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### The Yellow Submarine Steers Clear of U.S. Copyright Law the Ninth Circuit Reexamines the Doctrine of Contributory Infringement

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# NOTES AND COMMENTS

## THE *YELLOW SUBMARINE* STEERS CLEAR OF U.S. COPYRIGHT LAW· THE NINTH CIRCUIT REEXAMINES THE DOCTRINE OF CONTRIBUTORY INFRINGEMENT

### I. INTRODUCTION

In *Subafilms, Ltd. v. MGM-Pathe Communications Co.*<sup>1</sup> the U.S. Court of Appeals for the Ninth Circuit deprived U.S. copyright holders of a significant tool for redressing infringement<sup>2</sup> occurring wholly abroad but authorized from within the United States. At first glance, the Ninth Circuit's decision appears to strike a devastating blow to copyright holders; however, a closer examination reveals that the *Subafilms* decision actually strengthens worldwide intellectual property right protection. The Ninth Circuit made the correct decision for two important reasons.

First, the *Subafilms* decision eliminated a troublesome paradox in the application of U.S. copyright law. Prior to *Subafilms*, individuals could be liable for contributory infringement even in the absence of primary infringement.<sup>3</sup> The elimination of this paradox marks a return to the traditional application of the doctrine of contributory infringement.

Second, the *Subafilms* decision embodied respect for worldwide protection schemes, including the Berne Convention<sup>4</sup> and the Universal Copyright Convention (UCC).<sup>5</sup> The Ninth

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1. 24 F.3d 1088 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994).

2. Infringement is "a violation of a law, regulation, contract or right." BLACK'S LAW DICTIONARY 780 (6th ed. 1990). This Comment discusses contributory infringement. "[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer." *Gershwin Publishing Corp. v. Columbia Artists Management*, 443 F.2d 1159, 1161-62 (2d Cir. 1971).

3. See *Peter Starr Prod. Co. v. Twin Continental Films*, 783 F.2d 1440, 1443 (9th Cir. 1986) (holding that mere domestic authorization of "infringement" abroad is sufficient to confer subject matter jurisdiction upon a plaintiff bringing a claim under U.S. copyright law).

4. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1986, 102 Stat. 2853, 828 U.N.T.S. 221 (1972) (amended 1988) [hereinafter Berne Convention].

5. Universal Copyright Convention, Sept. 6, 1952, 6 U.S.T. 2732, 753 U.N.T.S. 368 [hereinafter UCC].

Circuit declined to apply U.S. copyright law outside U.S. borders.<sup>6</sup> This "hands off" approach gives the Berne Convention and other agreements room to grow and develop. In the long run, strong multilateral agreements born of international consensus are preferable to a U.S.-imposed system of protection.

The underlying controversy in *Subafilms* involved foreign videotape distribution rights to the 1966 animated feature film, *Yellow Submarine*.<sup>7</sup> A joint venture consisting of the musical group, The Beatles, acting through Subafilms, Ltd. (Subafilms), and the Hearst Corporation (Hearst) produced the film.<sup>8</sup> United Artists Corporation, MGM-Pathe Communication's (MGM) predecessor in interest, financed and distributed the film pursuant to an arrangement with Hearst.<sup>9</sup>

Because this joint venture preceded the dramatic rise in the home-video market, the parties did not provide for video distribution rights.<sup>10</sup> The ownership of these rights, therefore, was unclear.<sup>11</sup> Despite this uncertainty, MGM authorized third parties to distribute video copies of *Yellow Submarine*.<sup>12</sup> Subafilms brought suit to assert its ownership claim over the foreign and domestic video distribution profits.<sup>13</sup>

The district court determined that Subafilms owned the distribution rights under the original agreement<sup>14</sup> and that MGM had infringed those rights.<sup>15</sup> Consequently, MGM was liable to Subafilms for profits stemming from MGM's authorization to third parties to distribute *Yellow Submarine*.<sup>16</sup> MGM's liability to Subafilms for the foreign profits lies at the heart of the *Subafilms*

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6. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1097 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994).

7. *Id.* at 1089; *YELLOW SUBMARINE* (United Artists 1966).

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

9. *Id.*

10. *Id.*

11. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1089 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994).

12. *Id.*

13. *Id.*

14. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, Nos. 91-56248, 91-56379, 91-56289, 1993 WL 39269, at \*6 (9th Cir. Feb. 17, 1993), *vacated in part*, 24 F.3d 1088 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994).

15. *Subafilms*, 24 F.3d at 1090. The district court awarded Subafilms \$2,228,000.00 in compensatory damages apportioned equally between the foreign and domestic distribution proceeds. *Id.*

16. *Subafilms*, 1993 WL 39269, at \*6-7.

controversy.<sup>17</sup>

The Ninth Circuit's initial review of the district court affirmed the damages award,<sup>18</sup> however, Subafilms' victory was short-lived. The Ninth Circuit reheard the case and reexamined the doctrine of contributory infringement, which served as the basis for MGM's liability.<sup>19</sup> The court concluded that in order to impose this type of third party liability upon MGM, some legally cognizable underlying infringement must exist.<sup>20</sup> MGM's conduct consisted solely of permitting others to distribute the film overseas.<sup>21</sup> The Ninth Circuit held that such authorization alone was insufficient activity to trigger application of U.S. copyright law.<sup>22</sup> The Ninth Circuit was careful to limit its holding to situations with such minimal domestic conduct as was present in *Subafilms*.<sup>23</sup>

Contributory infringement is a common law doctrine. Litigants have invoked this doctrine in disputes covering a wide

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17. The Ninth Circuit reversed the award of damages stemming from foreign distribution of the film. The court, however, left the damages for domestic distribution intact because the district court had found that domestic distribution and performance of the film were unauthorized and thus in violation of Subafilms' exclusive rights under 17 U.S.C. § 106. *Subafilms*, 24 F.3d at 1098.

18. *Subafilms*, 1993 WL 39269, at \*7.

19. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1090-95 (9th Cir.), cert. denied, 115 S. Ct. 512 (1994).

20. *Id.* at 1090. The only conduct that could constitute direct infringement occurred abroad and consequently is beyond the reach of U.S. copyright law. *Id.* at 1094. See *infra* part III.E.1.

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

22. Federal courts have exclusive subject matter jurisdiction for copyright cases. 28 U.S.C. § 1338(a) (1993). If a court concludes that no domestic act of infringement has occurred, the court has no constitutional power to act. *De Bardossy v. Puski*, 763 F. Supp. 1239, 1245 (S.D.N.Y. 1991); *Update Art, Inc. v. Modiin Publishing*, 843 F.2d 67, 72 (2d Cir. 1988). Any fundamental change in the reach of subject matter jurisdiction, such as the *Subafilms* decision, is significant because lack of such jurisdiction forms the basis for a motion to dismiss. FED. R. CIV. P. 12. Moreover, lack of subject matter jurisdiction is never waived and can be raised for the first time on appeal. *Update Art*, 843 F.2d at 72. Thus, defendants to contributory infringement actions have a powerful new weapon in their arsenal.

23. *Subafilms*, 24 F.3d at 1090 n.3. "For the purposes of this decision, we assume, as apparently the panel did, that each of the defendants made a relevant 'authorization' within the United States, and that the acts of authorization consisted solely of entering into licensing agreements." *Id.* The Ninth Circuit rejected defendant's allegations that the plaintiffs had actually reproduced the film's prints in the United States as preparation for distribution abroad. This is significant because it leaves open the possibility that the Ninth Circuit will accept the Second Circuit's "predicate act" doctrine. See *infra* part IV (discussing the various alternative remedies available to copyright holders after the *Subafilms* decision).

variety of subjects: "James Bond" films,<sup>24</sup> record players,<sup>25</sup> refrigerants,<sup>26</sup> heaters,<sup>27</sup> shrimp deveiners,<sup>28</sup> videotape recorders,<sup>29</sup> newspaper printing plates,<sup>30</sup> and video games.<sup>31</sup>

This Comment analyzes the doctrine's application in these cases and compares its early use to its modern application in U.S. copyright law. Part II of this Comment discusses U.S. copyright law prior to *Subafilms*, including the 1976 amendment to the Copyright Act<sup>32</sup> and the 1988 decision to accede to the Berne Convention.<sup>33</sup> Part II also examines the principle of national treatment, a central theme of the Berne Convention and other multilateral treaties. Part III surveys the development of the doctrine of contributory infringement. It traces the doctrine's origins in early tort law, its initial use, and the eventual split that differentiated its application in the copyright context from other areas such as trademark and patent law. Part IV ascertains the alternative remedies available to copyright holders in light of the *Subafilms* decision. Part V concludes that the Ninth Circuit's decision marks a return to a traditional application of third party liability; moreover, it rededicates the United States to a stronger worldwide intellectual protection scheme.

