, 180 n. 4 (Kaufman, J.) (emphasis added). For a general background on record piracy, see Note, *Piracy on Records*, 5 STAN. L. REV. 433 (1953). The modus operandi of the counterfeiter is illustrated in the following account by a record company executive: "Atlantic Recording Corporation paid approximately \$80,000 to record an album by Crosby, Stills and Nash, and then another \$20,000 to advertise and promote the album. Atlantic's costs for manufactured discs and pre-recorded tapes of the album exceeded \$600,000. It is just at this point—after the record company has invested enormous sums of money on a high-quality album, produced a hit and achieved wide market popularity—that the pirate swoops in to reap the

Blackburn, "in almost every case, a man who copies a work without the authority of the owner must know that he is pirating the work of somebody."²³

In contrast to the record pirate, the vendor of infringing records is an "indirect" or "secondary" infringer—one who infringes in the course of dealing in products that are within the scope of copyright.²⁴ Because of the possibility of innocent infringement inherent in a secondary involvement with illegal records or copies, United States copyright law has historically singled out such infringers for special treatment.

III. HISTORICAL TREATMENT OF INNOCENT INDIRECT INFRINGERS UNDER FEDERAL LAW

A. Absolute Immunity

The adoption of the Copyright Clause of the United States Constitution in 1787 was intended by the Framers to abolish the existing practice of applying to each state for a copyright.²⁵ The Copyright Clause was the first step in creating a copyright that would be effective in all of the states. The Clause empowered Congress "[t]o promote the progress of science and usable arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

The "exclusive right" contemplated by the Copyright Clause was a "restraint upon trade,"²⁶ a concept not favored by the free market system. But over 100 years after the Clause was adopted, the United States Supreme Court confirmed the purpose of the Clause in similar direct language. In *American Tobacco Co. v. Werckmeister*,²⁷ the Court said that "the purpose of the copyright law [is] to secure a monopoly . . . of the result of the inventor's thought."²⁸

An important question for Congress as it drafted the first federal copyright law was how many exclusive rights should be conferred on authors and inventors. Would copyright owners be limited to causes of

benefits at little or no expense." S. SHEMEL AND M.W. KRASILOVSKY, *THIS BUSINESS OF MUSIC* 94 (4th ed. 1979) [hereinafter cited as SHEMEL].

23. *Ex Parte Beal*, L.R. 3 Q.B. 387 (1868) (Blackburn, J.).

24. See WHALE, *supra* note 4, at 85; COPINGER, *supra* note 4, at § 401; and J.M. CAVENDISH, *A HANDBOOK OF COPYRIGHT IN BRITISH PUBLISHING PRACTICE* 44 (1974).

25. E.S. DRONE, *A TREATISE ON THE LAW OF PROPERTY* 88 (1879).

26. J. TAUBMAN, *COPYRIGHT AND ANTITRUST* 7 (1960).

27. 207 U.S. 284 (1907).

28. *Id.* at 293 (Day, J.).

action against plagiarists and copyists, or would owners be permitted to sue users in the commercial world as well? Some sanctions had to be provided against users to deter commercial exploitation of infringing products. But what if a plagiarist submitted his manuscript to a publisher who was unable to determine whether a protected work had been pirated? Or what if a shopkeeper were sold a box of maps that were copied from another's protected map, and the shopkeeper had no reason to suspect that the maps were pirated copies? Were such innocent publishers and shopkeepers to be treated the same way as the plagiarist and copyist?

The United States Copyright Act of 1790²⁹ (1790 Act) was the first federal copyright statute to create a distinction between direct and indirect infringement, in recognition of the need to protect honest businessmen who deal in works that are copyrightable. Section 2 of the Act provided that once a map, chart or book has been published, if any person other than the author "shall print, reprint, publish, or import . . . any copies without the consent of the author or proprietor . . . or knowing the same to be so printed, reprinted, or imported, shall publish, sell, or expose to sale [the same] without such consent. . . ,"³⁰ such person shall be liable for damages.

There were several problems inherent in Section 2 of the 1790 Act. First, the implementation of safeguards for innocent indirect infringers was not consistent. Publishers and vendors were protected, but printers and importers were not. Moreover, if a publisher or vendor did not knowingly infringe, he suffered no liability whatsoever. The copyright owner could not obtain an injunction against or recover profits from the innocently infringing publisher or seller.

The United States Copyright Act of 1870³¹ (1870 Act) perpetuated the deficiencies of Section 2 of the 1790 Act by discriminating between classes of indirect infringers and by insulating the protected class from all liability. Under the 1870 Act, the innocently infringing vendor retained total immunity from liability, but the infringing publisher became liable notwithstanding his innocence.³²

B. The 1909 Act: A Short-Lived Remedial Approach

Under the United States Copyright Act of 1909 (1909 Act), printers, publishers, vendors, and (by amendment in 1947) importers could

29. Act of May 31, 1790, ch. 15, 1 Stat. 124.

30. *Id.* (emphasis added).

31. Copyright Act of 1870, ch. 230, 16 Stat. 198.

32. *Id.* §§ 99 and 100.

be liable for infringement, regardless of their innocence.³³

The former approach of absolute immunity, which characterized the 1790 and 1870 Acts, was replaced by a new remedial scheme.

Section 25(b) provided that infringers would be subject to an injunction and liable for:

[S]uch damages as the copyright proprietor may have suffered due to the infringement as well as all the profits which the infringer shall have made . . . or in lieu of actual damages and profits *such damages as to the court shall appear just . . .* [not to] exceed the sum of \$5,000 nor be less than the sum of \$250, and *shall not be regarded as a penalty*.³⁴

On its face, the statutory damages clause of Section 25(b) appeared to provide a mechanism that would prevent recovery of actual damages against the innocent infringer. The trial court appeared to have discretion to weigh various factors in making an award, including the infringer's innocence. However, the very authorization of judicial fairness was construed to eliminate its application to innocent infringers.

1. *Douglas v. Cunningham*: Section 25(b) Was Intended to Protect the Copyright Owner.

In the controversial 1935 case of *Douglas v. Cunningham*,³⁵ the United States Supreme Court reversed a First Circuit decision which had reduced the copyright owner's statutory award (recovered from an innocently infringing newspaper publisher) from \$5,000 to \$250. In reaching its decision, the Court turned the plain language of Section 25(b) on its head. The Court held that the purpose of the statutory damages provision was "to give the owner of a copyright some recompense for injury done him, in a case where the rules of law render difficult or impossible proof of damages or discovery of profits."³⁶

Douglas stood for a second proposition: the trial court had discretion to award actual damages and profits, unless they were difficult or impossible to ascertain. In the latter event, statutory damages were mandatory.³⁷

33. § 1(a) of the United States Copyright Act of 1909 [hereinafter cited as the 1909 Act] simply provided that the copyright owner shall have the exclusive right "[t]o print, reprint, publish, copy and vend the copyrighted work. . . ." 17 U.S.C. § 1(a) (1909).

34. *Id.* § 25(b) (1909) (emphasis added).

35. 294 U.S. 207 (1935).

36. *Id.* at 209.

37. *Robert Stigwood Group Ltd. v. O'Reilly*, 530 F.2d 1096, 1101 (2d Cir. 1976), *cert. denied*, 429 U.S. 848 (1976); *Russell v. Price*, 612 F.2d 1123, 1129 (9th Cir. 1979); *Pye v.*

When statutory damages were not appropriate, there remained the question of whether the trial courts could award actual damages and profits cumulatively. This aspect of *Douglas* resulted in a split among jurisdictions. A number of courts followed the Congressional mandate that either damages or profits should be awarded, whichever is greater.³⁸ But other courts held that the express language of Section 25(b) authorized cumulative recovery.³⁹ This latter result effectively shifts the copyright owner's risk of loss to the innocent infringer.

