Vicarious liability for infringement

When is it proper to hold one person liable for the harm caused by the acts of another person? How should courts decide that? Let’s consider that in the context of manufacturers and disseminators of innovative products such as player-piano rolls, copiers, videocassette recorders (VCRs), TiVo, and Grokster.

Each of these technological advances has challenged copyright law. Courts had to decide, for example, whether Sony should be held liable to motion picture copyright owners when purchasers of Betamax VCRs used them to copy films that were broadcast on TV; see Sony Corp. v. Universal City Studios, Inc., 464 US 417 (1984). Napster and then Grokster each became a focus of litigation when millions of users downloaded these programs from the Internet and proceeded to use them to facilitate widespread file swapping of copyright-protected songs. Such peer-to-peer (P2P) file-swapping has now become a cause celebre for owners of copyright-protected music, and they have succeeded in persuading prominent members of the US Congress to support legislation to suppress the new P2P technology. As of the date of this edit, it is uncertain whether the bill will be rushed through Congress or slowed down for more study in the light of protests from the technology industry and the IEEE.

Historical background

The problem of this demand for the imposition of vicarious or indirect liability is by no means unique to copyright infringement. It is just one instance of the old and general legal problem of how to decide whether one person is justly accountable for the wrongs that another person commits or the so-called accidents that harm another. Is it just an accident if you are in a convenience store when a handgun purchaser holds the store up and incidentally shoots you among other customers? Or is it a foreseeable and avoidable event for which the law should hold handgun manufacturers liable?

Suppose your party guest, Charlie, asks you to give him one for the road before he drives away from your house; he is obviously drunk, but you serve him one more. On the way home, he runs over Bill’s dog. Are you liable to Bill for the...
Every week, Dick and Harry, who sell electronics and computer products. They rent space from Tom. Is Tom liable for their copyright infringing acts?

This problem was well known in patent law by the 19th century. Many patents involve a combination of modules that are existing products. Many patents involve products that use existing products as consumable supplies or operate on them. The question thus arises whether someone who sells such a module or consumable supply is an indirect or contributory infringer. One case that went to the US Supreme Court in 1912 involved A.B. Dick's mimeograph machines and the ink, stencils, and paper for use with the machines [Henry v. A. B. Dick Co., 224 US 1 (1912)]. Although ink, stencils, and paper might be old, it is always possible to write a patent claim on a novel machine to recite the novel part in combination with something old—say, a mimeograph machine into which you load ink, or a rotating drum on which you fasten a stencil.

Or if the patent has a process claim, say, one for fastening buttons to cloth by means of a novel sewing device, the steps could—and likely would—mention the buttons and cloth as well as the device. So, although the patent is not on the ink, stencil, or button as such, those items are important to carrying out the claimed invention, and the patent can implicate them.

Anyway, A.B. Dick sold its mimeograph machines subject to a license, which it engraved on a plate fastened to the machine. The license said: “This machine is sold by the A.B. Dick Company with the license restriction that it may be used only with the stencil paper, ink, and other supplies made by A.B. Dick Co.” A.B. Dick’s business model was to sell the machines cheaply but charge a high price for the supplies. That way, customers who used the machines to make many copies paid more than customers who made only a few copies, but the machines were worth more to the heavy users. Thus, A.B. Dick’s business model let it charge customers in proportion to the value of the invention to them, or what the traffic would bear, and the necessary accounting—metering—for the different charges levied on different customers was automatic.

Christina Skou bought one of the machines and then purchased some ink from Sidney Henry. A.B. Dick sued both of them, saying that Henry contributorily infringed; in other words, he aided and abetted Skou to infringe the patent by engaging in unlicensed use of the machine. The Supreme Court approved the A.B. Dick business model. In the Court’s opinion, customers who did not like the model simply did not need to buy the patented machines.

As for the proper definition of contributory patent infringement, the Court maintained:

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

Under this test, Henry and Skou were each liable for knowingly violating the license conditions. Under this test, he contributed to her infringement and was therefore liable for causing it.

Five years later, the Supreme Court overruled this decision in the Motion Picture Patents case. The plaintiff owned a patent on a mechanism for feeding film to motion picture projectors that worked much better than the mechanisms in previous products. The plaintiff sold the machines with a license plate fastened to them, stating that it licensed the machines only for use with films licensed under a complementary patent. This time, the majority of the court disapproved the same business model and denied relief to the patentee [Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 US 502, 517 (1917)].

The A.B. Dick case had overstated the applicable principle. That the infringing use was the most conspicuous use did not matter. That there was “an intent and purpose that the article sold will be so used for infringement” was not enough, although it remained an important issue. Where the seller of the contributing product knew that fact and the product was a non-staple without substantial non-infringing use, the seller was a contributory infringer. But if the product was capable of substantial noninfringing use, the seller was not liable. Intent and purpose that patent infringement should occur was a necessary, but not sufficient, condition for vicarious or indirect liability.