## II. U.S. COPYRIGHT LAW

### A. *Simultaneous Development of Federal & State Protection Schemes*

The U.S. Constitution empowers Congress to "secur[e] for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries" in order to "promote the Progress of Science and useful Arts."<sup>34</sup> Congress first legislated

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24. *Danjaq v. MGM/UA Communications, Co.*, 773 F. Supp. 194 (C.D. Cal. 1991).

25. *Leeds & Catlin Co. v. Victor Talking Mach. Co.*, 213 U.S. 301, 319 (1909).

26. *Carbice v. American Patents Dev. Corp.*, 283 U.S. 27, 33 (1931).

27. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 668 (1944).

28. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526 (1972).

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

30. *Harper v. Shoppel*, 28 F. 613, 613 (S.D.N.Y. 1886).

31. *Lewis Galoob Toys, v. Nintendo of Am.*, 964 F.2d 965, 970 (9th Cir. 1992).

32. 1976 Copyright Act, 17 U.S.C. § 106 (1992).

33. Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, § 2, 102 Stat. 2853, 2853 (1988).

34. U.S. CONST. art. I, § 8, cl. 8. This express grant of power allows Congress to enact copyright laws regulating domestic but not foreign activity. This narrow authority stands in contrast to Congress's ability to regulate trademarks pursuant to the Commerce Clause

in the area of copyright law in 1790,<sup>35</sup> but the laws have changed dramatically since then, transforming the United States “from a copyright piracy haven into the foremost champion of intellectual property protection.”<sup>36</sup>

The first two centuries of U.S. copyright law afforded authors two sources of domestic protection for their works: state common law protection was available upon the creation of the work<sup>37</sup> and federal statutory protection was triggered upon its publication.<sup>38</sup> The pre-1978 scheme worked as follows:

a manuscript of a novel completed in 1970 would, at creation, automatically enjoy common law protection of the state in which it was composed, which protection would continue in perpetuity or until publication, at which time it would be forfeited; however, if the statutory formalities in effect at the time of publication were satisfied, federal protection would then begin for a set term of years.<sup>39</sup>

This dual system of copyright law abruptly ended when Congress passed the Copyright Act of 1976<sup>40</sup> and effectively preempted state copyright law for causes of action arising after January 1,

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of the Constitution. *Id.* cl. 3. Congress may use the “substantial effects” test to determine that a wide variety of activity has an effect on interstate commerce and, thus, is the proper subject of Congressional regulation. Congress’s ability to regulate in the area of copyright protection is much narrower. See Neil A. Smith, *Obtaining Trademark and Copyright Enforcement in the United States for Infringement Abroad*, 393 PRAC. L. INST. 553, 581 (1994).

Extraterritorial protection against infringement outside the U.S. is less efficacious under copyright law than under trademark law. One reason is the Lanham Act is grounded in the commerce power of Congress, which has been expansively interpreted by the courts, whereas copyright law is derived from an explicit constitutional provision in Article I, Section 8. Thus, under the Lanham Act, the plaintiff may recover even when there is no domestic act of infringement, but under copyright law, foreign activities are ‘not actionable unless a part of, or a consequence of, an act of infringement occurring within the United States.’

*Id.* (quoting *Zenger-Miller, Inc. v. Training Team, GmbH*, 757 F. Supp. 1062, 1071 (N.D. Cal. 1991)).

35. 1 DAVID NIMMER & MELVILLE B. NIMMER, COPYRIGHT at OV-1 (1994); Act of May 31, 1790, ch. 15, 1 Stat. 124.

36. 1 NIMMER & NIMMER, *supra* note 35, at OV-1 n.1. See also Leonard D. DuBoff et al., *Out of UNESCO and into Berne: Has United States Participation in the Berne Convention for International Copyright Protection Become Essential?*, 4 CARDOZO ARTS & ENT. L.J. 203, 209-10 (1985).

37. 1 NIMMER & NIMMER, *supra* note 35, at OV-3.

38. *Id.*

39. *Id.*

40. Act of Oct. 19, 1976, 17 U.S.C. § 101 (1992).

1978.<sup>41</sup>

*B. The United States Accedes to the Berne Convention*

Mere domestic protection for authors becomes less adequate as technological advances make worldwide distribution of works more feasible.<sup>42</sup> Therefore, international agreements are essential to any country seeking comprehensive intellectual property rights protection. No single source of international copyright protection exists for authors seeking protection from foreign infringement of their works. Copyright protection for U.S. authors is available generally in foreign countries from three sources: "bilateral copyright treaties, bilateral copyright 'arrangements' (such as the exchange of diplomatic notes and Presidential proclamations characterizing U.S. copyright relations before the 1952 Universal Copyright Convention), and multilateral copyright conventions."<sup>43</sup>

The *Subafilms* court discussed one such multilateral convention, the Berne Convention,<sup>44</sup> at length. Although the Berne Convention dates back to 1886, the United States did not become a signatory until 1988.<sup>45</sup> "During the 1920's and 1930's there was a strong interest in the private sector for the adherence of the United States to the Berne Convention because of the increasing use of American copyrighted works abroad."<sup>46</sup> While the United States resisted Berne Convention membership, U.S. authors relied

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41. The 1909 Copyright Act and the vast body of state common law are still relevant as they govern pre-1978 causes of action. 1 NIMMER & NIMMER, *supra* note 35, at OV-1.

42. Gary M. Hoffman, *Who's Stealing America's Ideas*, WASH. POST, Nov. 5, 1989, at C3.

These advances hamper enforcement of antipiracy laws, far outpace governments' ability to respond, and make traditional civil suits largely ineffective as a means of enforcing intellectual-property rights. Computer networks and personal-computer use are highly decentralized and virtually impossible to monitor, as is access to satellite transmissions. Many rights holders have no way of knowing when their rights are being infringed.

*Id.* See also *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 430 n.11 (1984) (discussing how the development of player pianos, photocopiers, television, and audio tape recorders has forced Congress to alter U.S. copyright law).

43. Jon A. Baumgarten, *Primer on the Principles of International Copyright*, 15 PRAC. L. INST. 1, 1 (1993).

44. Berne Convention, *supra* note 4.

45. DuBoff et al., *supra* note 36, at 210; *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1097 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994).

46. DuBoff et al., *supra* note 36, at 211.

on “back door” access<sup>47</sup> to Berne Convention protection by simultaneously publishing their work in the United States and in a Berne Convention member country.<sup>48</sup> Such access relieved some, but not all, of the pressure on Congress to join the Berne Convention;<sup>49</sup> nonetheless, Congress eventually relented and the United States became a party in 1989<sup>50</sup>. The Berne Convention Implementation Act of 1988<sup>51</sup> harmonized U.S. copyright law with Berne Convention requirements.<sup>52</sup>

One important principle of the Berne Convention, traceable to the original 1886 text, is “national treatment” for protected works.<sup>53</sup> Under national treatment, Berne signatories grant authors who are nationals of other Berne countries the same protection they accord to their own nationals.<sup>54</sup> Thus, Berne Convention members assure nondiscriminatory treatment to each author within its borders.