The latitude given by the *Douglas* Court to trial judges when statutory damages were appropriate was potentially far more dangerous to innocent infringers than the cumulative recovery of actual damages and profits. If the copyright owner was provided with a sympathetic judge, the owner could obtain an inordinate award of statutory damages by failing to prove actual damages or profits. In its discretion, the court could manipulate its "best estimate" of the undetermined damages or profits to give the copyright owner a higher award than he could otherwise obtain. This possibility became a reality in *F. W. Woolworth v. Contemporary Arts, Inc.*⁴⁰

2. *Douglas* as Applied to an Innocently Infringing Vendor: The Copyright Owner's Discretion to Penalize the Infringer.

Innocently infringing vendors as well as publishers suffered under the *Douglas* analysis of Section 25(b). The power of the courts to ignore the vendor's innocence is most apparent in the 1952 *Woolworth* case.

In *Woolworth*, the defendant department store chain purchased 127 dozen dog statuettes from an Ohio manufacturer, then resold them at a retail price of \$1.19. *Woolworth* did not know that the ceramic models it purchased were inferior infringing copies of a statuette manufactured by the plaintiff, a Massachusetts corporation. At trial, plaintiff

Mitchell, 574 F.2d 476, 481 (9th Cir. 1978); *Sid & Marty Krofft Television v. McDonald's Corp.*, 562 F.2d 1157, 1178 (9th Cir. 1977) [hereinafter cited as *Krofft*]; and *Shapiro, Bernstein & Co. v. 4636 S. Vermont Ave., Inc.*, 367 F.2d 236, 240 (9th Cir. 1966).

38. The House Report to the 1909 Act suggested an alternative recovery of "one or the other . . . whichever is greater." H.R. REP. NO. 2222, 60th Cong., 2d Sess. 17 (1909). See *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 400-01 (1940); *Gordon v. Weir*, 111 F. Supp. 117, 123 (E.D.Mich. 1953), *aff'd*, 216 F.2d 508 (6th Cir. 1954); *Krofft, supra* note 37, at 1174-75. See also HOWELL'S COPYRIGHT LAW 169 (rev. ed. A. Latman 1962).

39. *Thomas Wilson & Co. v. Irving J. Dorfman Co.*, 433 F.2d 409, 413 (2d Cir. 1970), *cert. denied*, 401 U.S. 977 (1971) and *Gelles-Widmer Co. v. Milton Bradley Co.*, 132 U.S.P.Q. 30, 35 (N.D.Ill. 1961), *aff'd*, 313 F.2d 143 (7th Cir. 1963), *cert. denied*, 373 U.S. 913 (1963).

40. 344 U.S. 228 (1952).

"made *no effort*"⁴¹ to prove its actual damages and defendant's profits. The defendant, however, admitted gross profits of \$899.16 and, on appeal, tried to limit the award to this amount.⁴² The First Circuit affirmed the trial court's award of \$5,000, the maximum allowed by Section 101(b) (the codified successor of Section 25(b)),⁴³ citing *Douglas* as the controlling authority. This holding was not disturbed by the United States Supreme Court on certiorari.

In his powerful dissent, Justice Black pointed out the grotesque result that the Court had achieved in its reliance on *Douglas*: "[H]ere the trial judge gave judgment for statutory damages in an amount that *smacks of punitive qualities*. And this Court has held that the amount of such damages is committed to *the unreviewable discretion of a trial judge*."⁴⁴ Black urged the Court to "heed the admonition . . . that the object of § 101(b) is not to inflict punishment but to award an injured copyright owner that which in fairness is his 'and nothing beyond this.'"⁴⁵

3. The Congressional Response to Section 25(b).

Congressional advocates of safeguards for innocent indirect infringers have reacted bitterly to Section 25(b) from the time it became law. Between 1924 and 1940, fourteen bills were submitted to Congress specifically providing that the innocent infringer should be insulated from all liability or from the imposition of damages.⁴⁶

In 1946, Congress finally acknowledged that innocent indirect infringers merited special protection. However, such protection was extended to innocent indirect infringers of trademarks, not infringers of copyright. Section 1114(2) of the Lanham Act⁴⁷ provided that printers and publishers who innocently infringed trademarks would not be liable for damages or profits.⁴⁸ Innocent indirect infringers of copyright

41. 193 F.2d 162, 168 (1st Cir. 1952) (Woodbury, J.) (emphasis added).

42. *Id.* at 167; 344 U.S. at 231.

43. 17 U.S.C. § 101(b) (1947); *see* 193 F.2d at 167.

44. 344 U.S. at 236 (Black, J., dissenting) (emphasis added).

45. *Id.* at 235 (quoting from *Sheldon*, *supra* note 38, at 399).

46. *See* LATMAN, *supra* note 1, at 149-52.

47. 15 U.S.C. § 1114(2) (1946).

48. 15 U.S.C. § 1114(2) (1962) provides that "(a) Where an infringer is engaged solely in the business of printing the mark for others and establishes that he was an innocent infringer the owner of the right infringed shall be entitled as against such infringer only to an injunction against future printing; (b) where the infringement complained of is contained in or is part of paid advertising matter in a newspaper, magazine, or other similar periodical the remedies of the owner of the right infringed as against the publisher or distributor shall be confined to an injunction against the presentation of such advertising matter in future issues

remained subject to the strictures of Section 25(b), as it was construed in *Douglas*.

The lack of safeguards for innocent indirect infringers of copyright has remained a topic of great concern to commentators. In 1958, Professors Latman and Tager submitted a comprehensive reappraisal of the problem of innocent infringement to the Senate Subcommittee on Patents, Trademarks and Copyrights.⁴⁹ They contend that:

The problems common to a particular group, such as vendors, printers [and] periodical publishers may call for special treatment [but that] the remedial problems may be more significant than the general question of liability. In other words, state of mind might be considered irrelevant to the question of infringement, but might be *determinative of the remedies available against the infringer*.⁵⁰

The ambiguity of the statutory damages clause of Section 25(b) resulted in judicial manipulation of its language against the innocent infringer. If the infringer's innocence were "determinative" of the availability of damages against him, as Latman and Tager appear to contemplate, the judicial fiat would probably have not occurred.

IV. TREATMENT OF INNOCENT INFRINGERS UNDER THE 1976 ACT

Continuing the approach of the 1909 Act, the United States Copyright Act of 1976 makes a tripartite remedial scheme available to copyright owners—injunctive relief,⁵¹ actual damages and profits,⁵² and statutory damages.⁵³

In language similar to that of Section 25(b), clause (1) of Section 504(c) (the statutory damages provision) states that: "Except as provided by clause (2) of this subsection, the copyright owner may elect at any time before final judgment is rendered, to recover instead of actual damages and profits, an award of statutory damages . . . in a sum of not less than \$250 or more than \$10,000 *as the court considers just*."⁵⁴

Clause (2) of Section 504(c) was "the subject of extensive discus-

. . . *Provided, That these limitations shall apply only to innocent infringers. . . .*" (emphasis following "Provided" added). See also 15 U.S.C. § 1116 (1946) (injunctive relief) and § 1117 (1975) (actual damages and profits).

49. Latman, *supra* note 1.

50. *Id.* at 156-57 (emphasis added).

51. 17 U.S.C. § 502(a) (1976).