The Motion Picture Patents decision was followed in a line of cases over several decades in which the courts refined the principle. Eventually in 1952 Congress codified the principles into sections 271(b) and 271(c) of the patent laws [35 U.S.C. §§ 271(b) and 271(c)]. There was one further refinement, however. When the seller, or other actor named in the lawsuit, actively urged or persuaded the infringer to infringe, it did not matter whether the product was a staple. Thus, if I sell you salt or some other common product with a package insert explaining how to use it for a patented process, I am considered an active inducer of infringement. I am thus liable despite the staple characteristic of the product. On the other hand, if I just sell salt to you off the shelf (with no package insert or explanations), it makes
Direct and Indirect Copyright Infringement

Direct infringement: Anyone who infringes any of the many rights that a copyright owner has to a copyright-protected work directly infringes that copyright. For example, direct infringement occurs when someone reproduces, distributes, or makes copies of such a work without consent. These rights are not unlimited in scope. There are several exemptions and defenses to infringement. For example, the well-established doctrine of fair use provides a safety valve, allowing the courts (in the event there is litigation) to balance the harm to the copyright owner versus the societal good.

Indirect infringement: Someone who does not actually directly infringe a copyright might be guilty of an indirect infringement if the person helps someone else infringe the copyright. There are two types of indirect copyright infringement: vicarious and contributory.

Vicarious infringement: Vicarious copyright infringement happens when there has been an infringement, and a person who benefits from the infringement was also in a position to control the person who directly infringed the copyright. For example, your boss knowingly lets you copy and install on your desktop computer at work unlicensed copies of a commercial software product (say, a CAD program), which you use in your work. If your action was a direct infringement, then your boss and your company are, most likely, vicarious infringers.

Contributory infringement: Contributory infringement happens when someone knows about and substantially participates in the infringement—for example, by inducing or materially contributing to the infringing conduct. For example: your friend makes a copy of the same commercial software (CAD program) by copying your licensed copy. But it requires a dongle to use it. He asks you to lend him your dongle, and you do so. If your friend directly infringes the product's copyright, you would likely be a contributory infringer.

Indirect infringement court cases: There are several cases regarding secondary liability. Probably the most well-known copyright case is the US Supreme Court's 1984 Betamax decision, also known as the Sony case [Sony Corp. v. Universal City Studios, Inc., 464 US 417 (1984)]. The Court determined that Sony was not a contributory infringer by selling VCRs because there was a significant non-infringing use for the VCR, uses that would not infringe. That case determined that just knowing that others use your product to infringe was not, in and of itself, enough for there to be contributory copyright infringement. There had to also be some substantial participation or inducement.


no difference that I know that you plan to use it to carry out the patented process.

Legislative proposals

The widespread dissemination and use of P2P software for sharing MP3 files in recent years incensed copyright proprietors. This has led to the introduction of legislation (Senate Bill No. 2560, S. 2560) to amend the copyright laws to make such conduct illegal as what proponents termed “inducement of infringement.” Although put forward as a mere rephrasing in copyright terms of what had long become familiar in patent law as inducement, that was not so. In fact the proposals were significantly broader. They did far more for copyright proprietors than they claimed.

The main criterion for active inducement of patent infringement and of contributory patent infringement under existing patent law is intent and purpose to cause infringement. This requires evidence that the bad actor held liable for the actual infringement by someone else, say the user, urged the latter to commit the infringement. Under section 271(b) of the patent law, this means showing the court such things as package inserts accompanying the ingredients sold and describing how to use them to commit direct infringement or evidence of other acts that persuade users to infringe. But what happens when the allegedly bad actor does nothing but provide the instrumentality—without comment—as a shelf item? This is the case of the handgun, slinky dress, and the like. Alternatively then, in effect, the culpable intent is inerferable (if at all) from the fact that the ingredient sold to the direct infringer has no substantial noninfringing use. This is the principle behind section 271(c) of the patent law. By the same token, no culpability is inferred and no liability attaches when the product has a substantial noninfringing use. This is not just a matter of whether to fasten blame, but rather a policy decision to safeguard the public’s right to engage in the noninfringing use, which could be blocked off if the law penalized the seller.