The *Subafilms* court seized on this principle as one basis for its decision to disallow an extraterritorial application of U.S. copyright law.<sup>55</sup> The Ninth Circuit emphasized Congress’s intent to fully participate in the Berne Convention.<sup>56</sup> The court reasoned that judicial bypass of the Berne Convention, in this context, would undermine the signatories’ confidence in the convention.<sup>57</sup>

The prominent role of the Berne Convention and the UCC<sup>58</sup> in international copyright enforcement by U.S. authors is clear in

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47. The Berne Convention protects works published “simultaneously” (within 30 days of each other) in a member and non-member country or state. Berne Convention, *supra* note 4, art. 3(1)(b).

48. DuBoff et al., *supra* note 36, at 211.

49. *Id.*

50. U.S. membership to the Berne Convention became effective March 1, 1989. Berne Convention Implementation Act of 1988, *supra* note 33.

51. *Id.*

52. “The primary change effected by Berne adherence and the [Berne Convention Implementation Act] is that the United States has had to sacrifice (or, from the more enlightened perspective of the rest of the world, to relieve itself of) its obsession with copyright formalities.” 1 NIMMER & NIMMER, *supra* note 35, at OV-6.

53. DuBoff et al., *supra* note 36, at 210.

54. Peter Burger, *The Berne Convention: Its History and Its Key Role in the Future*, 3 J.L. & TECH. 1, 9 (1988).

55. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1097 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994); *see infra* part III.E.3.

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

57. *Id.*

58. UCC, *supra* note 5.



the wake of the *Subafilms* limitation of the scope of U.S. copyright law.<sup>59</sup> Prior to *Subafilms*, U.S. copyright law applied more frequently. The new restrictive approach of *Subafilms* requires copyright holders to seek alternative avenues for relief, including those available under the Berne Convention and the UCC.

### III. THE DOCTRINE OF CONTRIBUTORY INFRINGEMENT

The Ninth Circuit's interpretation of the doctrine of contributory infringement in *Subafilms* is far from novel; in fact, it marks a return to the doctrine's origins. Contributory infringement is a form of third party liability. Courts employ the doctrine to reach those actors who play a significant role in copyright infringement even though their conduct is insufficient to warrant treatment as primary infringers.

[I]t has long been held that one may be liable for copyright infringement even though he has not himself performed the protected composition. For example, a person who has promoted or induced the infringing acts of the performer has been held jointly and severally liable as a "vicarious" infringer, even though he has no actual knowledge that copyright monopoly is being impaired.<sup>60</sup>

#### A. *Early Roots in Patent Law & Joint Tortfeasor Liability*

The Ninth Circuit in *Subafilms* cited copyright law's "historic kinship" with patent law in discussing the development of the doctrine of contributory infringement.<sup>61</sup> In fact, the doctrine has

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59. Although the UCC may provide another avenue for relief for copyright holders, its value as a substitute for subject matter jurisdiction is dubious. Courts frequently have denied or avoided hearing arguments that the UCC provides an alternative basis for acquisition of subject matter jurisdiction. See *De Bardossy v. Puski*, 763 F Supp. 1239, 1245 (S.D.N.Y. 1991) (denying subject matter jurisdiction under the UCC); *Peter Starr Prod. Co. v. Twin Continental Films*, 783 F.2d 1440, 1443 n.3 (9th Cir. 1986) (avoiding the question of whether the UCC alone confers subject matter jurisdiction where copyright law also confers such jurisdiction); *P & D Int'l v. Halsey Publishing Co.*, 672 F Supp. 1429, 1433 (S.D. Fla. 1987) (avoiding the question of whether the UCC alone confers subject matter jurisdiction where copyright law also confers such jurisdiction).

60. *Gershwin Publishing Corp. v. Columbia Artists Management*, 443 F.2d 1159, 1161-62 (2d Cir. 1971) (citations omitted) (holding concert managers liable for contributory infringement because they sponsored local concerts, provided audiences for the concerts, and knew that featured artists would engage in unauthorized copyrighted performances of plaintiff's musical compositions).

61. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1097 (9th Cir.), cert. denied, 115 S. Ct. 512 (1994) (quoting *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 439 (1984)).

roots in both patent law and tort law's enterprise-liability theory.<sup>62</sup> An early application of the doctrine arose in the 1886 copyright infringement case of *Harper v. Shoppel*.<sup>63</sup> The defendant in *Harper* made copies of the plaintiff's newspaper printing plate and sold it to another newspaper, "knowing at the time of selling the plate that it would be used by the purchaser for printing and publishing."<sup>64</sup> The *Harper* court held that the defendant "occupies the position of a party acting in concert with the purchaser who printed and published it, and is responsible as a joint tort-feasor."<sup>65</sup>

The doctrine arose again at the turn of the century when the author of *Ben Hur* brought an action against the Kalem Company for selling an unauthorized film adaptation of his book.<sup>66</sup> Although Kalem did not exhibit the film, the court imposed liability on Kalem for selling the film with the knowledge that the buyer would ultimately show the film to the public.<sup>67</sup>

Contributory infringement also provided the basis for liability in *Leeds & Catlin Co. v. Victor Talking Machine Co.*<sup>68</sup> The defendant in *Leeds* produced record albums that required the use of a phonograph patented by the plaintiff.<sup>69</sup> The defendant was liable for contributory infringement because Leeds intentionally supplied these records even though it had not directly infringed any patent.<sup>70</sup> The *Leeds* rule did not remain valid law. Thirty-five years later, the Supreme Court overturned *Leeds* in the controversial decision of *Mercoid Corp. v. Mid-Continent Investment Co.*<sup>71</sup>

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

63. 28 F. 613 (S.D.N.Y. 1886).

64. *Id.* at 615.

65. *Id.*

66. *Kalem Co. v. Harper Bros.*, 222 U.S. 55, 60 (1911).

67. *Id.* at 62-63. "The defendant not only expected but invoked by advertisement the use of its films for dramatic reproduction of the story." *Id.*

68. 213 U.S. 301 (1909).

69. *Id.* at 313.

70. *Id.* at 311.

71. 320 U.S. 661, 668 (1944).

*Leeds & Catlin Co. v. Victor Talking Machine Co.* (No. 2), *supra*, is authority for the conclusion that he who sells an unpatented part of a combination patent for use in the assembled machine may be guilty of contributory infringement. The protection which the Court in that case extended to the phonograph record, which was an unpatented part of the patented phonograph, is in substance inconsistent with the view which we have expressed in this case. The rule of *Leeds & Catlin* case (No. 2) accordingly must no longer prevail against the defense that a combination patent is being used to protect an unpatented part from competition.

*B. The Supreme Court and Congress Battle Over the Reach of Contributory Infringement*

The doctrine of contributory infringement proved to be a useful tool for intellectual property right owners; however, in 1931, the Supreme Court expressed its concerns about litigants using the doctrine to reinforce anticompetitive practices.<sup>72</sup> The Court focused its attention on the plaintiff's use of patent rights and the doctrine of contributory infringement to create and expand monopolies.

In *Carbice v. American Patents Development Corp.*,<sup>73</sup> the Dry Ice Corporation sold refrigerator units to its customers under the condition that they only use dry ice as a refrigerant.<sup>74</sup> Carbice manufactured solid carbon dioxide and sold its product to customers of the Dry Ice Corporation. Dry Ice Corporation claimed such sales amounted to contributory infringement and sought to enjoin Carbice from selling its product to Dry Ice's customers. The *Carbice* court rejected the claim of contributory infringement, citing concerns of anticompetitive monopolization by the Dry Ice Corporation.<sup>75</sup> The Court held that "the attempt to limit the licensee to the use of unpatented materials purchased from the licensor is comparable to the attempt of a patentee to fix the price at which the patented article may be resold."<sup>76</sup>

Still concerned about anticompetitive abuses,<sup>77</sup> the Supreme

*Id.* See *infra* part III.B.

72. *Carbice v. American Patents Dev. Corp.*, 283 U.S. 27, 32 (1931).

73. *Id.*

74. *Id.* at 30.

Solid carbon dioxide has a temperature of about 110 degrees below zero. When it 'melts,' it passes directly into a dry gaseous state—the gas having a like temperature and being volume about 500 times that of the solid. These properties makes the solid dioxide an excellent dry refrigerant for foodstuffs, particularly for the shipment of ice cream.