52. *Id.* § 504(a) & (b) (1976).

53. *Id.* § 504(a) & (c) (1976).

54. *Id.* § 504(c) (1976).

sion"⁵⁵ in the Congressional hearings because it contains the " 'innocent infringer' provision"⁵⁶ of the Act. The clause provides:

In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than \$100."⁵⁷

The House Report adds the necessary interpretive gloss to clause (2) of Section 504(c):

The basic principle underlying this provision is that the courts should be given discretion to . . . lower the minimum [statutory damages] where the infringer is innocent. . . . The 'innocent infringer' provision . . . which would allow reduction of minimum statutory damages to \$100 is *sufficient to protect against unwarranted liability* in cases of occasional or isolated innocent infringement, and it offers adequate insulation to users . . . who are particularly vulnerable to this type of infringement suit.⁵⁸

Despite Congress's ostensible commitment to protect users such as retailers, printers, and publishers against liability, it seriously undermined the thrust of Section 504(c)(2) in several ways.

A. *The Copyright Owner May Elect Actual Damages*

The question of whether an innocent infringer may be liable for the exceptional statutory amount of \$100 is not totally within the court's discretion. Unless the copyright owner elects statutory damages, the court is without authority to take into account the infringer's innocence in making an award. The House Report indicates that this election is mandatory. The Report plainly states that "[r]ecovery of actual damages and profits . . . or of statutory damages under section 504(c) is alternative and *for the copyright owner to elect*."⁵⁹

If the copyright owner elects actual damages and profits rather than statutory damages, he may obtain cumulative relief. Section 504(a)(1) provides that the copyright owner may obtain his "actual

55. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 163 (1976).

56. *Id.*

57. 17 U.S.C. § 504(c)(2) (1976).

58. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 163 (1976) (emphasis added).

59. *Id.* at 161 (emphasis added).

damages and *any additional profits* of the infringer. . . ."⁶⁰

The House Report states that actual damages and profits each have a remedial function: "Damages are awarded to compensate the copyright owner for *losses* from the infringement, and profits are awarded to prevent the infringer from *unfairly benefiting* from a wrongful act."⁶¹ It follows that if the copyright owner elects actual damages and profits against an innocent infringer, Section 504 in effect, shifts the owner's risk of loss to the innocent infringer.

B. *The Election of Statutory Damages: Douglas Revived*

Congress also watered down the innocent infringer provision of Section 504(c)(2) in the event the copyright owner elects statutory damages. The very language of Section 504(c)(2) makes the reduction discretionary, stating that if the court finds the infringer innocent, it "*may* reduce the award" to \$100; the court is not compelled by Section 504(c)(2) to reduce the copyright owner's award to \$100.⁶² And if the court decides not to lower the minimum from \$250 to \$100, Section 504(c)(1) states that the court may award damages "in a sum of not less than \$250 or more than \$10,000 *as the court considers just.*"⁶³ The House Report is silent as to whether Section 504(c)(1) is even applicable in a case of innocent infringement. But as we learned in our analysis of Section 25(b), it was precisely this ambiguous language of judicial fairness that allowed the *Douglas* Court to construe the provision against the innocent infringer.

To prevent any misconception of the purpose of the judicial fairness provision of Section 504(c)(1), Congress asserts that the doctrine of *Douglas* is still in force. The House Report states that "there is *nothing in section 504* [this section] to prevent a court from taking account of evidence concerning *actual damages and profits* in making an award of statutory damages within the range set out in subsection (c)."⁶⁴

This review of Section 504(c)(1) and (2) suggests that if the copyright owner elects statutory damages, the court would not abuse its discretion if it awarded its best estimate of his actual damages and defendant's profits. Therefore, regardless of whether the copyright owner elects actual damages and profits or statutory damages, the court may shift the copyright owner's risk of loss to the innocent infringer.

60. 17 U.S.C. § 504(a)(1) (1976) (emphasis added).

61. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 161 (1976) (emphasis added).

62. 17 U.S.C. § 504(c)(2) (1976) (emphasis added).

63. *Id.* § 504(c)(1) (1976) (emphasis added).

64. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 161 (1976) (emphasis added).

The historical justification for making actual damages available against the innocent infringer consists of two arguments: (1) that copyright infringement is analogous to the tort of conversion, and (2) that unlike the copyright owner, the innocent infringer is in a position to guard against the infringement by making diligent inquiry or by obtaining indemnity or insurance.

C. *The Analogy to Conversion and DeAcosta*

In the classic case of *DeAcosta v. Brown*,⁶⁵ Judge Clark, writing for the majority of the Second Circuit panel, said that the view that "damage should be limited to such as can be foreseen . . . does not apply to conversion. . . ." ⁶⁶ He argued that because copyright infringement is analogous to conversion,⁶⁷ a copyright owner should be able to obtain actual damages against an innocent indirect infringer. Applying Clark's logic, the Court of Appeal held that a magazine publisher who indirectly infringed by publishing excerpts from an infringing book—though the lower court found him innocent—was liable for actual damages.

Judge Learned Hand, dissenting, agreed with Clark's analogy of copyright infringement to conversion, but argued that the intent required to commit a conversion is absent in the case of innocent indirect infringement:

[I]t is true that if, for instance, I carry off as mine another's watch in my bag, it is no excuse that I think it mine. However, *I do not convert it, whatever acts of dominion I exercise over my bag, if I do not know, or am not chargeable with notice, that there is a watch in the bag*, though I may have equally denied the owner's right.⁶⁸

Hand analogized the general common law rule of the intent necessary to convert to the case of an indirect infringement. Dean Prosser sums up the rule: "A conversion can result only from conduct *intended*

65. 146 F.2d 408 (2d Cir. 1944).

66. *Id.* at 412.

67. It has been generally held that copyright infringement is a tort. *See, e.g.*, *Turton v. United States*, 212 F.2d 354, 355 (6th Cir. 1954); *Leo Feist, Inc. v. Young*, 138 F.2d 972, 975 (7th Cir. 1943); *Vitagraph, Inc. v. Grobaski*, 46 F.2d 813, 814 (W.D.Mich. 1931); *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399, 403 (S.D.N.Y. 1966); *H.M. Kolbe Co. v. Shaff*, 240 F. Supp. 588, 589 (S.D.N.Y. 1965), *modified on other grounds*, 352 F.2d 285 (1965). *See also* *Pickford Corp. v. Deluxe Laboratories, Inc.*, 169 F. Supp. 118 (S.D.Cal. 1958) (infringement action barred by California two-year tort statute of limitations). Despite this general rule, there are apparently no American cases reported which analogize an indirect copyright infringement to the tort of conversion.

68. 146 F.2d at 413 (Hand, J., dissenting) (emphasis added).

to affect the chattel. . . . The intent required is not necessarily a matter of conscious wrongdoing. It is rather an *intent to exercise dominion over the goods*. . . ."⁶⁹

It was clear to Hand that to complete the analogy of conversion to the case of an innocent indirect infringement, the infringing work and the appropriated work must be viewed as "separate chattels," the infringing work "embodying" the copyrighted work. In *DeAcosta*, Hand contended that the defendant publisher neither intended to affect the plaintiff's copyrighted work embodied with the excerpt published; nor did he have reason to suspect that the excerpt contained protected material. Therefore, the defendant did not "convert" the copyrighted work and damages should not have been awarded.

Hand's analysis is easily transposable to the case of the innocently infringing record retailer, who, like the publisher, is also an indirect infringer. When a retailer sells a record without knowledge or reason to suspect that it contains a pirated recording, the retailer does not have the intent necessary to convert and therefore should not be liable for actual damages.

