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Secondary Liability for Intellectual Property Law Infringement in the International Arena: Framing the Dialogue

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**SECONDARY LIABILITY FOR INTELLECTUAL PROPERTY LAW
INFRINGEMENT IN THE INTERNATIONAL ARENA:
FRAMING THE DIALOGUE**

by

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Abstract

International agreements do not generally address issues of secondary liability for infringement of intellectual property law rights, and there is little international consensus on this topic, even among the major industrialized nations. National laws tend to vary considerably regarding the scope and extent of secondary liability, with U.S. tending to be more liberal with the imposition of such liability than most of its major trading partners. This lack of uniformity in secondary liability rules in the international arena makes the evaluation of infringement liability in that setting uncertain and makes it difficult for business to effectively plan international intellectual property strategies. Given the global nature of modern business activity, the time has come to open serious dialogue on the advisability of creating uniform international standards for secondary

liability for infringement of intellectual property rights. Unfortunately, instead of focusing on the full panoply of situations in which secondary liability for intellectual property can occur, and the range of considerations that might affect imposition of such liability, such as notions of respondeat superior, intent, authorization, and control, the current debate has settled on the imposition of secondary liability in the peer-to-peer file-swapping arena. This narrow focus may well make it more difficult, if not impossible, to reach consensus on this important issue. By stepping back and reframing the issue in more general terms of secondary liability outside the digital environment, we can more easily contemplate important questions such as the pros and cons of imposing such liability, the situations in which such liability makes sense, and the manner in which we balance the rights of the public and goals of free trade and markets against the need to encourage innovation by protecting the rights of the innovators.

SECONDARY LIABILITY FOR INTELLECTUAL PROPERTY LAW

INFRINGEMENT IN THE INTERNATIONAL ARENA:

FRAMING THE DIALOGUE

Secondary liability is liability that is imposed upon a defendant who did not directly commit the wrongdoing at issue, but who the law nonetheless holds responsible for the injuries caused. (Bartholomew & Tehranian, 2006, p. 1366) Imposition of secondary liability has been justified both on efficiency grounds (i.e., as a mechanism to

shift costs to those in the best position to prevent future harm), and on moral grounds (i.e., those who intend to bring about a harm should be held liable even if another party was the direct cause of the harm incurred by the plaintiff). (Bartholomew & Tehranian, 2006, p. 1366)

International treaties currently generally do not address issues of secondary liability for infringement of intellectual property rights, and international consensus on this topic is limited at best, even among the major industrialized nations. Legal protection of intellectual property rights is inherently territorial in reach (Holbrook, 2004, p. 758), absurd as that might seem in a world of increasing intertwined global activity.

Absent a governing international agreement imposing specific obligations and fostering global harmonization, each nation is free to create its own rules and levels of legal protection regarding intellectual property rights, and innovators must seek protection of their copyrights, patents, trademarks, or trade secrets within the confines of the legal regimes of the jurisdictions in which they operate. (Thomas, 2005, p. CRS-5) National laws vary considerably regarding the availability and extent of secondary liability, with the United States tending to be more liberal with the imposition of such liability than most of its major trading partners. This lack of uniformity in secondary liability rules in the international arena makes the evaluation of infringement liability in that setting uncertain and makes it difficult for businesses to effectively plan international intellectual property strategies.

The United States Supreme Court's recent decision in *MGM v. Grokster*, which has implications for the extent and scope of secondary liability for both the patent and

copyright law fields under U.S. law (Oswald, 2006), highlights the uncertainty over international standards for secondary liability. The role of secondary liability for copyright infringement in the international arena was debated in the amici briefs in *Grokster* (IRO Amici Brief, 2005; Sharman Amicus Brief, 2005), and has been a topic of some interest among U.S. commentators post-*Grokster* as well. However, the discussion, both domestically and internationally, seems to have shifted in focus and narrowed considerably in scope. Instead of discussing the full panoply of situations in which secondary liability for intellectual property infringement can occur and the range of considerations that might affect imposition of such liability, such as notions of respondeat superior, intent, authorization, and control, the debate has settled on the imposition of secondary liability in the digital arena and, more particularly, on secondary liability for peer-to-peer file-swapping. While *Grokster* itself was a file-swapping case, the Supreme Court's decision had broader implications for imposition of secondary liability for intellectual property infringement generally (Oswald, 2006); consideration of those broader implications is seemingly being ignored in present discourse.

At some level, it is understandable why the current dialogue on secondary liability for intellectual property infringement focuses on the digital environment. As Marybeth Peters, the U.S. Register of Copyrights, recently noted, the advent of and rapid growth in digital technologies over the past ten years has now made it possible for a single individual to make and distribute millions of infringing copies over the Internet with little effort or investment. (Peters, 2006) Peer-to-peer file-sharing raises the stakes even

further, allowing millions of consumers to link in a network and engage in copyright infringement at an unprecedented scale. (Peters, 2006)

As Peters noted, it is difficult for copyright holders to enforce their rights in this peer-to-peer setting, in part because of the difficulty of identifying, locating, and suing each individual infringer, and in part because the individual users are often judgment-proof and lack the financial resources to compensate for their infringement. (Peters, 2006) In the United States, copyright holders turn to secondary liability in such instances, seeking to hold the companies that facilitate these networks liable for their end users' infringement. The solution is imperfect--imposition of secondary liability for intellectual property infringement is problematic under U.S. law and the rules can be uncertain—but nonetheless, secondary liability is clearly recognized and embraced by the U.S. legal system, and offers some degree of protection for intellectual property rights holders.

The picture is much less clear at the international level. As discussed below, some foreign jurisdictions do recognize secondary liability for intellectual property infringement. Indeed, secondary liability can be of critical importance in this setting for intellectual property holders seeking to protect their intellectual property rights. For example, if the foreign jurisdiction's laws do not provide for exclusive distribution or importation rights, secondary liability may be used to bring distributors, importers, and retailers within the purview of the copyright laws, or to provide necessary relief to copyright holders where the direct infringer is not within the court's jurisdiction. (Goldstein, 2001, p. 270) There is, however, as Peters noted, "very little uniformity among national laws as to secondary liability, whether it be liability for a company that

uses peer-to-peer technology to encourage infringement, or . . . an Internet service provider that provides facilities used by others to infringe.” (Peters, 2006) For example, as discussed below, foreign jurisdictions may regard as direct infringement behavior that U.S. law would classify as indirect infringement instead, or may not classify as infringement at all behavior that would clearly be actionable under U.S. or other countries’ laws. The net result is an inevitable degree of inconsistency in legal rules around the world that creates uncertainty for intellectual property rights holders, business, and other global actors.