*Id.* at 28-29.

75. *Id.* at 32.

76. *Id.*

77. Alfred P Ewert & Irah H. Donner, *Will the New Information Superhighway Create "Super" Problems for Software Engineers? Contributory Infringement of Patented or Copyrighted Software-Related Applications*, 4 ALB. L.J. SCI. & TECH. 155, 165 (1994).

Prior to *Mercoid*, an increasing number of lower courts had expressed the concern that the contributory infringement doctrine was being used improperly to extend patent monopoly protection to unpatented goods, thereby constituting patent misuse. The Supreme Court apparently hearkened to the call of the lower courts in the *Mercoid* decision.

*Id.*

Court, in 1944, inflicted a nearly fatal wound to the doctrine of contributory infringement. The Court chose *Mercoid Corp. v. Mid-Continent Investment Co.*<sup>78</sup> as its vehicle for eliminating the anticompetitive use of patents. *Mercoid* involved a patented heating system consisting in part of a "stoker switch."<sup>79</sup> *Mercoid's* stoker switches had no use other than as a component of the plaintiff's patented systems.<sup>80</sup> The Supreme Court refused to find primary infringement of the patented heating system because of the plaintiff's own misuse of the patent.<sup>81</sup> The absence of any primary infringement precluded any claim for contributory infringement.<sup>82</sup> Just as the *Subafilms* court would do nearly fifty years later, the Supreme Court refused to allow an action to lie against a third party when the primary infringer was not liable. The Supreme Court held:

The result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider. It is sufficient to say that in whatever posture the issue may be tendered courts of equity will withhold relief where the patentee and those claiming under him are using the patent privilege contrary to the public interest.<sup>83</sup>

Patent and copyright law diverge at this point in both their development and application of the doctrine of contributory infringement. Congress reacted strongly against the *Mercoid* holding by passing the Patent Act of 1952,<sup>84</sup> which explicitly provided for contributory patent infringement as a cause of action and effectively overturned *Mercoid*.<sup>85</sup> This, however, did not signify the end of the dispute over the reach of contributory infringement.

The Supreme Court and Congress renewed their struggle over the limits of contributory infringement in another patent dispute,

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78. 320 U.S. 661 (1944).

79. *Id.* at 664.

80. *Id.*

81. *Id.* at 670.

82. *Id.* at 667-69.

83. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 669 (1944).

84. 35 U.S.C. § 271(c)-(d) (1952).

85. Ewert & Donner, *supra* note 77, at 166; see also Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: "Blessed be the Tie?"* 4 HARV. J.L. & TECH. 1, 18 (1991). Congress intended "to retreat from *Mercoid's* condemnation of control of the market in a nonstaple good used in a patented process as patent misuse." *Id.*

*Deepsouth Packing Co. v. Latram Corp.*<sup>86</sup> Prior to the *Deepsouth* decision, a court enjoined the defendant from manufacturing machines in the United States in violation of the plaintiff's patent.<sup>87</sup> In *Deepsouth*, the defendant sought modification of the injunction to permit overseas sales of the unassembled parts of the machine for assembly and use abroad.

The *Deepsouth* court ruled that such conduct by the defendant did not violate the plaintiff's patent because "[t]he statute makes it clear that it is not an infringement to make or use a patented product outside of the United States."<sup>88</sup> The Supreme Court required underlying infringement before imposing any third party liability, just as it did in *Mercoid* and as the *Subafilms* court would do twenty years later.

Congress was quick to respond to the Supreme Court's decision in *Deepsouth*. In a move similar to the backlash after *Mercoid*, Congress reversed the Supreme Court's holding in *Deepsouth* with an amendment to the patent statute precluding any requirement of primary infringement for plaintiffs offering a theory of contributory patent infringement.<sup>89</sup> As noted in the *Subafilms* decision, however, Congress has never adopted an analogous amendment to the copyright statute.<sup>90</sup>

Cycles of judicial disapproval, followed by congressional revitalization, have reshaped the doctrine of contributory infringement over the years. In *Subafilms*, the Ninth Circuit fired the latest salvo in this protracted struggle. Although Congress has not moved to overturn *Subafilms* yet, it is constantly pushing for a broader application of the doctrine of contributory infringement.<sup>91</sup>

86. 406 U.S. 518 (1972).

87. *Id.* at 519.

88. *Id.* at 527.

89. Patent Law Amendments of 1984, Pub.L. No. 98-622, § 101, 98 Stat. 3383, 3383 (codified as amended at 35 U.S.C. § 271 (f) (1984)).

90. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1092 n.7 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994).

91. Several members of Congress have argued for an expansion of the doctrine for some time.

The anomalous situation that exists under current law, is that a video dealer who is found using a black box and two VCR's to make illegal copies would be an infringer of copyright. A company that manufactures, imports, sells, distributes, or advertises 10,000 black boxes which will be used to infringe copyright would likely not be an infringer. That result is neither logical nor good law. It is also a formula for largescale [sic] copyright violations, and it should be changed.

137 CONG. REC. E1807, 1808 (1991) (statement of Rep. Howard L. Berman).

[C]urrent copyright law is inadequate to solve the problem. While duplicating a

Congress has shown a remarkable affinity for overturning any judicial limitations of the contributory infringement of intellectual property rights. Observers, therefore, cannot rule out the possibility of such congressional legislation in the future.

C. *Implicit Approval of Contributory Infringement in the 1976 Copyright Act*

With the passage of the 1976 Copyright Act,<sup>92</sup> Congress implicitly approved the long standing common law doctrine of contributory infringement.<sup>93</sup> It did so by adding the phrase "to authorize" use of a work as an indisputable right of a copyright holder. Although Congress has never expressly codified the doctrine of contributory copyright infringement, the *Subafilms* court construed the addition of the words "to authorize" to indicate congressional acceptance of the doctrine.<sup>94</sup> Section 106 of the Copyright Act describes the rights of copyright holders as follows:

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to *authorize* any of the following: (1) to reproduce the copyrighted work in copies or phonorecords; (2) to prepare derivative works based upon the copyrighted work; (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending; (4) and in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works to

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copy protected movie amounts to copyright infringement, the contributory infringer can often escape liability. The sad truth is that unless we provide a real weapon to effectively battle video pirates, we will not be able to halt the flood of bootleg videotapes.

137 CONG. REC. S6035-01, 6066 (1991) (statement of Sen. Herb Kohl). See also 139 CONG. REC. E27-03 (1993) (statement of Rep. William J. Hughes advocating the extension of U.S. copyright infringement to broadcasters who authorize retransmission of a copyrighted work).

92. Copyright Act of 1976, 17 U.S.C. § 106 (1992).

93. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 61 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5674.

94. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1092 (9th Cir.), cert. denied, 115 S. Ct. 512 (1994).

display the copyrighted work publicly.<sup>95</sup>

Section 501 further provides:

(a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 is an infringer of the copyright

(b) The legal or beneficial owner of an exclusive right under a copyright is entitled to institute an action for any infringement of any particular right committed while he or she is the owner of it.<sup>96</sup>

The Copyright Act did not result in a uniform application of the doctrine. Indeed, the addition of the words "to authorize" marked the beginning of the modern debate over the doctrine of contributory infringement.

#### D. *The Initial Interpretation of Contributory Infringement in the Context of the 1976 Copyright Act*

The initial interpretation of the words "to authorize" was inconsistent with the origins of contributory infringement. The earliest applications of the doctrine rejected any use of contributory infringement to find a party liable in the absence of direct infringement.<sup>97</sup>

##### 1. *Peter Starr—The Stolen Film Prints*

The *Subafilms* court expressly rejected one such initial interpretation—*Peter Starr Production Co. v. Twin Continental Films*<sup>98</sup> The facts of *Peter Starr* are nearly identical to those presented in *Subafilms*. In 1980 Starr created and copyrighted a film entitled *Take It to the Limit*.<sup>99</sup> Three years later, he authorized an agent to explore the possibility of distributing the film in Europe.<sup>100</sup> One European distributor made an offer for the rights to the film, but Starr rejected it.<sup>101</sup> After this rejection, the distributor surreptitiously obtained a print of *Take It to the Limit*

95. 17 U.S.C.A. § 106 (1)-(5) (West Supp. 1995) (emphasis added).