The British Copyright Act of 1956, as we shall discuss later, does not actually adopt Hand's approach but arrives at the same result. The 1956 Act would hold the innocently infringing record retailer liable in conversion for the sale of counterfeit records, but would not allow recovery of damages against him.

D. *The Strict Liability Rationale*

In response to the Latman and Tager study, Professor Nimmer, in 1958, submitted a letter to the Copyright Office outlining his position on innocent infringement.⁷⁰ His position has since become known as

69. W. PROSSER, HANDBOOK OF THE LAW OF TORTS § 15, at 83 (4th ed. 1971) (emphasis added). *Accord*, *Zaslow v. Kroenert*, 29 Cal.2d 541, 550 (1946) ("To establish a conversion, it is incumbent upon the plaintiff to show an intention or purpose to convert the goods and to exercise ownership over them. . . ."); *Lambros Seaplane Base, Inc. v. The Batory*, 117 F. Supp. 16, 18 (S.D.N.Y. 1953) (Kaufman, J.), *modified on other grounds*, 215 F.2d 228 (2d Cir. 1954) (held, that conversion requires "an intention to assert a right . . . which is, in fact, adverse to that of the owner"); *Watkins v. Layton*, 182 Kan. 702, 707, 324 P.2d 130, 134 (1958) ("The intention required is simply an intent to use or dispose of the goods. . . ."); *McGlynn v. Schultz*, 90 N.J. Super. 505, 526, 218 A.2d 408, 419 (1966) *aff'd*, 95 N.J. Super. 412, 231 A.2d 386 (1967) (held, that "an intent to convert consummated by some positive act is necessary to constitute conversion. . . ."). "Conversion is an intentional exercise of dominion or control over a chattel. . . ." RESTATEMENT (SECOND) OF TORTS § 222A (1965).

70. Letter from Melville B. Nimmer to Copyright Office (June 16, 1958) [hereinafter cited as Nimmer's Letter], Latman, *supra* note 1, at 169.

the "strict liability" approach to innocent infringement.⁷¹ In his letter, Nimmer offered three arguments for shifting the copyright owner's risk of loss to the innocent infringer.⁷² He contended that the innocent infringer, unlike the copyright owner, is (1) able to prevent the infringement by making diligent inquiry, (2) able to obtain an indemnity agreement from his supplier, or (3) able to secure insurance.

In his defense of the availability of actual damages against the innocent infringer, Nimmer discounts three significant considerations: (1) the individual differences in the ability of each indirect infringer to prevent an infringement by making inquiry or obtaining indemnity or insurance, (2) the relative abilities of each class of indirect infringer to guard against an infringement by the three suggested means, and (3) social, economic, or technological developments that may hamper the ability of an indirect infringer to guard against the infringement.

The application of Nimmer's three-fold rationale to record retailers will demonstrate the unfairness of his approach. Of all indirect infringers, the record retailer is perhaps least capable of protecting himself by making inquiry or by obtaining indemnity or insurance.

1. Diligent inquiry is no longer as effective in preventing counterfeit sales.

When Nimmer submitted his letter to the Copyright Office in 1958, record piracy was a makeshift enterprise. Pirated product was usually poorly recorded and shoddily packaged. The suspicious appearance of the "bootleg" recording is reported in the 1963 case of *Shapiro, Bernstein & Co. v. H. L. Green Co.*⁷³ In holding a department store chain vicariously liable for the sale of bootleg records by a store concessionaire, the Second Circuit observed that "the 'bootleg' recordings were somewhat suspicious on their face; *they bore no name of any manufacturer upon the labels or on the record jackets.* . . ." ⁷⁴

The alerting cover of a bootleg record prevented its mass circulation through the legal chain of distribution. The pirate was usually compelled to sell his crude merchandise to flea-markets or to other ven-

71. 316 F.2d at 308.

72. The text of Nimmer's letter is in pertinent part the following: "It is my view that basic to the problem of innocent infringement must be the underlying premise that as between two innocent parties (i.e., the copyright owner and the infringer), 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 from his supplier and/or by insurance)."

73. 316 F.2d 304 (1963).

74. *Id.* at 309 (Kaufman, J.) (emphasis added).

dors outside of the conventional mainstream. If the pirate wished to sell his goods directly to a legitimate retailer, it was incumbent upon the pirate to be sure that his buyer was a willing accomplice. Sometimes the pirate would even solicit a business associate. For example, in the 1956 case of *Miller v. Goody*,⁷⁵ the trial court observed that the defendant record dealers "had been acquainted with Mr. Krug [co-defendant] in his capacity as a record salesman for the Colony Record & Radio Center, but both assert that they found nothing surprising or suspicious when it appeared that he was also in the business of manufacturing records under his own label."⁷⁶

During the "bootleg period," if a record pirate offered a shipment of illegal merchandise to an honest retailer, the retailer was usually put on notice to make diligent inquiry by the suspicious appearance of the bootleg cover or by the solicitous behavior of the pirate. An immediate inquiry by the retailer would probably settle any doubt in his mind that the records were infringing.

But the entire thrust of record piracy has changed. Piracy is no longer a sporadic and imprecise endeavor; rather, it is a pervasive and exacting practice commonly believed to be associated with organized crime. The modern counterfeiter's object is to saturate the retail market with letter-perfect copies of legal records. The new sophistication of record piracy is reflected in the deceptiveness of the illegal product. In many cases, the artwork of a legal record is reproduced photographically. And nearly perfect sound quality is attainable by acquiring the "master stamp" used by record companies to manufacture legal product.

Admissions by record company executives indicate that their investigators frequently find it impossible to detect counterfeit records. Joseph Smith, chairman of the board of Elektra/Asylum/Nonesuch Records has reported that "[c]ounterfeiting of records and tapes is getting to be big business. They aren't playing games now. *These things are damn good quality. It's hard to tell the imitations even when they come back to us as returns.*"⁷⁷ Gary Davis, senior vice president of promotion at Motown Records is even more candid. He is quoted as saying that some counterfeiters "[h]ave facilities and recording studios more sophisticated than some legitimate firms. They steal the master of a record and press their own version, duplicate the cover from top to

75. 139 F. Supp. 176 (1956), *rev'd sub nom.* Shapiro, Bernstein & Co. v. Goody, 248 F.2d 260 (2d Cir. 1957).

76. 139 F. Supp. at 178 (Kaufman, J.).

77. TIME, March 10, 1980, at 70 (emphasis added).

bottom, sell the goods to distributors and record stores—and *you can't tell the difference from the authorized release. And we often can't tell the difference, either, when the unsold records are returned to us. . . .*"⁷⁸

Record companies are in a better position than record retailers to determine whether their releases have been printed. If record companies cannot identify counterfeit product, retailers would have even greater difficulty detecting it. Therefore, unlike the conditions of 1958, the physical appearance of a counterfeit record may not trigger the retailer's inquiry into possible wrongdoing.

Moreover, in contrast to 1958 practice, the deceptive quality of the new generation of counterfeit records allows the pirate to penetrate the retail market without selling directly to retailers. Modern counterfeiting is most profitable if the pirate sells to willing wholesalers and other independent distributors, who can in turn resell the pirated product to the scores of retailers who purchase from independent suppliers.⁷⁹ The counterfeit records may be transferred two or three times before their ultimate purchase by the retailer. One commentator describes the intermediate sources available to the retailer: "The 'rack jobber', as commonly understood, services supermarkets, variety stores, drug stores, and other busy retail outlets, whereas the 'one-stop' stocks the records of many manufacturers so that jukebox operators and small dealers can purchase their requirements at one location instead of having to contact a number of distributors."⁸⁰

From the retailer's point of view, the diffusion of counterfeit records throughout the network of legal distribution is a vastly greater danger than the former practice of "bootleg peddling." The retailer may never deal directly with an overly solicitous pirate or with any suspicious individual. It is more likely that the retailer would be approached with counterfeit product by his regular supplier, who has himself unwittingly purchased the records. If the album covers appear authentic and the supplier's suspicion is not aroused, the retailer may have no reason to make inquiry of his supplier.