The legislative proposals for so-called inducement of copyright infringement did not rely on such evidence. Instead, they looked to where the revenue came from. If, in the judgment of a reasonable observer, the defendant seller intended to cause infringement, then selling the product was unlawful inducement of infringement. One evidentiary test of that is whether the product generated revenue largely—or mainly, under a less extreme proposal—from infringing uses. Similarly, if a provider of services attracts largely or mostly users who use the service for infringing purposes, that fact shows that the provider is an inducer of infringement. A possible further requirement was that the guilty actor knew that most end use of the product or service was for engaging in infringement. In short, the proposal pretty much went back to the A.B. Dick case—reinstating its principle almost a century after the Supreme Court rejected it.

Another proposed test, having some support in judicial decisions concerning Napster and similar programs, is power or potential power to control use or prevent infringement. For example, one decision addressed a system that was modifiable (by removing encryption) so as to permit detection of infringement and to identify infringers. But the proprietor did not modify the system in this way. The court suggested that the proprietor should be subject to vicarious liability because of the failure to make the modification. Under this test, the courts would have to hold a
system with both infringing and noninfringing uses to induce infringement if it could, but was not, modified to facilitate detection and identification of infringers. On the other hand, if the system was impossible to modify so that it imposed such controls, then the system did not induce infringement.

The US Copyright Office offered several modified versions of the original S. 2560 proposals. Here, the focus was on causing the dissemination of copyright-protected works without authorization. For example, if the commercial viability of a service depended or relied on public dissemination of infringing works, then the business model would be unlawful. This test would not depend on the actual intent of the service provider. The courts could award an injunction and actual damages simply on the basis of the effects shown as to the conduct. However, any financial award other than actual damages would require a showing of intent to cause infringement. Again, the outcome under this proposal would depend on whether infringing or noninfringing uses predominated, as proved by the evidence at trial. (By the same token, that noninfringing uses were substantial but amounted to less than a majority of all use, as in the Sony case, would be no defense.)

Consumer electronics and technology companies, and also the IEEE intellectual property committee (IEEE-USA IPC) opposed these proposals. Although they put various alternatives forward, two threads predominated. The consumer electronics and technology companies put the main focus on the risks of unintended consequences of any broad legislation hurried through Congress. If a quick fix was absolutely essential, then any law should be narrowly drawn to suppress only objectionable P2P services and nothing else.

IEEE-USA IPC argued that the focus should be on the broad principles worked out over many decades in patent law, and that the language Congress adopted for defining indirect liability in patent law should carry over to copyright pretty much intact, because it reflected a proper balance of the policies at stake. The substance of this position as stated to Congress was as follows:

The IEEE-USA IPC strongly believes that it should not be an indirect infringement of a copyright to manufacture, distribute, or provide a hardware or software product or process capable of substantial non-infringing use, unless the manufacturer, distributor or maker actively induces the infringement of a copyrighted work by another. By doing so, the well established balance between proper incentives for copyright owners and protecting technological innovations from undue regulation can be maintained. IEEE-USA IPC would support legislation that substantially satisfies these concerns.

The IEEE-USA IPC also urged adoption of a legal test based on actual conduct rather than power to exercise control. It argued that the law should not define failure to act as inducement to infringe. First, doing so would be ineffective because engineers can design a system in such a way as to prevent its modification to impose greater control over users. More important, the test is unfair because it puts electronics manufacturers at the mercy of each aggrieved copyright owner. It puts an unfair burden on the manufacturer to modify a product to the copyright owner’s satisfaction—that is, so as to impose the particular controls that the copyright owner sought.

**Why the controversy?**

Why is the copyright industry, on the one hand, and the electronics and technology industries, along with the IEEE, on the other hand, at loggerheads here? In part, the positions reflect whose ox is to be gored. The copyright industry perceives its revenue being bled away by “outrageous piracy” of the industry’s collective property. Consumer electronics companies fear suppression of their present and future hardware (for example, scanners, storage devices, CD and DVD burners, and modems) plus suits from any copyright owner who wants to claim loss of revenue because some users employ the hardware to infringe. Technology companies fear that claims about infringing uses will hamper their ability to market and promote the use of new software and other technology. Undoubtedly, some of the IEEE-USA IPC’s concern is curtailment of employment opportunities for engineers, for the reasons advanced by the electronics and technology companies. But more of it has to do with general principles, to which we can now turn.

**Decision-making process**

This gets us back to the questions posed at the outset: When is it proper to hold one person liable for the harm caused by the acts of another person? How should courts decide that? What are sound general principles?

One answer given in law school classes is that society should try to measure the social utility of the conduct that gave rise to the wrong or the “accident,” and try to balance it against the gravity of the damage done. For example, what is the social utility of P2P technology, and what is the gravity of the harm resulting from its use or abuse? Must this determination be on a case-by-case basis without objective standards? If so, the result is unpredictable. It is thus a poor way (and an expensive one) to determine how to conduct your business. In any case, it is unclear how to balance the apples and oranges against one another when measuring the social utility, say, of disseminating Grokster against the gravity of diminished revenues for music publishers.