Given the global nature of modern business generally and the inherent worldwide reach of Internet-based business activities in particular, the time has come to open serious dialogue on the advisability of creating uniform international standards for secondary liability for intellectual property law infringement. Before we can evaluate the wisdom or necessity of international standards for secondary liability for intellectual property infringement, however, we need to understand the current playing field. Currently, we have a mish-mash of national rules regarding secondary liability, with United States law being considerably more likely to contemplate imposition of secondary liability than the laws of many other nations. This is not to say that the American system should necessarily serve as the paradigm for global standards, but the considerable diversity in global thought on the issue of secondary liability for intellectual property infringement highlights the important fact that not all participants in discussion of this topic start from the same place in terms of legal theory and practice.

In addition, we need to carefully consider the parameters of potential international harmonization of secondary liability rules. The current debate focuses on a subset of copyright law, even though secondary liability has application in other areas of intellectual property law, such as patent and trademark as well. On the other hand, it is logical that the discussion of secondary liability in the international context should begin with and center on copyright law, because modern technology makes illegal copying and, hence, copyright infringement, easier to achieve, because ease of distribution of digital copies in particular means that territoriality notions break down quicker in this arena, and because copyright law is already the subject of substantial efforts to achieve international harmonization.

It is unfortunate, however, that the debate has already been artificially constrained and, in effect, tainted by focusing primarily on peer-to-peer file-swapping activities, which pose idiosyncratic and difficult issues of copyright protection and infringement, complex questions regarding culpability and lawful versus unlawful uses, and more emotional reactions to the nature of the suits being brought. As the Canadian Supreme Court noted, the internet poses unique problems for copyright law:

The capacity of the Internet to disseminate ‘works of the arts and intellect’ is one of the great innovations of the information age. Its use should be facilitated rather than discouraged, but this should not be done unfairly at the expense of those who created the works of arts and intellect in the first place.

The issue of the proper balance in matters of copyright plays out against the much larger conundrum of trying to apply national laws to a fast-evolving technology that in essence respects no national boundaries. (SOCAN, 2004, ¶¶ 40-41)

Intellectual property holders in this arena have a choice between suing individual users (often impecunious and thus judgment-proof college students or parents who were unaware of their minor children's downloading activities)¹ or suing the service providers who indirectly made the infringement possible by providing a service that typically can be used for both lawful and unlawful purposes.

Because of both the negative publicity and the logistical difficulties associated with suing the multitude of direct infringers, secondary liability often appears an appealing strategy for intellectual property rights holders in the file-swapping arena. The net result, however, is that the debate over secondary liability in the international context is beginning in the often factually-murky and emotionally-charged environment of peer-to-peer file-swapping. If we could remove the debate from this highly-charged sphere, and back it out into a more macro discussion of secondary liability generally—the pros and cons of imposing such liability, the situations in which such liability makes sense, and the manner in which we balance the rights of the public and goals of free trade and markets against the need to encourage innovation by protecting the rights of the innovators—the debate would proceed more easily and would be less cluttered by the complex baggage of the digital environment.

I. SECONDARY LIABILITY FOR INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS UNDER U.S. LAW: *GROKSTER* AND ITS ANTECEDENTS

A. Theory of Secondary Liability Under U.S. Law

In American law, secondary liability in general originates in tort law, as a mechanism for holding liable a defendant who did not directly cause the harm at issue but who should nonetheless be held liable for it. (Bartholomew and Tehranian, 2006, pp. 1366-69; *A & M Records*, 2001, pp. 1019-1024). Under traditional tort law, secondary liability took one of two forms: vicarious liability or contributory liability. Vicarious liability seeks to hold the defendant liable because of his or her relationship with the direct wrongdoer (e.g., a master-servant relationship), and does not require that the defendant “know” of the wrongdoing. Rather, the focus is on whether the indirect wrongdoer controls or has the right to control the direct wrongdoer. (Bartholomew and Tehranian, 2006, p. 1366) Generally, vicarious infringement requires a showing of: (1) direct infringement by a primary wrongdoer; (2) a direct financial benefit to the secondary wrongdoer from the direct infringement; and (3) a right and ability on the part of the secondary wrongdoer to control and supervise the actions of the primary wrongdoer. (Pessach, 2007, p. 91 n.6)

Contributory infringement, on the other hand, requires a showing of: (1) direct infringement by the primary wrongdoer; (2) knowledge of the direct infringement by the secondary wrongdoer; and (3) a material contribution by the secondary wrongdoer to the

direct infringement. (Pessach, 2007, p. 91 n.7; Bartholomew and Tehranian, 2006, p. 1367) Contributory infringement thus does have a knowledge requirement in the sense that the defendant must have deliberately and purposefully assisted or encouraged the direct wrongdoer, and must have recognized the wrongful nature of the underlying act of direct infringement. (Bartholomew and Tehranian, 2006, p. 1366; *A & M Records*, 2001, p. 1020)

There are both pragmatic and philosophical reasons proffered for imposing secondary liability. In practical terms, secondary liability provides a means of affording intellectual property rights holders relief in situations where suing the direct infringer is impracticable (e.g., because the direct infringer is financially incapable of compensating fully for the damages, or is a customer of the intellectual property rights holder), or where the actual infringement by each direct infringer is so small that the costs of litigation would greatly exceed the recovery, even though the aggregate damages caused by the direct infringement might be very large. (Chisum, 2007, [5], § 17.04[4](f); Lemley, 2005, p. 228; *Aimster*, 2003, p. 645; Groenning, 2005).² As one commentator put it, “chasing individual consumers is time consuming and is a teaspoon solution to an ocean problem.” (Picker, 2002, p. 442) In these instances, it may be more practical to sue the indirect infringers who, in many instances, may well be more morally culpable for the infringement than the direct infringer anyway. As the United States Supreme Court noted in *Grokster*: “When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying

device for secondary liability on a theory of contributory or vicarious infringement.” (*Grokster*, 2005, p. 930).

In more theoretical terms, secondary liability can be justified on either efficiency or moral grounds as well: “First, secondary liability serves a fundamentally economic purpose by shifting risks from direct to indirect infringers. Second, secondary liability law serves a moral end by placing fault on a party deserving of punishment even though that party did not commit the underlying infringing act.” (Bartholomew & Tehranian, 2006, p. 1419).