Finally, the inability of a retailer to make effective inquiry is demonstrated by the record company admissions we noted earlier,⁸¹ which indicate that record companies themselves are frequently unable

78. Daily Breeze (Torrance, Cal. newspaper), May 8, 1980 at 8 (emphasis added).

79. See distribution charts taken from BILLBOARD, in SHEMEL, *supra* note 22, at xxiii-xxvii.

80. *Id.* at 104 (quotation marks added).

81. Notes 77 and 78 *supra* and accompanying text.

to distinguish between counterfeit and legal returns. "Returns," in record industry parlance, consist of all unsold merchandise, defective or otherwise, which is returned to the manufacturer by distributors and retailers for credit. The policy of the record companies is to re-distribute non-defective returns, rather than to destroy them.⁸² It follows that if counterfeit returns are not detected by the record companies, they may be recycled to distributors and retailers. Under these conditions, no amount of supplier screening or inquiry could prevent infringements.

Diligent inquiry is no longer the potent deterrent that it was in 1958. In light of the current piracy sophistication, the relevant policy question is no longer who is in a better position to make diligent inquiry, but perhaps, who is in a better position to make counterfeit records detectable? There is no doubt that the immediate step to be taken in preventing indirect infringements is largely a matter of technology. If record companies can invent a counterfeit detection device and make it available to retailers, perhaps many infringing sales could be prevented.

But such a new policy based on comparative abilities to invent a detection device is as perilous as Nimmer's 1958 "diligent inquiry" argument. The practicalities which presuppose each policy can change as record piracy continues to evolve. In 1985, record companies might claim that counterfeiters have frustrated the new policy by duplicating some new detection device.

The British Copyright Act of 1956 offers an innovative case-by-case approach to indirect infringement that is not dependent on, but instead incorporates, the state of the record piracy art. Under the 1956 Act, a seller of infringing records is not liable for damages unless he has reason to suspect that the records infringe. In determining whether the seller has reason to suspect, the Act would probably take into account factors such as whether the retailer was compelled as a practical matter to deal directly with an independent supplier rather than with the manufacturer; whether the retailer did in fact make diligent inquiry, whether the counterfeit records were undetectable upon sensory inspection, and whether the retailer had access to a detection device. Under the 1956 Act, the state of the record piracy art does not determine who shall bear the copyright owner's losses from counterfeit sales.

82. Interview with Shirish Contractor, Director of Royalties of Capitol Records, Inc. (April 9, 1980).

2. Indemnity agreements are not a trade custom among record retailers.

Nimmer's second policy argument for making actual damages available against the innocent infringer is that the infringer, unlike the copyright owner, is able to obtain indemnity from his supplier. This argument may be valid theoretically, but in practice it is not. The argument disregards the fact that the availability of indemnity agreements to any class of indirect infringer is influenced by existing trade customs of the class. The policy also fails to consider individual differences of ability to obtain indemnity, due to varying types of distributors that serve a given community. The "indemnity" argument is especially arbitrary when applied to record retailers, for whom indemnity is not a custom of the trade.

In 1958, Professor Brown pointed out, in what appears to be the only contemporary survey on the availability of indemnity and insurance to infringers,⁸³ that the practical ability of any infringer to obtain indemnity is largely dependent on the custom of his trade. Brown identifies the classes of infringer that make use of indemnity agreements:

[I]ndemnities are elaborately developed in the complex of relationships among advertising agencies, producers of programs, licensors of musical performing rights, and broadcasters. . . . Magazine publishers, it appears routinely require indemnity from agencies and advertisers with respect to materials supplied by them. . . . In the book publishing world . . . resort to the author depends on the relationship between him and the publisher. . . . Sometimes authors are expected to pay; sometimes they are not.⁸⁴

In 1958, it was not customary for record retailers to obtain indemnification from their distributors. In contrast to those professions in which indemnity agreements were "elaborately developed," indemnity in a standardized form was simply not available to record retailers. This condition exists to this day.⁸⁵

83. R.S. Brown, Jr., *The Operation of the Damages Provisions of the Copyright Law*, STUDIES PREPARED FOR THE SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS OF THE COMMITTEE ON THE JUDICIARY, No. 23, 86th Cong., 2d Sess. (1958) [hereinafter cited as Brown].

84. *Id.* at 86-88.

85. NARM Counsel Charles B. Ruttenberg claims that record retailers "may wish to seek" indemnity. He recent mailed a simple one page indemnity agreement to NARM members as a sample. Letter from Charles B. Ruttenberg to NARM members 13 (May 14, 1980).

3. Insurance against infringement is not available to record retailers.

In his third argument, Nimmer claims that unlike the copyright owner, the innocent infringer is in a position to obtain insurance. Theoretically, copyright owners may obtain insurance as well as innocent infringers if they are willing to pay very high premiums. However, the argument discriminates against those infringers who cannot afford an exorbitant premium. Moreover, the "insurance" rationale is fallacious in application: the practical availability of insurance is largely dependent on trends in the insurance field: some classes of infringer are more insurable than others.

When the "insurance" rationale is applied to record retailers, particular hardship results. Insurers have traditionally been reluctant to protect record companies or retailers against the risk of counterfeit sales. The reason is that carriers would not be insuring against a less than probable risk, but against an almost certain and calculable business loss.⁸⁶ For such insurance to be profitable for the carrier, the policy would have to contain a number of intricate exceptions, and the cost of the policy would be prohibitive. To this day, carriers do not seriously entertain the notion of insuring against counterfeit sales.⁸⁷

Professor Brown provides us with an overview of the contemporary trend of the insurance field in protecting various classes of infringer. He indicates that carriers do not insure record retailers against counterfeit sales: "The industries which make extensive use of . . . insurance protection are about the same as those which have thoroughly systematized the use of indemnity agreements: broadcasters, producers for broadcasting, advertising agencies, advertisers. However, the *insurance seems to be little used in the music field.* . . ."⁸⁸

4. Reappraisal of the strict liability approach: A defense of innocence should be available to all indirect infringers.

The foregoing points up the weakness of the strict liability rationale for making actual damages available against the innocent infringer by applying it to the record retailer, an infringer who has particular difficulty guarding against an infringement by Nimmer's three suggested means. However, the inability of record retailers to make an

86. Interview with Donna Carson, Account Executive of Marsh & McLennan (August 12, 1980).

87. The two insurance carriers which write most of the entertainment policies in the western United States, American National General Agencies and Albert G. Ruben & Company, have never written such a policy and deny that such a policy exists.

88. Brown, *supra* note 83, at 88.

effective inquiry or to obtain loss protection is a temporal condition. Ten years from now the record retailer may be in better position than other classes of infringer to guard against an infringement. Ultimately, the strict liability approach operates harshly against *all* indirect infringers.

On what ground may the unfair impact of the strict liability approach be justified? Nimmer suggests that "to render a complete or partial exemption for the innocent infringer would *seriously impair* the protection afforded to a copyright owner."⁸⁹ Yet, Nimmer fails to explain how seriously a remedial defense in which the *infringer* would bear the burden of proving his innocence would impair the copyright owner's monopoly.

