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THE RIGHT "TO AUTHORIZE" IN U.S. COPYRIGHT LAW: QUESTIONS OF CONTRIBUTORY INFRINGEMENT AND EXTRATERRITORIALITY

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I. INTRODUCTION

The U.S. Copyright Act of 1976¹ (hereinafter "the Copyright Act") grants copyright owners exclusive rights "to do" and "to authorize" certain acts.² Since the addition of the phrase "to authorize" to the copyright statute in 1976,³ courts have been divided over the scope of the authorization right.

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The question has been whether a violation of the authorization right results in direct n4 or third party infringement. n5 A direct infringer is always liable to the copyright owner, whereas a third party infringer is liable only if the authorized infringement actually takes place. n6 Substantial authority argues for the proposition that the right "to authorize" is no more than a mere codification of the common law doctrines of contributory infringement and vicarious liability, identified as the "codification theory." n7 Under this theory, for an authorizer n8 to be liable,

[*89] conduct that amounts to authorization should be analyzed under third party liability theories which require that the authorized infringement has actually occurred. n9 On the other hand, reasoning that Congress intended to create a new cause of action, some courts have concluded that a violation of the authorization right is itself a direct infringement. n10 One commentator recently argued that an authorization violation can give rise to a cause of action for contributory as well as direct infringement. n11

The controversy takes on a particular significance in the extraterritorial context. The Copyright Act is presumed to have no extraterritorial application, which means that infringement occurring outside the United States is not actionable under the Act. n12 Combining the effects of this presumption against extraterritoriality with the codification theory can lead to peculiar results. For example, when an authorization occurs in the United States and the authorized infringement occurs overseas, neither the authorizer nor the infringer is liable under the Copyright Act. That is, the extraterritorial infringer is not liable because the Copyright Act does not extend to conduct overseas, and the U.S. authorizer is not liable because the authorizer is not considered to be a direct infringer. This was the result reached by the Ninth Circuit Court of Appeals sitting *en banc* in *Subafilms, Ltd. v. MGM-Pathe Communications Co.* n13 Arguably, the rationale in *Subafilms* creates a loophole in the

[*90] Copyright Act that would significantly erode some copyright owners' exclusive rights under the act. n14 Understandably, the reaction to *Subafilms* has not been entirely positive. n15

Given the significance of the potential loophole created by *Subafilms*, this article undertakes a critical analysis of the *Subafilms* decision and the underlying codification arguments inspired by a discussion in *Nimmer on Copyright* (hereinafter "Nimmer"). Although the *Subafilms* loophole could be eliminated legislatively by a congressional amendment to the statute, n16 this article takes the position that such legislation is not necessary since Congress' addition of the phrase "to authorize" to the Copyright Act makes authorizers liable as direct

[*91] infringers. Courts can fulfill their obligation to close the *Subafilms* loophole in at least two ways: (1) by recognizing that a violation of the authorization right is itself an act of infringement which requires no further infringing activity for liability to attach, or (2) by extending U.S. copyright law to a defendant's extraterritorial activities. This article presents arguments to support both approaches.

Resolving the issue of whether an authorizer is a direct or third party infringer requires a more fundamental inquiry into the meaning of "infringer." If it can be shown that the statute contemplates that the term infringer refers *exclusively* to direct infringers, then it is axiomatic that an authorizer is a direct infringer. Part II of this article explores the definition of infringer in the context of the overall statutory scheme behind the addition of the phrase "to authorize." n17 It is concluded in Part II that even though infringer is a broad term that could include third party infringers, the inquiry of whether an infringer is also a third party infringer is irrelevant since Congress intended for a violation of the exclusive authorization right to be considered an act of direct infringement. Thus, it is argued that the primary congressional intent behind using the phrase "to authorize" was to establish the liability of authorizers as direct infringers, rather than to codify the contributory infringement doctrine.

Another approach in resolving the issue of whether the authorizer is a direct or third party infringer is to explore the nature and scope of the term "authorize." This approach is necessary, but complicated by the fact that the statute has not defined authorization. Part III of this article proposes that Congress intended authorization to be a broad concept that can cover direct infringement and, contrary to the position taken in the codification theory, is not limited solely to third party behavior. n18 More fundamentally, and perhaps for the first time, this article refers to the Register's Supplementary Report n19 to explore the relationship between a

[*92] copyright owner's rights "to do" and "to authorize." n20 Contrary to Nimmer's position, this article argues that the right "to do" is broad enough to include the right "to authorize" and that these rights are linked very closely. n21

In the extraterritorial context, Nimmer asserts that because the right "to authorize" is different from the right "to do," authorization in the U.S. results in no liability if the authorized act occurs outside the U.S., while authorization outside the U.S. is actionable if the authorized act occurs in the U.S. n22 From the concept established in Part III, i.e., that the right "to do" and the right "to authorize" are linked very closely, Part IV of this article concludes that an authorizer in the U.S. is liable regardless of whether and where the authorized act occurs. n23 On the other hand, an authorizer outside the U.S. is liable only if U.S. copyright law is extended to extraterritorial activity under the established principles of international law. This result is consistent with international comity concerns as well as the presumption against extraterritoriality.