However, counterbalancing American law’s broad view of secondary liability is the notion that secondary liability ought not be imposed on inappropriate parties or in a manner that would impede the stream of lawful commerce. (Lemley, 2005, p. 228; Lichtman & Landes, 2003, pp. 409-410) The U.S. Supreme Court has expressly recognized the need to “strike a balance between a copyright holder’s legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce.” (*Sony*., 1984, p. 422) This inherent tension between protection of intellectual property holders’ rights and the promotion of free commerce and open markets has important implications for the development of American legal doctrine relating to secondary liability.

B. General Development of Secondary Liability Under U.S. Law

Secondary liability for patent and copyright infringement has had a rather muddled legislative and judicial history in the United States. Notions of secondary

liability developed initially in the patent law area, first as common law, and then as statutory law, and were subsequently imported to the copyright area as a form of common law. U.S. copyright law lacks a statutory basis for secondary liability even today, making the basis and rules for secondary liability for intellectual property infringement under U.S. rather unclear.

The first U.S. patent act, enacted in 1790, embraced the notion of liability for direct infringement of a patent. Indirect patent infringement liability, on the other hand, developed initially as form of common law. Over a century ago, the courts, recognizing that imposing only liability for direct infringement might well allow parties whose culpability in the infringing actions is even greater than that of the direct infringer to escape liability, developed a doctrine of contributory liability for patent infringement. Initially, contributory liability was applied to those who did not directly infringe another's patent, yet who nonetheless helped others to infringe by supplying a component part specially adapted to infringement. (Adam, 2006, pp. 371-372) A second line of cases also emerged, addressing those situations where the component had non-infringing uses but was used for infringing purposes. (Oswald, 2005, pp. 227-228) While the courts were reluctant to automatically hold liable a defendant who sold a component that had both infringing and non-infringing uses, they did hold defendants liable where the evidence indicated that those defendants were actually encouraging infringement by the end users (i.e., the direct infringers). (Chisum, 2007, [5], § 17.02(1); Oswald, 2006, pp. 227-228)

These notions of direct and secondary liability were codified in the Patent Act of 1952, in Section 271. Section 271(a) of the Patent Act addresses direct infringement,

providing that one who practices the patented invention shall be liable for infringement. Direct infringement is in effect a strict liability provision; (*Jurgens*, 1996, p. 1770 n.2) lack of intent to infringe or lack of bad faith may mitigate the availability of enhanced damages for infringement, but does not obviate liability itself. (Oswald, 2006, p. 229) The Patent Act separates the common law's original notion of a single type of secondary liability into two distinct causes of action: inducement of infringement (codified in Section 271(b)) and contributory infringement (codified in Section 271(c)). Under the Patent Act, secondary liability of either type is inextricably linked to direct infringement, and neither contributory infringement liability nor liability for inducement to infringe can attach unless another party is first found to have directly infringed. (Oswald, 2006, pp. 228-229)

Unlike the Patent Act, the Copyright Act has no express language creating secondary liability for infringement. Nonetheless, the United States Supreme Court has long held that secondary liability for copyright infringement is actionable under U.S. law. The Court has stated:

The absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringement on certain parties who have not themselves engaged in the infringing activity. For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.

(*Sony*, 1984, p. 435)

A leading treatise identifies three theories of secondary liability under copyright law: (1) respondeat superior, in which the master is held liable for the infringement of the agent; (2) vicarious liability, which exists when the defendant (a) has “the right and ability to supervise the infringing conduct; and (b) has “an obvious and direct financial interest in the exploitation of copyrighted materials”; and (3) contributory liability, which takes the form of either (a) personal conduct that results in participation in or furthering of the infringement, or (b) “contribution of machinery or goods that provide the means to infringe.” (Nimmer, 2007, [3], § 12.04[A])

C. *MGM v. Grokster*

It was against this convoluted background that the dispute in *MGM v. Grokster* emerged. *Grokster* was not the United States Supreme Court’s first foray into secondary liability for copyright infringement. Two decades earlier, in *Sony Corp. of America v. Universal City Studios, Inc.*, the Supreme Court had held that the manufacturer of a VCR could not be held liable for contributory copyright infringement, even if some (or many) of the consumers used the product to infringe copyrights, because the VCR was capable of commercially significant non-infringing uses (such as time-shifting for personal viewing). The advent of the Internet and the evolution of digital technology, however, raised the stakes in the secondary liability struggle considerably beyond that found in the much simpler VCR context, as the advances in technology allowed

infringing copies to now be made very rapidly and inexpensively, as opposed to the comparatively slow and cumbersome mechanism for copying provided by VCRs.

Defendants Grokster Ltd. and StreamCast Networks, Inc. distributed free software that allowed computer users to share electronic files through peer-to-peer networks, thus avoiding the central service system and mediated file transfers between users of the ill-fated Napster system. Because Grokster and StreamCast did not have central servers, they contended that they had no knowledge of which files users were copying or when, and had little or no control over the users' behavior, and thus could not be held secondarily liable for any direct infringement engaged in by their end users. (Oswald, 2006, p. 233)

The plaintiffs consisted of the major movie studios and record companies and various music publishers and songwriters. They argued that the defendants should be held secondarily liable for the direct infringement of their copyrighted works by the end users because the defendants' software enabled the unauthorized transfer of copyrighted works and because the defendants intended, promoted, and profited from these acts of infringement. (Oswald, 2006, p. 233-234)

The defendants' technology could facilitate the transfer of any type of electronic file, both infringing and non-infringing. However, the plaintiffs produced evidence that the software was used primarily to distribute copyrighted works in violation of the copyright owners' rights and without the payment of royalties, and that the defendants had taken active steps to encourage this extensive direct infringement by end users. In addition, the plaintiffs demonstrated that the defendants' business models were

financially dependent upon this infringement. While the lower courts ruled for the defendants, the U.S. Supreme Court disagreed, holding instead that: “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.” (*Grokster*, 2005, p. 919) In effect, the *Grokster* Court stated that it was not knowledge that leads to contributory infringement, but rather intent. According to the Court: “One infringes contributorily by intentionally inducing or encouraging direct infringement” (*Grokster*, 2005, p. 930) Moreover, the necessary intent must be shown “by clear expression or other affirmative steps taken to foster infringement.” (*Grokster*, 2005, p. 919)