E. The First Amendment Problem

The first stirrings of a conflict between the Copyright Clause and the First Amendment appeared to emerge during the Congressional hearings on the passage of the 1909 Act. Congress debated whether actual damages should be available against the innocently infringing printer. George W. Ogilvie, a Chicago publisher, offered testimony which suggests that the availability of damages against the innocently infringing printer contravenes the First Amendment freedom of the press:

There is no printer in the United States whom I cannot get in trouble—serious trouble—so serious that it might put him out of business. I take to him a set of plates about which he knows nothing as to the existence of copyright on them. He prints them for me . . . and then the owners of the copyright can get after him and collect damages.⁹⁰

Mr. Ogilvie's admonition went unheeded. With the passage of the 1909 Act, not only was the printer denied the protection available to the seller under the 1870 Act, but the seller's protection disappeared as well. The First Amendment was not seriously viewed at the time as limiting the scope of the Copyright Clause.

Proponents of special treatment for innocent infringers appeared to base their position on the language of the Copyright Clause itself, rather than on the First Amendment. The House Report of the 1909 Act states that "[i]n enacting a copyright law, Congress must consider . . . two questions: First, how much will the legislation stimulate the producer and so benefit the public; and [s]econd, *how much will the mo-*

89. Nimmer's Letter, *supra* note 80 (emphasis added).

90. Latman, *supra* note 1, at 145.

monopoly granted be detrimental to the public."⁹¹ The Copyright Clause does on its face suggest that the purpose of securing exclusive rights for authors and inventors is "[t]o promote the progress of science and usable arts." And the United States Supreme Court has indicated that the primary object of conferring a monopoly on authors and inventors is to benefit the public.⁹² However, the apparent words of limitation within the Clause have never been viewed by the Court as providing protection for innocent infringers.

It was not until *DeAcosta v. Brown* in 1944 that a federal court discussed the First Amendment problem inherent in making actual damages available against the innocent indirect infringer. In holding an innocently infringing publisher liable for actual damages, the Second Circuit majority claimed that such an award "would hardly make an appreciable difference to publishers in the conduct of their business. . . ."⁹³

In dissent, Judge Hand vigorously argued that the liability of the defendant publisher for actual damages, though they were unsubstantial, amounted to an unjustifiable burden on the First Amendment:

[W]e are, in my opinion, committing ourselves to a doctrine which is wrong in theory, which the cases do not require us to adopt, and which imposes a risk upon publishers that is likely to prove *an appreciable and very undesirable burden upon the freedom of the press*. . . . If my brothers are right, a publisher must be prepared to respond in damages to any author who can prove that the publisher has incorporated, *however innocently*, and at whatever remove, any parts of the author's work. *If that possibility is to hover over all publications, it would, I believe, be not a negligible depressant upon the dissemination of knowledge.*⁹⁴

More recently, Nimmer has supported Hand's view, though not necessarily in contradiction with his strict liability approach to inno-

91. H.R. REP. NO. 2222, 60th Cong., 2d Sess. 7 (1909).

92. *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948) (Douglas, J.) ("The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors"). *Accord*, *Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts'").

93. 146 F.2d 408, 412.

94. *Id.* at 412-13 (Hand, J., dissenting) (emphasis added).

cent infringement, that the Copyright Clause is limited by the First Amendment. According to Nimmer:

It might be contended that copyright law falls within a *built-in exception* to First Amendment protection . . . if a completely liberal reading of the First Amendment is to be made, then we must . . . recognize that the First Amendment is an amendment, hence superceding anything inconsistent with it which may be found in the main body of the Constitution. This, of course includes the Copyright Clause.⁹⁵

The increasing body of literature⁹⁶ and case law⁹⁷ recognizing a tension between the Copyright Clause and the First Amendment suggests that Hand correctly identified the conflicting interests in *De Acosta*. Although Hand did not broaden the scope of his opinion to include First Amendment protection for other indirect infringers, it appears logical that his analysis would extend to printers, vendors and others who are closely involved in the "dissemination of knowledge."

V. HISTORICAL TREATMENT OF INNOCENT INDIRECT INFRINGERS UNDER BRITISH LAW

In sixteenth century England, copyright, as an instrument of the Crown, was employed to rigorously censor all printed matter that offended the Church. Under Henry VIII's Stationers' Company, which was formed in 1556, and the subsequent licensing acts, an author could not publish a book without obtaining a government license.⁹⁸ But as

95. NIMMER, *supra* note 1, at § 1.10[A] (emphasis added). However, the type of judicial review that is applicable to conflicts between the Copyright Clause and the First Amendment has not as yet been determined. *Id.* In testing First Amendment constraints on federal legislation, the United States Supreme Court has employed a balancing test. See *American Communications Ass'n v. Douds*, 339 U.S. 382, 399 (1950) (Vinson, C.J.) ("When particular conduct is regulated in the interest of public order, and the regulation results in an indirect, conditional, partial abridgement of speech, the duty of the courts is to determine which of these two conflicting interests demands the greatest protection under the particular circumstances presented").

96. *E.g.*, Note, *Copyright and the First Amendment*, 33 U. MIAMI L. REV. 207 (1978); Goldstein, *Copyright and the First Amendment*, 70 COLUM. L. REV. 983 (1970); Nimmer, *Does Copyright Abridge the First Amendment Guarantees of Free Speech and Press?* 17 U.C.L.A. L. REV. 1180 (1970); Nimmer, *Copyright and the First Amendment*, 17 BULL. COPYRIGHT SOC'Y 255 (1970).

97. *E.g.*, *Walt Disney Prods. v. Air Pirates*, 345 F. Supp. 108, 116 (N.D.Cal. 1972), *modified on other grounds*, 581 F.2d 751 (9th Cir. 1978), *cert. denied*, 439 U.S. 1132 (1979) ("the First Amendment does mark out some boundary for the protection that may be afforded a creator under the copyright laws . . .").

98. See R.R. BOWKER, COPYRIGHT: ITS HISTORY AND ITS LAW 21 (1912) [hereinafter cited as BOWKER] and L.R. PATTERSON, COPYRIGHT IN HISTORICAL PERSPECTIVE 29 (1968). Failure to comply with the strict regulations of the Stationers' Company could result in

the eighteenth century began, the licensing acts "lapsed because of the indignation of the Commons against the arbitrary power of the license. . . ."⁹⁹

The Statute of Anne,¹⁰⁰ enacted by Parliament in 1710, was a direct response to the government's suppression of heretical books and pamphlets. The celebrated Statute not only rewarded authors for their creative labor, but also protected innocent indirect infringers. The wording and substance of the innocent infringer provision was almost identical to that of the 1790 Act adopted by Congress.¹⁰¹

However, the innocent infringer provision of the Statute also contained the deficiencies embodied in the 1790 Act. As in the 1790 Act, the Statute's implementation of safeguards for innocent indirect infringers was inconsistent. Publishers and vendors were protected, but printers and importers were not. Also, Parliament offered absolute immunity to those innocent infringers who were protected, namely publishers and vendors, making it impossible for copyright owners to obtain forfeiture or injunctive relief against them.

The British Copyright Act of 1842¹⁰² (1842 Act) continued the inconsistent application of safeguards to innocent indirect infringers, as well as the policy of absolute immunity for those protected.