96. *Id.* § 501 (a)-(b).

97. *Carbice v. American Patents Dev. Corp.*, 283 U.S. 27 (1931); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944).

98. 783 F.2d 1440 (9th Cir. 1986).

99. *Id.* at 1441.

100. *Id.*

101. *Id.*

from its London custodian.<sup>102</sup> The distributor reproduced and distributed the film on video in Europe.<sup>103</sup> As a result of this unauthorized distribution, another European distributor backed out of a pending deal with Starr.<sup>104</sup>

Starr brought suit in 1984.<sup>105</sup> The district court for the Central District of California dismissed the claim for lack of subject matter jurisdiction.<sup>106</sup> Starr appealed in 1986 and the Ninth Circuit found an act of infringement and reversed the decision.<sup>107</sup> The court ruled that the execution of an agreement within the United States to exhibit a film abroad was actionable under sections 106 and 501 of U.S. copyright law because it violated the copyright holder's exclusive right "to authorize."<sup>108</sup>

This result differed from early applications of the doctrine of contributory infringement because the actual exhibition authorized in *Peter Starr* was not an infringement actionable under U.S. copyright law. Because the exhibition was to occur abroad, no primary infringement supported third party liability.<sup>109</sup> Imposition of third party liability by the court in *Peter Starr* violated a general principle of third party liability.

## 2. *Lewis Galoob*—The Video Game "Cheating" Device

Six years later, in *Lewis Galoob Toys v. Nintendo of America*,<sup>110</sup> the Ninth Circuit revisited the interpretation of the troublesome phrase—"to authorize." In *Lewis Galoob*, a case factually similar to *Peter Starr* and *Subafilms*, one party authorized conduct alleged to be a direct copyright infringement.<sup>111</sup> The dispute in *Lewis Galoob* involved a device known as the "Game Genie," manufactured by the defendant, Galoob.<sup>112</sup>

The Game Genie's sole purpose was to allow video game

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102. *Id.*

103. *Peter Starr Prod. Co. v. Twin Continental Films*, 783 F.2d 1440, 1442 (9th Cir. 1986).

104. *Id.*

105. *Id.*

106. *Id.*

107. *Id.*

108. *Peter Starr Prod. Co. v. Twin Continental Films*, 783 F.2d 1440, 1442-43 (9th Cir. 1986).

109. *Update Art, Inc. v. Modiiin Publishing*, 843 F.2d 67, 72 (2d Cir. 1988).

110. 964 F.2d 965 (9th Cir. 1992).

111. *Id.* at 967.

112. *Id.*



players to alter the features of video games for use with the Nintendo Entertainment System (NES).<sup>113</sup> Players insert their Nintendo game cartridges into the Game Genie, which in turn inserts into the NES.<sup>114</sup> The Game Genie blocked certain data from being exchanged between the cartridges and the system.<sup>115</sup> This allowed players to increase their number of "lives," vary the speed at which they move, and modify other features.<sup>116</sup> The Game Genie did not permanently alter the data stored in the cartridges.<sup>117</sup>

Copyright law protected the cartridges themselves as an audiovisual work under 17 U.S.C. § 102(a)(6);<sup>118</sup> however, the district court held that the Game Genie was not a derivative work because it merely enhances the audiovisual display and creates no independent work.<sup>119</sup> The district court similarly found that the displays created by the Game Genie constituted "fair use"<sup>120</sup> and, thus, were not an infringement of Nintendo's copyright.<sup>121</sup> Each of these findings was fatal to Nintendo's claim because they precluded any finding by the court of an underlying act of infringement. Without a claim of primary infringement, the contributory claim was untenable.

The *Lewis Galoob* analysis differed significantly from that in *Peter Starr*. While the *Lewis Galoob* court recognized that "infringement by authorization is a form of direct infringement,"<sup>122</sup> the *Peter Starr* court focused instead on the underlying conduct.<sup>123</sup> The *Lewis Galoob* court held "a party cannot authorize [within the meaning of U.S. copyright law] another party to infringe a copyright unless the authorized conduct would itself

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113. *Id.* at 965.

114. *Id.* at 967.

115. *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 964 F.2d 965, 967 (9th Cir. 1992).

116. *Id.*

117. *Id.*

118. *Id.* at 965.

119. The Courts of Appeals for the Ninth Circuit affirmed this finding. *Id.* at 968.

120. "The doctrine of fair use allows a holder of the privilege to use copyrighted material in a reasonable manner without the consent of the copyright holder." *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 964 F.2d 965, 969 (9th Cir. 1992) (quoting *Narrell v. Freeman*, 872 F.2d 907, 913 (9th Cir. 1989)).

121. *Id.*

122. *Id.* at 970.

123. *Id.*

be unlawful."<sup>124</sup> The *Lewis Galoob* court found support for this proposition from two important sources: the video tape recorder controversy in *Sony Corporation of America v. Universal City Studios, Inc.*<sup>125</sup> and the oft-quoted treatise of Professor Nimmer.<sup>126</sup>

In *Sony*, the Supreme Court employed an analysis on which the *Subafilms* court would rely in overturning *Peter Starr*. *Sony* involved a suit against the manufacturer of video tape recorders. The copyright holder claimed the purchasers of the recorders were recording its works.<sup>127</sup> The copyright holder accused *Sony* of contributing to the infringement of its copyright.<sup>128</sup> The Ninth Circuit found *Sony* liable for damages based on its marketing of the recorders.<sup>129</sup>

The Supreme Court, however, required a finding of direct infringement by the consumer before it could impose any form of third party liability upon *Sony*.<sup>130</sup> Ultimately, the Court did not hold *Sony* liable because it found the consumers' conduct to be primarily noncommercial in nature and, therefore, not in violation of the copyright holder's exclusive right to use.<sup>131</sup> In *Sony*, the Supreme Court relied upon a basic principle of third party liability, the same rationale that produced the *Mercoid* and *Deepsouth* decisions.

Additionally, the *Lewis Galoob* court found support from Professor Nimmer's treatise, a source on which the Ninth Circuit would later rely in *Subafilms*.<sup>132</sup> According to Professor Nimmer, "to the extent that an activity does not violate one of those five enumerated rights [see 17 U.S.C. § 106], authorizing such activity does not constitute copyright infringement."<sup>133</sup> The *Sony* and *Lewis Galoob* cases, therefore, set the stage for the reversal of *Peter Starr*

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124. *Id.*

125. 464 U.S. 417 (1984).

126. 1 NIMMER & NIMMER, *supra* note 35.

127. *Sony Corp. of Am.*, 464 U.S. at 420.

128. *Id.*

129. *Id.*

130. *Id.* at 433.

131. *Id.* at 442 (holding that use of videotape recorders by consumers to "time shift" their viewing of broadcasts constitutes "fair use" and thus, such taping by consumers could not form the requisite direct infringement needed to find contributory infringement).

132. *Lewis Galoob Toys, v. Nintendo of Am.*, 964 F.2d 965, 970 (9th Cir. 1992).

133. 3 NIMMER & NIMMER, *supra* note 35, § 12.04 [A][3](a), at 12-85 n.82.