The *Grokster* Court also recast *Sony* in terms of intent, not knowledge, stating: “*Sony* barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement.” (*Grokster*, 2005, p. 933) According to the *Grokster* Court, the *Sony* rule “limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product.” (*Grokster*, 2005, p. 934) This, the *Grokster* Court stated, was true even though Sony knew its product could be used for infringing purposes; the key was that “[t]here was no evidence that Sony had expressed an object of” encouraging the product to be used in an infringing manner, nor had it “taken active steps to increase its profits from” such infringing activities. (*Grokster*, 2005, p. 931)

Although a full analysis of *Grokster* is beyond the scope of this Chapter, it is fair to say that the *Grokster* Court's treatment of secondary liability in the copyright arena was unclear and is difficult to mesh with its earlier decision in *Sony*. The *Grokster* Court acknowledged the *Sony* Court's borrowing of the Patent Act's contributory infringement language for copyright law, and then went on to also import the inducement rule from section 271(b) of the Patent Act as well. The Court explicitly recognized "the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential," (*Grokster*, 2005, p. 937) and so qualified its holding by stating:

[M]ere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution . . . support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

(*Grokster*, 2005, p. 937)

In the international context, it is this message of *Grokster* that is most enduring: the need to balance the aims of legitimate commerce against the need to promote innovation by protecting the rights of intellectual property rights holders. To this end, we should consider whether secondary liability holds "a" (though almost certainly not "the") key to creating meaningful international standards for global protection of intellectual property rights.

II. SECONDARY LIABILITY IN THE INTERNATIONAL ARENA

There are numerous international treaties concerning the protection of intellectual property (Geller, 2000, ¶ 3[3](b)), including the Berne Convention for the Protection of Literary and Artistic Works; the Paris Convention; the World Trade Organization (“WTO”) Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”); the World Intellectual Property Organization (“WIPO”) “Internet Treaties”; the Universal Copyright Convention; and the Geneva Phonograms Convention. However, these treaties primarily focus on enforcement and procedural issues, not on substantive obligations. With very limited exception, these treaties do not deal, directly or indirectly, with the notion of secondary liability for infringement.

The most significant of current international agreements on intellectual property rights is TRIPS, which requires “each WTO member state to provide minimum substantive standards of intellectual property protection and enforcement.” (Thomas, 2005, p. CRS-6) TRIPS also provides a unique exception to the rule that international agreements generally do not address secondary liability issues. Article 39 of TRIPS provides for the protection of undisclosed secret information (i.e., trade secrets). Footnote 10 defines “in a manner contrary to honest commercial practices” for purposes of Article 39 as “at least practices such as a breach of contract, breach of confidence and inducement to breach . . .” (TRIPS, Art. 39, fn. 10), thus providing a limited exception to the rule that international agreements do not address secondary liability. During the TRIPS negotiations, the United States proposed language protecting confidential business

information as a trade secret; this proposal was opposed by many negotiating parties, who did not recognize such information as intellectual property. The final language was the result of compromise.

There is no clear international norm demanding imposition of secondary liability for intellectual property infringement, even among the major western nations. (Peters, 2006) Nonetheless, secondary liability is recognized as a basis for intellectual property infringement liability around the world in many countries, though it may take different forms and bear different labels. There is, therefore, at least some, though perhaps minimal, common ground on which the dialogue for international standards can begin.

A. International Implications of Secondary Liability for Intellectual Property Infringement: The *Grokster* Amici Briefs

It is helpful to start the analysis of the role, existing or potential, that secondary liability for intellectual property law infringement plays in the international arena by looking first at the amici briefs filed in *Grokster*, for two of these briefs focused specifically on the issue of whether the international treaty obligations of the United States dictated an outcome in that case. Do existing treaty obligations mandate imposition of secondary liability for copyright infringement at the national level?

A group which labeled itself as “International Rights Owners” (“IRO”) and which was self-described as “trade associations and professional associations based outside the United States, representing hundreds of thousands of owners of copyrights and related rights all over the world” (IRO Amici Brief, 2005, p. 1), filed a brief in support of the

petitioners, the plaintiff members of the entertainment industry. IRO's argument to the Supreme Court was largely a policy-based one, and was grounded in its assertion that international treaty obligations compelled U.S. law to impose secondary liability for copyright infringement. IRO argued that the Ninth Circuit's decision in *Grokster* had a "potentially devastating impact . . . on the international property landscape," and had "an equally harmful potential disruptive effect on the harmonization of intellectual property law and the development and maintenance of uniform protection of intellectual property rights in the international arena." (IRO Amici Brief, 2005, p. 1) IRO characterized *Grokster* as being "primarily about ensuring that the United States does not falter in its responsibilities under various international agreements and norms, by permitting a safe haven for entities to set up businesses deliberately designed to enable copyright infringement on a massive scale." (IRO Amici Brief, 2005, p. 2)

IRO argued that international agreements to which the United States was a party obligated it to provide intellectual property rights owners (and especially foreign rights owners) "adequate and effective means of enforcing such rights." (IRO Amici Brief, 2005, p. 5) Their argument had two components. First, IRO argued that the Ninth Circuit's opinion would subject international rights owners to infringement on a "massive and unprecedented scale" because the decision would prevent such rights holders from effectively enforcing against infringement occurring on peer-to-peer networks. (IRO Amici Brief, 2005, p. 5) This, IRO argued, threatened "to place the United States in breach of its international obligations and responsibilities." (IRO Amici Brief, 2005, p. 5) Instead, IRO argued, the U.S. Supreme Court should ensure that rights holders had the

“important enforcement mechanism” of secondary (i.e., vicarious or contributory) liability available to them. (IRO Amici Brief, 2005, p. 13)

Second, IRO argued that if the Ninth Circuit’s decision were to stand, there could be a “potential spill-over effect” on enforcement of intellectual property rights outside the United States, especially where the infringing material emanated from the United States.

As characterized by IRO:

Rights owners have always faced the problem of pursuing counterfeit or infringing copies produced in countries with lax copyright enforcement practices, that cross borders and infiltrate markets in other countries. If United States law is now perceived to allow businesses like defendants’ to function without restraint, or is perceived as inconsistent and unreliable, this spillover problem will be global, massive and impossible to reverse.