The British Copyright Act of 1911¹⁰³ (1911 Act) remedied the problems of absolute immunity and inconsistent treatment of innocent

harsh punishment. As one legal historian reports: "The author under such conditions was a very different creature from his modern successor. As has been wittily said, in early days, an author usually disappeared immediately after the publication of his work and if he reappeared at all, did so in the stocks or pillory. To talk about the rights of authors in Tudor or Stuart England, would have been farcical. The early history of copyright had nothing to do with the rights of the author." A. WEIL, *AMERICAN COPYRIGHT LAW* 6-7 (1917).

99. BOWKER, *supra* note 98, at 21-22.

100. 8 Anne, c.19. For an excellent overview of the Statute, *see generally*, H. RANSOM, *THE FIRST COPYRIGHT STATUTE* (1956).

101. The Statute made available forfeiture and damages to copyright owners "if any . . . bookseller, printer, or other person . . . shall print, reprint, or import, or cause to be printed, reprinted, or imported, any [copyrighted] book or books, without the consent of the proprietor . . . or knowing the same to be so printed or reprinted, without the consent of the proprietors, shall sell, publish, or expose for sale . . . any such book or books. . . ." (emphasis added).

102. 5 & 6 Vict., c.45. The British Copyright Act of 1842 provided that "[i]f any person shall . . . print or cause to be printed, either for sale or exportation, any book in which there shall be subsisting copyright, without the consent in writing of the proprietor thereof, or shall import for sale or hire any such book so having been unlawfully printed . . . or, knowing such book to have been so unlawfully printed or imported, shall sell, publish, or expose for sale or hire . . . any such book so unlawfully printed or imported . . . such offender shall be liable. . . ." 5 & 6 Vict., c.45, § 15 (emphasis added).

103. 1 & 2 Geo. 5, c.46.

indirect infringers. The 1911 Act insulated such infringers from infringement liability, but would hold them liable for a conversion. The broad wording of Section 2(2) appeared to protect vendors, printers, publishers, and importers from infringement liability if they were innocent:

Copyright in a work shall . . . be deemed to be infringed by any person who—(a) sells or lets for hire, or by way of trade exposes or offers for sale or hire; or (b) distributes either for the purposes of trade or to such an extent as to affect prejudicially the owner of the copyright; or (c) by way of trade exhibits in public; or (d) imports for sale or hire . . . any work which *to his knowledge* infringes copyright. . . .¹⁰⁴

However, under Section 7,¹⁰⁵ which provided the copyright owner with a cause of action in conversion, the indirect infringer's intent was irrelevant in establishing the conversion. As Lord Justice Romer stated in *Sutherland Publishing Co. v. Caxton Publishing Co.*,¹⁰⁶ "[I]f a person who has not himself infringed the copyright . . . *innocently* sells, or exposes, or offers for sale, an infringing work, he does not thereby commit an infringement of copyright . . . however, by virtue of section 7 . . . the owner of the copyright . . . could take proceedings . . . in respect of any conversion thereof."¹⁰⁷

The above excerpt illustrates an important difference in the American and British law of conversion. Although the British law is in agreement with the American view that there must be "an intention on the part of the defendant . . . to deny the owner's right or to assert a right which is inconsistent with the owner's right. . . ."¹⁰⁸ there is a general exception under British law—"intention is immaterial in cases where a man deals with goods as his own."¹⁰⁹ In a typical British case of innocent indirect infringement, the common law exception dispensing with an intent to convert would be controlling. In *Sutherland*,¹¹⁰ book pub-

104. *Id.* § 2(2) (emphasis added).

105. 1 & 2 Geo. 5, c.46, § 7 provided that "[a]ll infringing copies of any work in which copyright subsists, or of any substantial part thereof, and all plates used or intended to be used for the production of such infringing copies, shall be deemed to be the property of the owner of the copyright, who accordingly may take proceedings for the recovery of the possession thereof or in respect of the conversion thereof."

106. [1937] 4 All E.R. 405 (C.A.).

107. *Id.* at 414 (emphasis added).

108. *Lancashire & Yorkshire Ry. Co. v. MacNicol* [1918] 88 L.J. K.B. 601, 605 (Atkin, J.).

109. *Caxton Pub'l Co. v. Sutherland Pub'l Co.* [1938] 4 All E.R. 389, 395 (H.L.) (Russell of Killowen, L.).

110. *Id.*

lishers who innocently infringed by binding together portions of a copyrighted work into their book were held liable for a conversion, though their act "was in fact an *unconscious* conversion."¹¹¹

The establishment of a conversion under Section 7 could not result in a cumulative award of actual damages and profits. The traditional British view is that an account of profits is alternative to an award of damages.¹¹² Nonetheless, at his election, the copyright owner could obtain actual damages against the innocent indirect infringer for the conversion, *after* he had exhausted the possibility of obtaining damages and profits for the infringement.

The inconsistency of Sections 2(2) and 7 was highlighted by the fact that, under certain circumstances, damages flowing from a conversion could be greater than those resulting from the infringement. If the infringer was innocent, the immunity granted by Section 2(2) would be destroyed. The Court of Appeal, in *Sutherland*, mentioned that the publishers "may have reproduced a very few copies of high intrinsic value, which amounts to much more than the damage done to the copyright, which may be almost negligible."¹¹³ Because under British law the measure of damages for the conversion is the value of the copies, rather than the depreciation of the value of the copyright,¹¹⁴ the copyright owner could conceivably recover more for the conversion than for the infringement.

VI. TREATMENT OF INNOCENT INDIRECT INFRINGERS UNDER THE 1956 ACT

A. Generally

The British Copyright Act of 1956¹¹⁵ (1956 Act) was the first British copyright statute to altogether eliminate the availability of damages against the innocent indirect infringer. In effect, the 1956 Act adopts the approach suggested in the introduction: the copyright owner can obtain only injunctive relief and profits against the innocent indirect

111. *Id.* (emphasis added).

112. *Id.* at 401.

113. [1936] 1 All E.R. 177, 181 (C.A.) (Lord Wright, M.R.).

114. *Id.* at 180.

115. The 1956 Act is reprinted with annotations in J.P. EDDY, *THE LAW OF COPYRIGHT* (1957). The 1956 Act and its predecessor are reprinted without annotations in COPINGER, *supra* note 4, at App. A. Other secondary sources on the 1956 Act, in addition to those already cited, include T. BLANCO WHITE, R. JACOB, AND J. DAVIES, *PATENTS, TRADE-MARKS, COPYRIGHT, AND INDUSTRIAL DESIGNS* (1978); W.S. LEAPER, *COPYRIGHT AND PERFORMING ARTS* (1957); and P.F. CARTER-RUCK AND E.P. SKONE JAMES, *COPYRIGHT: MODERN LAW AND PRACTICE* (1965).

infringer. Parliament accomplished this result by reworking the bifurcated infringement and conversion scheme of the 1911 Act.

The 1956 Act continues the approach of Section 2(2) of the 1911 Act insulating innocent indirect infringers of copyrighted works from all infringement liability, and in addition provides infringement immunity to innocent indirect infringers of protected sound recordings.¹¹⁶

But Parliament resolved the inconsistency between Sections 2(2) and 7 of the former Act by removing the availability of damages against the innocent indirect infringer under the head of conversion. This modification of former Section 7 amounts to a legislative redefining of conversion as applied to the copyright field. The 1911 Act permitted the copyright owner to obtain damages in conversion against the innocent indirect infringer due to an exception at common law which dispensed with the requirement of intent to convert. Under section 18(2) of the 1956 Act, the innocent indirect infringer may still be liable for a conversion, but *damages cannot be imposed*.