### 3. *Danjaq*—The James Bond Movie Controversy

Although not specifically mentioned in *Lewis Galoob*, the decision in *Danjaq v. MGM/UA Communications, Co.*<sup>134</sup> articulated an essential link in the reasoning employed in *Subafilms*. The *Danjaq* decision also foreshadowed the *Subafilms* holding that would follow three years later. The *Danjaq* controversy stemmed from an alleged "fire sale" of James Bond movies in the world market.<sup>135</sup> The propriety of the sale itself was not at issue; however, the plaintiff and copyright holder *Danjaq* argued that the extremely low sale price reduced the value of the copyright holder's property and, thus, violated the defendant's fiduciary duty to the copyright holder.<sup>136</sup>

In *Danjaq*, the plaintiff alleged the defendant's conduct amounted to third party infringement, but failed to specify any primary infringement.<sup>137</sup> The plaintiff alleged liability on the basis of the defendant's mere "authorization of public performance of Bond films."<sup>138</sup> Such performance was to occur wholly abroad, which proved fatal to a finding of liability.<sup>139</sup> The district court in *Danjaq* expressly rejected any distinction between "a private performance of a motion picture in the United States and a public performance overseas."<sup>140</sup>

The copyright owner is not vested with the exclusive right either to do or to authorize private or overseas performances. Private performances of motion pictures are not actionable because the Congress had failed to include such performances among the list of the copyright owner's exclusive rights. In the same manner, overseas performances are not actionable because the Congress has not chosen to enforce the U.S. copyright laws extraterritorially.<sup>141</sup>

134. 773 F Supp. 194 (C.D. Cal. 1991).

135. *Id.* at 195. The defendants sought to raise a large amount of capital very quickly by holding a "fire sale," flooding the European video market with James Bond movies for sale at prices well below market value. *Id.*

136. *Id.*

137. *Id.* at 200.

138. *Id.*

139. *Danjaq v. MGM/UA Communications, Co.*, 773 F Supp. 194, 203 (C.D. Cal. 1991). Generally, there is no liability for acts of infringement occurring wholly outside the U.S. territory. *Update Art, Inc. v. Modiin Publishing*, 843 F.2d 67, 72 (2d Cir. 1988).

140. *Danjaq*, 773 F Supp. at 203.

141. *Id.*

Similarly, the *Subafilms* court expressly rejected any differentiation between an act not enumerated under section 106 and an act that occurs wholly abroad.<sup>142</sup> Both are beyond the reach of U.S. copyright law and, thus, the distinction is one without significance.

The requirement of direct infringement in *Lewis Galoob* and *Sony* will prove to be wise in the long run because it prevents the anomalous result of holding a contributory infringer liable where a primary infringer could not similarly be held liable. In the context of international relations, the *Lewis Galoob* and *Sony* analysis is preferable because it reduces potential friction between application of U.S. copyright law and international copyright agreements. The *Peter Starr* approach is appealing at first glance because it provides relief to aggrieved copyright holders; however, a closer examination reveals that it fails to leave any role for the Berne Convention or other multilateral agreements. Such agreements become meaningless if the United States can disregard them at will. If a prominent member, such as the United States, can ignore these agreements and their precepts, there will be no incentive for other countries to adhere to such agreements. U.S. courts must recognize this fact and exercise restraint.

The *Peter Starr* approach also fails to appreciate the limits of U.S. copyright law. Congress never intended U.S. copyright law to function as the sole and exclusive remedy for foreign infringement. If Congress assented to this view, it would not have gone to such pains to modify existing law to accede to the Berne Convention and other multilateral agreements. Furthermore, Congress has the power to create a distinct form of liability, independent of primary infringement, and did so after the *Mercoid* and *Deepsouth* decisions. In light of its flurry of action following these two decisions, congressional inaction in this area is the strongest support for the proposition that courts should adhere to the traditional application of the doctrine of contributory infringement. This will remain true unless Congress acts again. For these reasons, the *Lewis Galoob* and *Sony* approach is more sensible than that of *Peter Starr*.

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142. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1091 (9th Cir.), cert. denied, 115 S. Ct. 512 (1994).

### *E. Contributory Infringement Reexamined in Subafilms*

The Ninth Circuit granted *Subafilms* a rehearing in order to resolve the inconsistencies between *Peter Starr*, *Sony*, and *Lewis Galoob*. The ultimate decision in *Subafilms* rested upon three themes. First, any application of contributory infringement must be consistent with principles of third party liability—contributory infringement should not lie where there is no primary infringement. Second, the *Subafilms* requirement of underlying infringement cannot be circumvented by extraterritorial application of U.S. copyright law without an amendment to the copyright statute. Third, there must be a recognition that national treatment is the best resolution for international copyright disputes that occur wholly abroad.

#### 1. No Third Party Liability Without Primary Infringement

The Ninth Circuit's review of *Subafilms* entailed a reexamination of the third party liability analysis developed in *Peter Starr*. In *Subafilms*, MGM authorized Warner Brothers to distribute *Yellow Submarine* in the overseas market.<sup>143</sup> During argument, MGM conceded that this authorization occurred within the United States.<sup>144</sup> Relying on *Peter Starr*, the court found that an act of infringement occurred within the United States and that this act consisted of a mere authorization.<sup>145</sup>

The Ninth Circuit extensively reviewed past interpretations of the doctrine of contributory infringement. In examining congressional intent, the court found that Congress, in adding the phrase "to authorize" to the copyright statute, did not intend to create a new form of liability apart from a violation of the enumerated rights.<sup>146</sup>

The exclusive rights accorded to a copyright owner under section 106 are "to do and to authorize" any of the activities specified in the five numbered clauses. Use of the phrase "to authorize" is intended to avoid any questions as to the liability of contributory infringers. For example, a person who lawfully

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143. *Id.* at 1089.

144. *Id.* at 1090 n.3.

145. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, Nos. 91-56248, 91-56379, 91-56289, 1993 WL 39269, at \*5-6 (9th Cir. Feb. 17, 1993), *vacated in part*, 24 F.3d 1038 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994).

146. *Subafilms*, 24 F.3d at 1092.

acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance.<sup>147</sup>

To interpret congressional intent, the Ninth Circuit once again turned to Professor Nimmer's treatise. The court held "that 'to authorize' was simply a convenient peg on which Congress chose to hang the antecedent jurisprudence of third party liability."<sup>148</sup>

The Ninth Circuit's requirement of underlying infringement is consistent with the *Lewis Galoob* and *Sony* decisions. No significant distinctions exist between those cases and *Subafilms* that would warrant any other application of the law. Each of the three cases involved a primary actor who was not infringing a copyright. There is no basis, therefore, to hold a third party liable for "contributory infringement." The *Peter Starr* rationale was anomalous, and the Ninth Circuit correctly reversed it in *Subafilms*.

## 2. Foreign Conduct is not Primary Infringement

The *Subafilms* decision precluded extraterritorial application of U.S. copyright law to wholly foreign conduct.<sup>149</sup> The *Subafilms* court stated that any extraterritorial application of U.S. copyright law

might well send the signal that the United States does not believe that the protection accorded by the laws of other member nations is adequate, which would undermine two other objectives of Congress in joining the convention: "strengthening the credibility of the U.S. position in trade negotiations with countries where piracy is not uncommon" and "raising the likelihood that other nations will enter the Convention."<sup>150</sup>

The *Subafilms* court recognized a long-standing presumption against the extraterritorial application of U.S. law in general and

147. H.R. REP NO. 1476, *supra* note 93.

148. *Subafilms*, 24 F.3d at 1093 (quoting 3 NIMMER & NIMMER, *supra* note 35, at 12-84 n.81).

149. A possibility remains that a foreign court could chose to apply U.S. copyright law in its own court under choice of laws provisions. See *Creative Technology, Ltd. v. Aztech Sys. Pte, Ltd.*, 61 F.3d 696, 702-03 (9th Cir. 1995) (holding that if U.S. courts can entertain actions under foreign copyright law, there is no reason why the foreign courts could not apply U.S. law).

150. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1097-98 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994) (quoting S. REP. 352, 100th Cong., 2d Sess. 4-5, reprinted in 1988 U.S.C.C.A.N. 3706, 3709-10).

copyright law in particular.<sup>151</sup> This result was startling because, prior to the *Subafilms* decision, parties in the United States were liable under the doctrine of contributory infringement even in cases where those directly responsible for the infringement remained outside the reach of U.S. copyright law.<sup>152</sup> Before the *Subafilms* decision, U.S. copyright holders successfully used this method to enforce their rights abroad without relying on international law for protection. The conclusion that U.S. copyright law is inapplicable beyond U.S. borders is fundamental to the *Subafilms* decision.