(IRO Amici Brief, 2005, p. 6) In effect, IRO’s argument was that a failure of the *Grokster* Court to find secondary liability available for copyright right infringement under U.S. law would send the global legal system irretrievably down a slippery slope leading to an erosion of intellectual property rights around the world.

On the other side of the coin was an amicus brief filed by Sharman Networks, Ltd., in support of the respondents, Grokster and Streamcast. (Sharman was a defendant in the original action in *Grokster*, but was not a party to the appeal.) Like Grokster, Sharman licensed the protocols that enabled peer-to-peer communications over the Internet. Sharman took issue with IRO’s arguments, contending instead that nothing in the relevant international treaties would impose an obligation on the United States to

adopt secondary liability of any type, much less the specific type that IRO asserted. (Sharman Amicus Brief, 2005, p. 4) In fact, Sharman argued, “by any measure of international norms, the United States not only provides foreign interests with effective enforcement procedures and mechanisms, but gives them significant advantages in this respect over American copyright owners.” (Sharman Amicus Brief, 2005, p. 5)

Perhaps the most compelling argument raised by Sharman, however, was its point that IRO was presenting its arguments to the wrong branch of government. As eloquently stated by Sharman: “The IRO’s belief that [the United States Supreme] Court should concern itself with trade policy, diplomacy, the raising of international norms in America’s interest, and the setting of precedents for foreign jurisprudence not only goes well beyond the mandate of even this Court, it usurps the role of Congress and has no constitutional underpinnings.” (Sharman Amicus Brief, 2005, p. 5) As the U.S. Supreme Court itself noted in *Sony*:

The judiciary’s reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme. Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.

(*Sony*, 1984, p. 432).

Ultimately, the argument between the two *amici* was over whether international treaty obligations do or do not require imposition of secondary liability for copyright infringement. However, it is clear that no such treaty obligations exist, and IRO's argument in this respect was a non-starter. The more interesting and relevant questions are: (1) what forms of secondary liability do foreign jurisdictions already provide; and (2) should international agreements require or encourage the imposition of secondary liability for intellectual property infringement, and if so, what form should those standards take? As Sharman correctly pointed out, however, these are issues of trade policy and diplomacy to be handled via international policy and agreement, and not imposed unilaterally by the courts.

B. Secondary Liability for Copyright Infringement in Foreign Jurisdictions

Examination of available sources of laws of other countries regarding liability for infringement of intellectual property rights reveals a somewhat checkered pattern.³ The easy case is where the defendant has committed the infringing act himself or herself, of course: this is direct infringement and imposition of liability is straightforward.

Complexities start to arise when the infringement is more indirect. Countries characterize the underlying wrongdoing in manners or terms that are often unfamiliar to American lawyers or businesses. For example, as noted by *amicus* Sharman in *Grokster*, U.S. law treats as direct infringement much behavior that is viewed as "secondary infringement" elsewhere in the world. Sharman pointed specifically to infringement of

the right of distribution, which is a form of direct infringement under U.S. law, but under Canadian law is treated as “secondary infringement” requiring the showing of knowledge and acts “to such an extent as to affect prejudicially the owner of the copyright.” (Canadian Copyright Act, 1985, ch. C-42, s. 27(2)(b)) In addition, in most jurisdictions, a defendant is generally liable for “consciously bringing about or assisting in the bringing about” of infringements by third parties (Garnett, et al., 1999, p. 471); i.e., for somehow contributing to the infringing acts of a third party. (Sterling, 2003, p. 511). Knowledge of the infringement is often, but not always, an element of such liability. Under United Kingdom law, for example, the defendant’s lack of knowledge of the plaintiff’s copyright will relieve the defendant of liability for damages. (U.K. Copyright, Designs and Patent Act, 1988, § 97).

The converse is also true—foreign jurisdictions may treat as direct infringement activities that would be viewed as secondary infringement in the United States. For example, many countries address copyright infringement in terms of “authorization.” Some countries find infringement where the defendant has authorized a third party to undertake an action that actually is within the purview of the copyright holder. (Sterling, 2003, p. 511) Other countries (e.g., the United Kingdom) provide that authorizing someone else to commit an infringing act is itself direct copyright infringement.⁴ (U.K. Copyright, Designs and Patent Act, 1988, § 16(2)) The U.S., by contrast, would treat authorization as a form of either contributory or vicarious infringement, both a form of secondary liability. U.K. law, on the other hand, identifies, among other things, as forms of secondary infringement importing an infringing copy of a copyrighted work (U.K.

Copyrights, Designs and Patent Act, 1988, § 22), possessing or dealing with an infringing copy (U.K. Copyrights, Designs and Patent Act, 1988, § 23) or providing the means for making an infringing copy. (U.K. Copyrights, Designs and Patent Act, 1988, § 24)

Under U.K. law, authorization “can only come from someone having or purporting to have authority, and an act is not authorised by someone who merely enables or possibly assists or even encourages another to do that act, but does not purport to have any authority which he can grant to justify the doing of the act.” (*Ames Records & Tapes*, 1982, p. 106). According to a leading U.K. treatise:

A person does not necessarily authorize an act to be done merely because he intentionally puts into another’s hands the means by which the infringing act can be done if those means can also be used for a perfectly legitimate purpose, even where it is known that they will in fact inevitably be used for an infringing purpose. This will be particularly so if the supplier has no control over how the means will be used, since it is the essence of a grant or purported grant that the grantor has some degree of actual or apparent right to control the relevant actions of the grantee.

(Garnet, et al., 1999, p. 471)

Jurisdictions may reach very different results, even in cases with similar facts, depending upon how they view the role of “control.” For example, an early precursor to the current spate of peer-to-peer file-swapping cases was a series of copying machine cases around the world. Courts in Australia, France, and Germany found various defendants secondarily liable for providing the copying machines on which others

committed copyright infringement of one type or another. (Sterling, 2003, pp. 512-14) However, Canadian and United Kingdom courts reached a very different result.

In the United Kingdom, *CBS Songs v. Amstrad* centered on a lawsuit against a manufacturer of a dual cassette player/recorder. The House of Lords declined to impose liability upon the manufacturer, noting that the manufacturer did not control the actions of its customers. Similarly, in an earlier case, *CBS v. Ames Records and Tapes Ltd.*, the court had refused to hold the operator of shop that rented sound recordings and blank tapes liable for infringement even though the operator knew its customers were likely committing infringement. The court stated: “The proper approach, consistent with all the United Kingdom cases, is that there is no authorisation where, as in the present case, the defendant is in no position to control the conduct of the person alleged to have been authorized.” (*Ames Records and Tapes*, 1988, p. 106)

Control is thus a key factor under U.K. law. Commentators recently summarized the status of United Kingdom law as follows:

The relevant concept in UK copyright is *authorisation of infringement*. The copyright in a work is infringed by any person who, without the license of the copyright owner, authorises another person to do any of the restricted acts However, the concept has been applied in a relatively restricted way, by employing a test of the degree of authority, or control, which the defender had over those who actually carried out the infringement.