The most serious problem here is determining the social utility on the side of Grokster, for there might well be other stakeholders on this side of social utility besides the teenaged swappers of MP3 files for copyright-protected music. There might be a wider public interest. What other actual and potential uses are there for the new technology? What will be the effect of stifling them? Will the solution proposed, if extended to other nearby and
future situations, have unexpected harmful effects? The law must address these questions along with questions about Publisher v. Downloader.

For example, will the principle proposed for resolving the dispute, if applied more widely, stifle what would be generally useful new technology? To illustrate, consider moderately expensive high-density storage devices—perhaps many gigabytes, or even a few terabytes, in a one-inch cube. These devices would be highly useful for storing a library of unlawfully downloaded songs, and that might be their principal commercial application at the moment. But it is obvious that nonmusical data storage use is possible and could become cost-effective in the future as unit cost decreased with volume. Suppressing this technology on a general basis is contrary to the public interest. Any legislation (or judicial solution, for that matter) should not burden or inhibit the development of new technology. The proposed legislation appears to fail this test.

These are, of course, the concerns of consumer electronics manufacturers, stated in more general terms. That is why the Supreme Court, in the Sony case, refused to allow the copyright industry to have the power to control the manufacture and use of VCRs, simply because they might (or even would mostly) be used to infringe. As the IEEE stated in its testimony on this legislation, the members of the copyright industry individually and collectively lack the expert competence to supervise the development of the electronics industry and should not be entrusted with its supervision. (The IEEE spokespersons did not claim that competence themselves, and advocated deference to the free market and the general public.) For the same reasons that motivated the Supreme Court in the Sony case, the inducement legislation is subject to serious question. It might harm the public by depriving it of technological progress without a sufficient compensating public benefit.

Another general principle that should guide the evaluation of a legal proposal is that it should create greater certainty and predictability, not the converse. The inducement legislation does not remove existing legal uncertainty and it creates new uncertainties. This increases the cost of doing technology business and chills new enterprise.

Ideally, a new legal test should make it easier to sieve out questionable cases at an early stage. This could be by dismissal of a complaint for failure to state a legally recognized claim. Or it could be by a grant of summary judgment before trial. For example, a threshold inquiry into the facts might show that one or the other party was not entitled to present a legitimate case to a jury, because its claim or defense lacks sufficient factual support.

As the IEEE pointed out to Congress, however, it is difficult to imagine any case in which the proposed legislation’s inducement standard would permit speedy and inexpensive resolution of cases where the challenged technology has both infringing and noninfringing uses. The stated legal test of S. 2560 is, basically, whether a reasonable person would consider the defendant to have intended to cause infringement. That test almost inherently requires all cases to go to a jury—at least whenever reasonable persons might have a difference of opinion. The subsidiary evidentiary tests proposed include whether the defendant’s revenue came primarily from infringing uses or primarily from noninfringing uses. That, too, is the type of test not readily resolved without a comprehensive economic analysis. Moreover, the analysis is unrewarding from a policy standpoint. Although 1 Tbyte memory cubes find use today primarily for storing illicit MP3 files (say, 70 percent of use), tomorrow it may be primarily for data storage. This is, of course, only if the legislation proposed now doesn’t stop this hypothetical tomorrow.

In short, as the IEEE asserted to Congress, “Should the bill be enacted, a company producing a disruptive technology must resign itself to a jury trial on the issue of ‘intentional inducement’ in nearly every case.” As a result, “it would be foolhardy for capital markets to consider investing in a company proposing to deliver a technology in such an environment.”

Finally, because only the alleged vast threat of massive use of P2P software and similar technology to copy songs drives the proposed legislation, Congress should seriously consider whether the legislation should be limited to a pattern of repeated such conduct, as contrasted with single or isolated acts. This would decrease the possibility of unintended consequences outside the core area of the P2P threat to music. In its present form, the legislation is not limited to a continuing pattern of acts.

It is unclear where this legislation is ultimately going. At first, it seemed that the skids were greased for quick passage of the bill. But outcries from a wide and disparate group of organizations—including universities that fear being held liable for MP3 downloading by students via university-provided Internet access service—might have slowed the stampede. At the end of September, Senator Hatch, the committee chair, put the principal stakeholders into a room and told them to work out a consensus. After four days of wrangling, they reported a hung jury. The sponsors of the bill then stopped pressing for a markup and vote on the bill. Apparently, the failure to reach a consensus has put passage of any bill off for this year (although there probably will be a lame-duck session after the elections). But the inducement bill undoubtedly will rise from the undead next year in the new 2005 Congress.