The plaintiffs in *Subafilms* argued that U.S. copyright law should apply to conduct abroad where infringement results in "adverse effects within the United States."<sup>153</sup> Such an extension of the law would result in a finding of underlying infringement to support a claim of contributory infringement. Such a "domestic effects" test would result in a finding of underlying infringement in a majority of cases. Fortunately, the court flatly rejected this argument.<sup>154</sup> The *Subafilms* court was "unwilling to overturn over eighty years of consistent jurisprudence on the extraterritorial reach of the copyright laws without further guidance from Congress."<sup>155</sup> The court relied heavily upon the Supreme Court's "long-standing principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.'"<sup>156</sup>

The Ninth Circuit's abstention from extraterritorial application of U.S. copyright law gave teeth to the *Subafilms* decision. It closed a potential loophole that threatened to swallow the *Subafilms* rule requiring domestic infringement. It also sent a clear signal to Congress that further legislation is necessary before the judiciary will expand the application of U.S. copyright law beyond U.S. borders. In so doing, the Ninth Circuit selected a path that balances a healthy respect for foreign laws and international treaties while retaining a strong protection scheme for true

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151. *Id.* at 1098.

152. *Peter Starr Prod. Co. v. Twin Continental Films*, 783 F.2d 1440 (9th Cir. 1986) (holding that execution of an agreement within the United States violated copyright holders' exclusive right "to authorize" as described in the 1976 Copyright Act and thus constituted infringing conduct).

153. *Subafilms*, 24 F.3d at 1095.

154. *Id.* at 1098.

155. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1095 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994).

156. *Id.* (citing *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991)).

domestic copyright infringement.

### 3. National Treatment is the Best Resolution of International Copyright Infringement Claims

The *Subafilms* court emphasized the principle of national treatment as part of its rationale for not applying U.S. copyright law outside its borders. The court held "that 'the primary mechanism for discouraging discriminatory treatment of foreign copyright claimants is the principle of national treatment,' and that adherence to [the] Berne [Convention] will require 'careful due regard for the values' of other member nations."<sup>157</sup> The practical effect of implementing the national treatment principle is that an adhering country pledges to treat foreign works the same way it treats national works.<sup>158</sup>

National treatment is a central theme to both the UCC and the Berne Convention.<sup>159</sup> Essentially, protection based on national treatment has two components in the context of intellectual property protection: the nationality of the author and the country or state where a work is first published.<sup>160</sup> The first component of the principle confers eligibility for protection based on the nationality of the author in an adhering state.<sup>161</sup> The second component confers eligibility for protection based on first publication in an adhering state.<sup>162</sup>

National treatment ensures some level of protection for authors in the international community without attempting the herculean task of imposing a single uniform set of rules on its members. Because an author chooses the country or state of first publication, he has some measure of control as to how much protection his work will receive. The Berne Convention bars members from affording foreign works less protection than they afford to national works.<sup>163</sup> Thus, the Berne Convention assures nondiscriminatory treatment with minimal intrusion into how each

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157. *Id.* at 1097 (quoting H.R. REP. NO. 609, 100th Cong., 2d Sess. 43 (1988), regarding adherence to the Berne Convention).

158. DuBoff et al., *supra* note 36, at 218.

159. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1097 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994). See also DuBoff et al., *supra* note 36, at 210.

160. DuBoff et al., *supra* note 36, at 218.

161. *Id.*

162. *Id.*

163. *Id.*



individual member chooses to protect national works.<sup>164</sup>

The *Subafilms* decision respects the principle of national treatment and allows the Berne Convention to operate as intended, rather than imposing U.S. law on other countries.<sup>165</sup> The *Subafilms* decision is consistent with the goals of national treatment—strong intellectual property right protection accompanied by ease of administration.<sup>166</sup>

In the future, copyright holders—victimized by wholly foreign infringement—will receive the same protection as citizens of the infringing country rather than relying on the United States to act as the copyright police of the world. Thus, the *Subafilms* decision relieves the United States of a substantial burden and drain of resources. Meanwhile, other countries will freely share in the responsibility of creating a strong worldwide protection scheme for intellectual property. A system born out of consensus is preferable to one imposed by U.S. strong-arm techniques. The final product of such a consensus will be sturdier and more efficient in the long run. The *Subafilms* decision recognizes that the United States is only one member among many in the international community and that the effects of extraterritorial judicial intervention are not always desirable.

#### IV ALTERNATIVE REMEDIES AFTER *SUBAFILMS*

The *Subafilms* decision deprives copyright holders of a cause of action even where the foreign infringing conduct would violate

164. Some would argue that this is in fact a shortcoming of the protection scheme. See Hoffman, *supra* note 42.

165. For a different point of view, see *Curb v. MCA Records*, 898 F. Supp. 586, 596 (M.D. Tenn. 1995) (expressly rejecting the *Subafilms* approach).

The Court is sensitive to the sovereignty and rule of law in other countries. Such sensitivity is only enhanced by the recognition of the United States' obligation under multilateral treaties such as the 1971 Geneva Phonograms Convention and the recently adopted TRIPS component of the General Agreement on Tariffs and Trade. However, a careful exercise of domestic jurisdiction is consistent with the approach of the leading treatise in the field of international copyright law: a U.S. court, for example, could grant injunctive remedies under U.S. law for acts that commence a course of infringing conduct in the United States, for example, acts of authorizing or copying, without regard for whether eventual exploitation is to take place at home or abroad. Such an injunction would be justifiable if it forestalled piracy, whether at home or abroad, but did not risk interfering with such relief as might be granted under foreign laws for exploitation abroad. Geller & Nimmer, *supra*, § 3 [b][ii] at INT-51-52.

*Id.* at 596.

166. Peter Burger, *The Berne Convention: Its History and Its Key Role in the Future*, 3 J.L. & TECH. 1, 9-10 (1988).

U.S. law if performed domestically or where the acts are illegal under the laws of the country where the violation takes place. Nonetheless, the Ninth Circuit has left copyright holders some remedies and maneuvering room in formulating their legal theories.

U.S. copyright holders who find themselves in the same position as the plaintiffs in *Subafilms* might successfully make a policy argument if supported by the right set of facts. Such litigants could argue "that it is unfair to hold a person liable under the laws of this nation for acts done abroad, except when those acts are intended to, and do, have an effect within the United States."<sup>167</sup> Such a "domestic effects" argument, although rejected in *Subafilms*,<sup>168</sup> might carry favor with the court if the plaintiff produced hard evidence rather than conjecture and general allegations. There are several other alternative strategies that may aid a plaintiff should this policy based argument fail.

#### A. *The Predicate Act Doctrine*

The manner in which a plaintiff characterizes the defendant's conduct is essential in light of the *Subafilms* decision. For example, the act of licensing occurring within the United States—in the absence of more activity—will probably not be sufficient to trigger U.S. copyright law. A plaintiff, however, may characterize the act of licensing combined with circumstantial evidence of further domestic acts as "preparation" and thus trigger direct liability.<sup>169</sup> Similarly, domestic authorization of "attempted" foreign infringement might survive the harsh rule of *Subafilms*.<sup>170</sup>

The holding of *Subafilms* mandates the existence of primary infringement to sustain the imposition of liability for contributory infringement; however, the courts never have required a plaintiff to name or even specifically identify the primary infringer.<sup>171</sup> Thus, the failure of a plaintiff to find a defendant amenable to suit

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167. *GB Mktg. USA, Inc. v. Gerolsteiner Brunner GmbH & Co.*, 782 F Supp. 763, 773 (W.D.N.Y. 1991).

168. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1095 (9th Cir.), *cert. denied*, 115 S. Ct. 512 (1994). The plaintiff's "parade of horrors" consisting of a general allegation that foreign distribution of the film resulted in "adverse effects" within the United States simply did not persuade the court. *Id.*

169. Smith, *supra* note 34, at 582-83.

170. The *Subafilms* court expressly avoided the question whether "liability might attach when a party authorizes an act that could constitute copyright infringement, but the 'attempted' infringement fails." *Subafilms*, 24 F.3d at 1094 n.8.