. . . Leading cases [*Ames* and *Amstrad*] have held the providers of certain facilities . . . not liable despite the fact that their services and products rendered infringement easy and probable, the crucial factors in each case being that lawful activity was possible with the facilities provided, that the defendants had given express warnings to customers against use for infringing copying, and that they lacked the necessary control over what their customers did with the facilities provided.

Where however one or more of these factors is lacking, then liability for authorisation is more likely.

(MacQueen & Waelde, 2006, p. 9)

Similarly, the Supreme Court of Canada has focused on the element of “control” in determining whether copyright infringement exists. In *CCH Canadian Ltd. v. Law Society of Upper Canada*, the Canadian Supreme Court held that a law library that provided self-service photocopiers was not liable for infringing copying by its patrons, stating that: “a person does not authorize copyright infringement by authoring the mere use of equipment (such as photocopiers) that could be used to infringe copyright. In fact, courts should presume that a person who authorizes an activity does so only so far as it is in accordance with the law.” (*CCH*, 2004, ¶¶ 38, 43-45) The *CCH* Court expressly rejected a 1976 Australian High Court opinion, *Moorhouse v. University of New South Wales*, which had imposed copyright liability on a university library that provided self-service photocopiers to its patrons, stating that the Australian court’s decision “shifts the balance in copyright too far in favor of the owner’s rights and unnecessarily interferes

with the proper use of copyrighted works for the good of society as a whole.” (*CCH*, 2004, ¶ 41) Thus, the Canadian Supreme Court seemed concerned with the same balance between the public good and the rights of the innovator that the U.S. Supreme Court addressed in *Sony*.

Shortly after the *CCH* decision, the Canadian Supreme Court ruled that an ISP that functioned merely as a “conduit” of content was not liable for infringement, stating: “The knowledge that someone *might* be using neutral technology to violate copyright (as with the photocopier in the *CCH* case) is not necessarily sufficient to constitute authorization, which requires a demonstration that the defendant did ‘[g]ive approval to; sanction; permit; favor; encourage’” the infringement by the end user. (*SOCAN*, 2004, ¶¶ 122, 127)

Other countries address issues of secondary liability for intellectual property infringement in still different ways. For example, under the German civil code, secondary liability for copyright infringement arises from code provisions that impose joint and vicarious liability upon tortfeasors. (German Civil Code, §§ 830 & 831) German courts have found secondary liability appropriate where the defendant has engaged in activities such as “promoting a concert at which copyrighted works are performed without authority, operating a restaurant or dance hall where music is performed by live bands or jukebox, and manufacturing or selling copying equipment, at least if the equipment lacks any substantial noninfringing use.” (Goldstein, 2001, p. 272)

By contrast, some countries recognize the notion of “inciting” others to commit copyright infringement. Article 1382 of the French Civil Code, for example, provides:

“Any act whatever of man, which causes damage to another, obliges the one by whose fault it occurred, to compensate it.” This section provides the basis under French law for imposing liability not only for authorizing another to commit an infringing act, but for inciting the infringement of another as well. (Sterling, 2003, p. 511-12)

The most recent push on secondary liability for intellectual property infringement is coming from the European Union and takes the form of criminal, as opposed to civil, sanctions.⁵ The European Parliament’s Legal Affairs Committee met in March, 2007 to vote on the proposed EU Directive on Criminal Measures Aimed at Ensuring the Enforcement of Intellectual Property Rights. This directive would criminalize and create a new basis for secondary liability for intellectual property infringements (excluding patents) not currently found in most European nations—that of “inciting” infringement. Article 3 of the proposed Directive states: “Member States shall ensure that all intentional infringements of an intellectual property right on a commercial scale, and attempting, aiding or abetting and inciting such infringements, are treated as criminal offenses.” The directive had its first reading before the plenary session of the European Parliament in April, 2007, but was amended to exclude patent infringement, and to reject criminal sanctions for copyright infringement in the private, non-profit arena. During the parliamentary debate, several members emphasized that the directive was not meant to target young peer-to-peer file sharers. (European Parliament, Mar. 20, 2007)

C. Post-*Grokster* Secondary Liability in the International Arena for Peer-to-Peer File Swapping

Within months of the *Grokster* decision, courts in several other countries also faced the issue of secondary liability in the context of peer-to-peer networks. The decision of the Federal Court of Australia in *Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.* is discussed separately, and first, because of its similarities to *Grokster*, and then measures taken in other countries are described.

1. Australia: *Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd*

Direct infringement occurs under Australian law when a person, without the license or permission of the copyright holder, does or authorizes the doing in Australia of an act properly within the purview of the copyright holder. (Australian Copyright Act, 1968, §§ 36, 101) Direct infringement does not require any knowledge or intent on the part of the infringer. (*Francis Day & Hunter Ltd*, 1963) “Authorization” occurs when a person “sanctions, approves or countenances” (*Nationwide News Pty Ltd*, 1996) another’s doing of an act that would consist of direct infringement. Thus, direct infringement through authorization in Australia is akin to the notion of secondary liability in the United States. Indirect infringement under Australian law, by contrast, consists of importing into Australia or distributing within Australia infringing copies for a commercial purpose without the permission of the copyright holder. (Australian Copyright Act, 1968, §§ 37, 38, 102, 103) There is a mens rea requirement for indirect infringement, but “[i]t is sufficient that there be actual or constructive knowledge that intellectual property rights

would be infringed, without knowledge of the precise nature of those rights.” (Gilchrist & Nott, p. 14, in Cotter, 1997)

Section 101(1) of the Australian Copyright Act of 1968 imposes liability upon someone who “authorizes” a direct act of infringement by another. In addition, the Copyright Amendment (Digital Agenda) of 2000 provides that, in determining whether an unlawful “authorization” has occurred, the court must consider:

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

Justice Wilcox of the Federal Court of Australia addressed secondary liability in the file-swapping area in 2005 in *Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd*, reaching an outcome very similar to that of the United States Supreme Court in *Grokster*, though on different grounds. Under Australian law, secondary liability for copyright is primarily statutory in origin, as opposed to the common-law origins of United States secondary liability for copyright infringement; the difference in underlying authority creates a substantial difference in analysis as well.