Section 18(2) provides as follows:

A plaintiff shall not be entitled . . . to any damages or to any other *pecuniary remedy* (except costs) if it is proved or admitted that, at the time of the conversion or detention in question . . . where the articles converted or detained were infringing copies, *the defendant believed, and had reasonable grounds for believing, that they were not infringing copies.* . . .¹¹⁷

The net effect of Section 18(2) is that a copyright owner can obtain an injunction and an account of profits against an innocent indirect infringer, but not damages. The British view an account of profits not

116. 4 & 5 Eliz. 2, c.74, § 5(2) provides that a copyright in a "literary, dramatic, musical or artistic work is infringed by any person who, without the license of the owner of the copyright, imports an article (otherwise than for his private and domestic use) into the United Kingdom . . . if to his knowledge the making of that article constituted an infringement of that copyright, or would have constituted such an infringement if the article had been made in the place into which it is so imported." 4 & 5 Eliz. 2, c.74, § 5(3) provides that a "copyright in a literary, dramatic, musical or artistic work is infringed by any person who, in the United Kingdom . . . and without the license of the owner of the copyright,—(a) sells, lets for hire, or by way of trade offers or exposes for sale or hire any article, or (b) by way of trade exhibits any article in public, if to his knowledge the making of the article constituted an infringement of that copyright, or (in the case of an imported article) would have constituted an infringement of that copyright if the article had been made in the place into which it was imported." 4 & 5 Eliz. 2, c.74, § 5(4) provides that "[t]he last preceding subsection shall apply in relation to the distribution of any articles either—(a) for purposes of trade, or (b) for other purposes, but to such an extent as to affect prejudicially the owner of the copyright in question, as it applies in relation to the sale of an article." The provisions of § 5(2)-(4) are restated in § 16(2)-(4), but with respect to sound recordings.

117. 4 & 5 Eliz. 2, c.74, § 18(2)(b) (emphasis added).

as a "pecuniary remedy," but as an equitable remedy ancillary to an injunction.¹¹⁸

B. Liability of Innocently Infringing Record Retailers

Under Section 504 of the United States Copyright Act of 1976, a copyright owner may recover actual damages against the innocently infringing record retailer in one of two ways: by election of actual damages and profits or by submitting the determination of statutory damages to the court's broad discretion. The infringer's innocence may be a factor in the court's assessment of statutory damages or it may be ignored, but his innocence does not necessarily result in any special treatment.

Unlike the 1976 Act, Section 18(2) of the 1956 Act offers infringing retailers an unequivocal opportunity to avoid payment of actual damages. Section 18(2) clearly instructs the courts that damages are not available against an infringing retailer if he can establish his innocence.¹¹⁹ In arriving at a finding of innocence, the British courts could probably consider such factors as whether the counterfeit records were highly deceptive, whether the retailer had reason to suspect his supplier of illegal activity, and whether the legal manufacturer had made available to the retailer a counterfeit detection device.

The current wave of record piracy in Great Britain has fueled a controversy as to whether the bar against the recovery of damages from the innocently infringing record retailer should be eliminated. The British recording industry, like its American counterpart, is angered by lost sales due to the infiltration of pirated records into the retail market. It is estimated that counterfeiting operations are largely responsible for a "drop in album sales of over 25%."¹²⁰

118. See, e.g., *WEA Records Ltd. v. Benson King* [1974] 3 All E.R. 81 (Ch.); *Price's Patent Candle Co. v. Bauwen's Patent Candle Co.* [1858] 4 K. & J. 727, 7 Eng. Rep. 302; *Smith v. London & South W. Ry.* [1854] Kay 408, 69 Eng. Rep. 173; *Baily v. Taylor* [1829] 1 Russ. & M. 73, 39 Eng. Rep. 28 (Ch.). However, injunctive relief and damages may be cumulatively granted. See, e.g., *Leeds Indus. Coop. Soc'y v. Slack* [1924] All E.R. 259 (H.L.); *Serrao v. Noel* [1885] 15 Q.B.D. 549 (C.A.); *Elmore v. Pirrie* [1887] 57 L.T.R. 333 (Ch.).

119. See *Young v. Odeon Music House Pty. Ltd.* [1978] R.P.C. 621 (Supr. Ct. N.S.W.) (held, per Australian copyright statute, innocently infringing record retailer was not liable for actual damages).

120. HOLLYWOOD REPORTER, October 16, 1979, at 11. This trade publication suggests that the fiscal problems of the British recording industry are highlighted by the financial performance of Electric & Musical Industries Limited for the 1978-79 year: "The group's record division suffered a sharp decline, moving from a \$34-million loss in the second half, leaving a profit of just \$4 million for the full year on sales of \$900 million." *Id.*

However, it appears that the containment of record piracy will not require the excision of the remedial defense of innocence that is presently available to record retailers. In 1977, the British Copyright Council and the British Phonographic Industry Copyright Association urged the Whitford Committee,¹²¹ which had convened to consider a revision of the 1956 Act, to recommend to Parliament that safeguards for innocently infringing record vendors be abolished in order to stop the "growing pattern of illicit importation into and distribution"¹²² of counterfeit records in Great Britain. The Whitford Committee, however, arrived at a different conclusion: "[C]are must be taken to ensure that the interests of defendants who are wholly innocent are adequately protected. . . . [W]e are of the opinion that *there should continue to be some provision in the Act for a defense based on innocence.* . . ."¹²³

VIII. CONCLUSION

This weaving of the historical problem of innocent infringement into the context of modern record piracy is intended to stimulate a Congressional reevaluation of the treatment accorded all innocent indirect infringers under the 1976 Act.

Professor Ball once wrote that the United States copyright law contemplates "the extension and increasing adaptation of the copyright laws to the uses of society in accordance with changing conditions."¹²⁴ As we have shown, the rigid strict liability approach of the 1976 Act toward innocent infringers is out of step with this mandate. The Act fails to give sufficient weight to technological advances that may hinder the infringer's ability to make an effective inquiry, trade customs that may affect his ability to obtain indemnity, and business trends that may make insurance unavailable.

In contrast, Britain's 1956 Act permits a case-by-case adjudication of each indirect infringer's innocence. The individualized approach of the 1956 Act gives the courts power to create a body of common law defining what constitutes "innocence" for each class of indirect infringer, which can then be applied in particular cases. The standard of

121. REPORT OF THE COMMITTEE TO CONSIDER THE LAW ON COPYRIGHTS AND DESIGNS, CMND. No. 6732 (1977) [hereinafter cited as Whitford Committee]. For an overview of the Whitford Committee's findings, see *Toward a New British Copyright Law*, 121 *Solicitor's J.* 584 (1977).

122. Whitford Committee, *supra* note 121, at § 735.

123. *Id.* at § 737 (emphasis added).

124. H. BALL, *THE LAW OF COPYRIGHT AND LITERARY PROPERTY* § 7, at 44 (1944).

innocence for each class will fluctuate in accordance with changing social, economic, and technological circumstances.

A Congressional realignment of protections afforded copyright owners and innocent infringers would not necessarily require an adoption of the British bifurcated scheme of infringement and conversion, together with its remedial ramifications. Congress may provide adequate protection for innocent infringers by making available a remedial defense to infringement based on innocence. Such a defense would be determinative of the availability of actual damages against all innocent indirect infringers, whether the copyright owner elects actual damages and profits or statutory damages, and would be less ambiguous and less subject to discriminatory application than the present operation of Section 504. Moreover, the remedial defense would not require a set of doubtful public policy arguments to justify it and would lessen potential First Amendment problems.

Frank L. Fine