171. *Danjaq v. MGM/UA Communications, Co.*, 773 F Supp. 194, 201 (C.D. Cal. 1991).

for a claim of primary infringement is not fatal to a case of contributory infringement against a third party.

The dispute in *Subafilms* centered around the "authorization" of acts occurring wholly abroad. The plaintiffs in the *Subafilms* argued unsuccessfully that such authorization necessarily included the duplication of originals within the United States for distribution abroad.<sup>172</sup> Plaintiffs wishing to remove themselves from the harsh rule of *Subafilms* should adduce evidence at trial sufficient to show, at a minimum, that the defendants were involved in preparatory activities within the United States.<sup>173</sup> This theory of infringement is the predicate act theory. The Ninth Circuit has not expressly rejected application of U.S. copyright law based on the "predicate act" theory.<sup>174</sup> In *Update Art, Inc. v. Modiin Publishing*,<sup>175</sup> the plaintiffs alleged that the defendants used the copyrighted printing plates domestically to reproduce a work.<sup>176</sup> The defendants failed to allege in their pleadings or discovery that reproduction or other predicate acts occurred outside of the United States.<sup>177</sup> Consequently, the court refused to grant a motion to dismiss for lack of subject matter jurisdiction.<sup>178</sup>

The *Subafilms* court did not foreclose predicate act-based jurisdiction in its holding. Because the *Subafilms* court found that the only domestic act was a "mere authorization," the Ninth Circuit might accept the *Update Art* rule and apply U.S. copyright law to foreign conduct.

The *Update Art* rule for predicate acts is limited in scope. *Robert Stigwood Group v. O'Reilly*<sup>179</sup> demonstrates the lower limit of the predicate act doctrine. In *Stigwood*, Roman Catholic priests infringed the plaintiff's copyright by performing, without authorization, the rock opera *Jesus Christ Superstar* in Canada.<sup>180</sup> The plaintiffs alleged that the defendants assembled and arranged

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172. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1099 (9th Cir.), cert. denied, 115 S. Ct. 512 (1994).

173. *Famous Music Corp. v. Seeco Records*, 201 F. Supp. 560, 568-69 (S.D.N.Y. 1961) (holding that preparation within the United States followed by acts abroad that infringe a U.S. copyright will result in direct liability under joint tortfeasor theory).

174. Smith, *supra* note 34, at 583; see also *Danjaq*, 773 F. Supp. at 200-01.

175. 843 F.2d 67 (2d Cir. 1988).

176. *Id.* at 68-69.

177. *Id.* at 73.

178. *Id.*

179. 530 F.2d 1096 (2d Cir. 1976).

180. *Id.* at 1097.

in the United States all necessary elements to the performance and then simply crossed the border.<sup>181</sup> The court found this type of activity insufficient for predicate act-based application of U.S. copyright law.<sup>182</sup> The *Stigwood* court stated that only infringement that permits further reproduction abroad triggers application of U.S. copyright law and may justify imposing a constructive trust to capture foreign profits.<sup>183</sup>

### B. State Law Claims

Infringement claims generally do not arise in the absence of some commercial relationship. If, under the rule of *Subafilms*, a plaintiff is unable to bring a U.S. copyright law claim, such a relationship could form the basis for a variety of state law claims.<sup>184</sup> If there is an underlying contract, such as a licensing agreement, a claim for breach of contract or fiduciary duty might be justified.

Authority also exists for imposing a constructive trust against a defendant's extraterritorial profits derived from a domestic act of infringement when that act permits further reproduction of the copyrighted material abroad.<sup>185</sup> The plaintiff, however, has the difficult task of bringing forth evidence of a domestic act.

### C. Application of Foreign Law in U.S. Courts

Authority also exists for the application of foreign copyright law in U.S. courts.<sup>186</sup> The usefulness of such a remedy would necessarily depend on the degree of protection the foreign jurisdiction affords. Moreover, even if foreign laws gave strong protection, U.S. courts are not under any obligation to hear such claims. Indeed, at least one district court has declined to hear a foreign copyright law claim, relying on the doctrine of *forum non conveniens* as well as the absence of an "urgent reason" to "enter

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181. *Id.* at 1100.

182. *Id.* at 1101.

183. *Id.*

184. Smith, *supra* note 34, at 583.

185. *Fantasy, Inc. v. Fogerty*, 664 F. Supp. 1345, 1351-52 (N.D. Cal. 1987); *Robert Stigwood Group v. O'Reilly*, 530 F.2d 1096, 1101 (2d Cir. 1988).

186. *London Film Prods. v. Intercontinental Communications*, 580 F. Supp. 47, 50 (S.D.N.Y. 1984) (accepting jurisdiction over a foreign copyright infringement action).

the bramble bush of ascertaining and applying foreign law."<sup>187</sup>

#### D. Multilateral Treaty or International Agreement

The copyright holder may also turn to a multilateral treaty or international agreement, such as the Berne Convention or the UCC, for relief. Both of these international agreements rely on national treatment and, again, the level of protection depends upon the strength of the foreign country's copyright law. If the work is eligible for protection under the international agreement, the copyright holder must follow certain procedures in order to secure protection.<sup>188</sup> Finally, if an eligible work has successfully secured protection, it remains to be seen what actual rights are available and for what duration.<sup>189</sup>

### V CONCLUSION

Video piracy in the international market is extremely costly to the United States.<sup>190</sup> Although the U.S. government has taken steps to curtail the problem, each anti-piracy measure seems to spawn a new "cottage industry of pirates dedicated to developing devices that defeat these technologies."<sup>191</sup> The extent of the problem remains serious. U.S. copyright holders, including the film industry, recording artists and television producers, are closely monitoring cases like *Subafilms*, which deplete the arsenal of legal weapons available to combat worldwide piracy of U.S. works.

The doctrine of contributory infringement is a potentially powerful legal tool to redress infringement of U.S. copyrights. U.S. copyright holders may consider treating the doctrine of contributory infringement as a cure-all for their woes; however, they should not use the doctrine as one of unlimited application. Contributory Infringement is not a weapon to wield without regard for its effect on international relations. If the United States desires to apply the doctrine of contributory infringement actively in the

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187. *ITSI T.V. Prod. v. California Auth. of Racing Fairs*, 785 F. Supp. 854, 866 (E.D. Cal. 1992).

188. The UCC and Berne Convention differ considerably as to what procedures are necessary to invoke protection. Baumgarten, *supra* note 43, at 3.

189. DuBoff et al., *supra* note 36, at 219.

190. The Motion Picture Association of America asserts that "domestic piracy costs the industry more than \$600 million annually, while foreign copying costs more than \$1.2 billion each year." 137 CONG. REC. 6035, 6066 (1991).

191. *Id.*

context of international claims, it should withdraw from multilateral agreements such as the Berne Convention.

One cannot overstate the importance of U.S. membership to the Berne Convention and other multilateral treaties. The United States is more than a mere member. Its membership signals to the rest of the world that it believes in the principles embodied in the Berne Convention. In the context of copyright treaties, U.S. membership sends a strong signal of its commitment to international intellectual property protection.

The *Subafilms* court favored copyright protection that conforms to the norms established by international treaties over arbitrary U.S. judicial intervention. Had *Subafilms* come out differently and allowed extraterritorial application of U.S. copyright law, it would have been a clear message to the international community that the United States does not respect the treaties it has ratified or the principles reflected therein.

Disregarding treaties to which the United States is a member defeats the very purpose for which it joined them: to further stability in the international community. The greater good of a strengthened international intellectual property scheme that benefits all the world's authors, including those in the United States, far outweighs the sacrifice of leaving a handful of authors in the United States without a domestic remedy for infringement.

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\* J.D. candidate, Loyola Law School, 1996; B.A., University of California, Santa Barbara, 1992. I dedicate this Comment to my family for their constant love and support. I wish to thank Geoffrey Moore, Gregory Townsend, and the Journal staff, who contributed to this Comment.