According to the *Sharman* court, “[k]nowledge, or lack of knowledge, is an important factor in determining whether a person has authorized an infringement.” (*Sharman*, 2005, ¶ 370) Authorization, the court noted, need not arise from “express or formal permission or sanction,” but rather encompasses as well “inactivity or indifference

. . . from which an authorization or permission may be inferred.” (*Sharman*, 2005, ¶¶ 366-367) The *Sharman* court noted that *Sharman* qualified for the statutory safe harbor of Section 112E of the Copyright Act, which provides that:

A person . . . who provides facilities for making, or facilitating the making of, a communication is not taken to have authorized any infringement of copyright in an audio-visual item merely because another person uses the facilities so provided to do something the right to do which is included in the copyright.

(Australian Copyright Act, 1968, § 112E) In this sense, *Sharman* and *Grokster* are similar in that both declined to find that secondary liability attaches merely because a defendant provides facilities that are used by others to engage in direct infringement.

However, the *Sharman* court went on to state, neither does Section 112E “confer general immunity against a finding of authorization.” (*Sharman*, 2005, ¶ 399) The court found additional evidence indicating *Sharman* had authorized infringement by its end users, including limited efforts to prevent its users from engaging in copyright infringement and evidence that *Sharman* had the “power” to prevent or limit such infringement, but failed to do so. (*Sharman*, 2005, ¶ 411) In this sense, both *Sharman* and *Grokster* were looking for additional behavior that would support imposition of secondary liability. In *Sharman*, the additional behavior was advertising on *Sharman*’s website that “would have conveyed the idea that was ‘cool’ to defy the record companies and their stuffy reliance on their copyrights” (*Sharman*, 2005, ¶ 405); in *Grokster*, it was

the targeted advertisements and solicitations that induced end users to infringe. (*Grokster*, 2005, pp. 937-938)

Ultimately, the *Sharman* court issued an injunction in favor of the copyright holders, but provided “an opportunity for the relevant respondents to modify the Kazaa system in a targeted way, so as to protect the applicants’ copyright interests (as far as possible) but without unnecessarily intruding on others’ freedom of speech and communication.” (*Sharman*, 2005, ¶ 520)⁶ Thus, the *Sharman* court, like the *Grokster* court, recognized the need to balance the protection of copyright through imposition secondary liability with the need to protect free speech and commercial activity.

2. Other Countries’ Responses to Peer-to-Peer File-Swapping Activities

In the months following *Grokster*, courts in several nations had the opportunity to address assertions of secondary liability in the peer-to-peer file swapping context.⁷ In some instances (e.g., Hong Kong, Spain, and Taiwan), criminal sanctions were issued against the defendants. For example, in October, 2005, a Hong Kong court criminally convicted an individual of using BitTorrent technology to illegally distribute copyrighted movies via a peer-to-peer network. (MPAA, Oct. 24, 2005) On May 31, 2005, Weblisten, a Spain-based website that offered songs for downloading and streaming, admitted to criminal copyright infringement, and the site was shut down. (IFPI, June 1, 2005) And in June, 2006, the Spanish Congress passed intellectual property legislation that banned unauthorized peer-to-peer file-sharing in Spain, making it a civil offense to download

even for personal use and making it a criminal offense for ISPs to facilitate unauthorized downloading. (TMCNET, June 27, 2006)

The Taiwanese Copyright Act of 2003 also provides for criminal penalties and civil liability of violators of the law. The first Taiwanese file-sharing case, which involved both a criminal and a civil action, was brought against Weber Wu, president of ezPeer, a for-fee peer-to-peer file-swapping service. The criminal action failed. The Shihlin District Court ruled on June 30, 2005 that Wu was not guilty of infringing intellectual property rights (Ho, July 1, 2005) because Taiwanese laws did not subject a distributor of peer-to-peer file-sharing software to criminal liability. (Kuo & Li, 2006) The court also found that ezPeer was not directly liable for copyright infringement and that the defendants were not secondarily liable for copyright infringement occurring as a result of the use of ezPeer services by third parties. (Kuo & Li, 2006) The court stated that the copyright law did not impose an independent duty on software developers or distributors to monitor or curb infringement by end users and rejected the notion that foreign courts' decisions upholding contributory liability of distributors, such as *Napster* in the United States or *Soribada* in Korea, were relevant as those case involved civil liability, not criminal prosecution. (Kuo & Li, 2006)

However, the Taiwan International Federation of the Phonographic Industry (IFPI) had brought a simultaneous civil suit proceeding against ezPeer, and the result there was very different. In July, 2006, the parties announced that they had settled their dispute by entering into a cooperative agreement in which ezPeer would become

Ezpeer+, “the world’s first legal P2P music-download Web site.” (MyEGov, July 7, 2006)

Just three months after the ezPeer ruling, two directors and the president of the Taiwanese peer-to-peer file-sharing network, KURO, were criminally convicted of copyright infringement in September, 2005 by the Taipei District Court. Although KURO operates in a manner similar to ezPeer, the *KURO* court found that KURO was aware that users were using its product to infringe copyrights, had failed to act to prevent such infringement, and had in fact intentionally advertised and distributed its software to enable users to download works illegally. (Kuo & Li, 2006) Thus, the court found that KURO had knowingly facilitated copyright infringement and was just as criminally liable as the end users. The president received a jail term of two years; the two directors (both sons of the president) received jail terms of three years. Each of the three was also fined US \$91,000 as well. (Fang, 2005) At the same time, one of the subscribers was sentenced to four months in jail and three years’ probation. (Kuo & Li, 2006) To settle a simultaneous civil suit brought by the IFPI, KURO paid approximately US \$9 million in damages to the record companies and agreed to shut down its operations. (Taiwan Intellectual Property Office, June 3, 2006)

In a purely civil suit, South Korea largest on-line music service, Soribada, was shut down in November, 2005 by the Seoul Central District Court. The suit had been filed by the Korean Association of Phonogram Producers, the Korean equivalent of RIAA. (Smith, 2005) Within months of the decision, Soribada announced plans to convert to a paid subscription service. (Rosenblatt, March 30, 2006)

III. WHERE TO GO FROM HERE: SECONDARY LIABILITY IN THE INTERNATIONAL ARENA

It is easy to focus on peer-to-peer networks when looking at secondary liability issues for intellectual property right infringement; the prevalence of such networks, the ease with which copying and distribution can occur in the digital environment, their substantial impact on the market for lawful copies of the copyrighted works, and the vigilance of the entertainment industry in seeking out and suing the providers of such networks all provide ample fodder for analysis.

There are without question problems with imposing secondary liability in the file-swapping arena. Two leading commentators have pointed out several of these problems, including: (1) the likelihood that secondary liability rules will ban lawful as well as unlawful conduct; (2) the potential that imposition of secondary liability would discourage creation of peer-to-peer networks, which are powerful, socially-beneficial tools for dissemination of information when used appropriately; (3) the inappropriateness of asking facilitators to police in what is essentially a gray area of the law; (4) the agency cost problems engendered by the fact that facilitators do not have correct incentives to distinguish lawful from unlawful conduct, and so may unnecessarily take down lawful content, thus giving intellectual property rights holders too much power; and (5) unintended negative consequences on innovation occasioned by cutting short development of technology that might be currently used for primarily unlawful purposes,

but which could evolve into lawful technology that creates new and unexpected markets for the rights holders (such as the VCR). (Lemley and Reese, 2004, pp. 1379-90)

The answer to this dilemma, however, is that the current dialogue on secondary liability for intellectual property infringement in the international arena is focusing on the wrong question—or at least, not upon the fundamental questions that should underpin the initial discussion. Even though the Internet may bring indirect infringement activities to new highs (or lows, depending upon your view), secondary liability issues are prominent in the bricks-and-mortar world as well. Indirect infringement is not just a phenomenon created by the evolution of digital technology, and analysis of this subject should not be artificially restricted by focusing on this narrow application. However, the current state of technology does make transnational copyright infringement much easier than was in the pre-digital, pre-Internet era, and highlights the need to create international norms for secondary liability that make it easier for business to operate in a global marketplace by making it easier for actors to predict outcomes and easier for intellectual property rights holders to structure their activities in a way that enables them to adequately protect their resources or minimize their liabilities (depending upon which side of the dispute they occupy).

Ultimately, creation of international standards for secondary liability for copyright infringement in particular (or intellectual property rights infringement in general) would require consensus at the international level that such a standard should exist (as memorialized in an international agreement), followed by implementing legislation at the national level in all signatory nations. It might well be easier to consider international

responses to secondary liability for copyright infringement in the peer-to-peer file-swapping context if we had a clearer sense of the convergence or divergence of international norms on secondary liability for copyright infringement generally.

So, the bottom-line solution is that we pull away from the current dialogue about peer-to-peer file-swapping and commence the discussion instead at the less refined and perhaps less charged level of traditional applications of secondary liability outside the digital context. When does it make sense to hold another liable for the direct infringement of another party? What is the significance of identifying certain behavior as direct infringement in some countries and indirect infringement in others? Current national standards define secondary liability based upon a number of different factors, including: (1) financial benefit; (2) actual control; (3) the right to control (even though unexercised); (4) knowledge; (5) contribution; (6) intent; (7) inducement; and (8) incitement. Which of these factors makes most sense in the international context, and is there a way of synthesizing them down to a few, widely-acceptable factors? Or is there some other, as yet-unarticulated standard that should be considered instead?

The Supreme Courts of both Canada and the United States have emphasized the need to balance the goals of commerce and free markets with the protection and encouragement of innovation. These concerns are worthy of substantial debate and consideration at the international level, and should underlie any debate on imposition of secondary liability.

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¹ On July 18, 2007, the RIAA sent its latest round of pre-litigation letters to 408 users at 23 universities. RIAA activities are described in press releases found at <http://www.riaa.com/news-room.php>.

² As explained in Oswald, 2006, at 235-36:

Grokster is, in fact, the prototypical inducement case: many small, individual infringers, each inflicting a small injury and each relatively judgment-proof, and one or a few alleged inducers, each possessing significantly deeper pockets. The direct infringers in *Grokster* are the multitude of individual users of the peer-to-peer networks, who use the networks to illegally download copyrighted materials. Identifying and taking action against these individual users is cumbersome, expensive, and offensive to those whom the copyright holders would like to have become lawful, paying consumers of the copyrighted materials. The courts (followed in the patent arena by the legislature) have recognized that in instances such as these, it is not only the direct infringers who should be held liable but those who encourage and enable such direct infringement as well. While the injury inflicted by each individual direct infringer may well be very small, the aggregated injury made possible by the machinations of the inducer of that direct infringement may be crushingly large.

³ For a general survey of individual countries' intellectual property laws, see McDonald, Suthersanen and Garigues (4th rev. 2006).

⁴ Authorization is a separate act of infringement from the act itself which is authorized. See *Ash v. Hutchinson & Co. (Publishers) Ltd.*, [1936] Ch. 489; *ABKCO Music v. Music Collection Int'l Ltd.*, [1995] R.P.C. 657.

⁵ Existing directives on intellectual property infringement include Directive 2001/29/Ec of the European Parliament and of the Council of 22 May 2001 on the Harmonization of Certain Aspects of Copyright and Related Rights in the Information Society; Directive 2004/48/Ec of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights L 195/16 EN Official Journal of the European Union 2.6.2004. Civil sanctions were covered in the later directive, which is available at [http://eur-lex.europa.eu/LexUriServ/LexUriServ/LexUriSer.do?uri=CELEX:22004I0048R\(01\):EN:NOT](http://eur-lex.europa.eu/LexUriServ/LexUriServ/LexUriSer.do?uri=CELEX:22004I0048R(01):EN:NOT).

⁶ An appeal was taken in the case to the full Australian federal court, but the parties settled the case in November, 2006 before a decision was handed down. Reportedly, the settlement required Kazaa to implement filtering technology to prevent its users from distributing infringing copies of files, and Sharman Networks agreed to pay over \$100 million to certain global record labels. See *Caroline McCarty, With settlement, Kazaa casts off its pirate garb*, available at http://news.com.com/Kazaa+settles+suits+with+more+than+100+million/2100-1027_3-6099064.html.

⁷ For a general analysis of secondary liability in the international peer-to-per file-sharing context, see Pessach (2007). In addition to the actions described in this subsection, there have been peer-to-peer file sharing suits brought in Japan and China.