While the presumption against extraterritoriality is rebuttable, the *Subafilms* court incorrectly ruled that only a clear statement from Congress would overcome the presumption. n24 In Part IV, it is further argued that a higher standard of showing under the clear statement rule is unwarranted in copyright cases. n25 Drawing on the holdings of many cases in other areas of law, this article argues for the propriety of the extraterritorial application of copyright laws under appropriate facts. It is contended that *Subafilms* presented such an opportunity. This article suggests that the Supreme Court's approach in *Steele v. Bulova* n26 provides a better model for extraterritorial copyright infringement analysis. It concludes that the proper standard for analyzing copyright authorization violations consists of determining whether an authorization to commit an exclusive act was given, and that it is irrelevant to inquire whether and where such the authorized act was committed. This analysis faithfully accomplishes the policy goals of the Copyright Act and fulfills the

[*93] Constitutional goal to promote authorship by granting to authors exclusive rights to their works. n27

II. THE CODIFICATION THEORY

The codification argument essentially begins with the statement that "Congress' use of the phrase 'to authorize' establishes the liability, whether vicarious or as a contributory infringer, of one who does no more than cause or permit another to engage in an infringing act." n28 This statement assumes that the prior law was unclear as to the liability of vicarious or contributory infringers. The *Subafilms* court reasoned that since courts "differed over the *degree* of involvement required to render a party liable as a contributory infringer" under the 1909 Act, the addition of the authorization right is "best understood as merely clarifying that the Act contemplates liability for contributory infringement, and that the bare act of 'authorization' can suffice." n29 However, the background relied on by the *Subafilms* court does not seem to support the court's conclusion; rather, it indicates that courts differed over the interpretation of the authorization right. n30 Thus, the codification argument equates an

[*94] authorization violation to contributory infringement and concludes that Congress codified a prohibition against such a contributory infringement.

Plain reading of *17 U.S.C. § 106* together with § 501(a) provides that an authorizer is an infringer because the authorization right is exclusive to the copyright owner n31 and anyone who violates any exclusive right is an infringer. n32 The Supreme Court in *Sony Corp. v. Universal City Studios* n33 implicitly endorsed this interpretation when it stated that "an infringer is not merely one who uses a work without authorization by the copyright owner, but also one who authorizes the use of a copyrighted work without actual authority from the copyright owner." n34 Many lower courts also have read the statute in this manner and have similarly held that authorization is a direct infringement. n35

The idiosyncrasy of the codification argument is that it defies the plain language interpretation of the statute and argues that even though authorization is an exclusive right, violators of the authorization right are liable only as third party infringers. n36 The *Subafilms* court, n37 relying heavily on the codification theory, subscribed to the assertion that the right "to authorize" is "simply a convenient peg on which Congress chose to hang the antecedent jurisprudence of third party liability." n38 However, the statutory basis for such an argument is tenuous. It is reasonable to assume that if Congress wished to codify the doctrine of contributory infringement, such a desire would be stated in the legislative

[*95] history of the Copyright Act, or, at least, Congress would have defined or discussed the doctrine or its relevant terminology. n39 But neither the statute nor its legislative history indicates that Congress intended to codify the doctrine of contributory infringement. Equally significant is the fact that nowhere in the statute is it required or even suggested that liability for a violation of the authorization right is dependent on the occurrence of an authorized act. n40

Strangely, Nimmer expressly concedes this point, n41 but argues that it is "overly facile" to conclude that an authorization violation is a direct infringement because the "statutory reference to authorization is not truly the source for the jurisprudence that has arisen conferring third party liability." n42 Thus, Nimmer implies that because the statute was drafted after the doctrines of third party infringement were developed by case law, the statutory phrase "to authorize" must require that a violation of the authorization right be analyzed using the doctrines of third party liability. This reasoning is supported by the observation that the House Report "contains no indication that authorization liability may exist absent primary infringement." n43 Thus, the authorization liability must be referring only to third party infringement. n44 However, reliance on this negative inference is troublesome, especially when it contradicts the plain language of the statute.

The codification theory, in essence, fails to explain satisfactorily why Congress has chosen to codify contributory infringement indirectly

[*96] through the use of the phrase "to authorize," without discussing its approach or using key terms such as "authorization" or "contributory infringement." It is clear that the congressional purpose behind adding the phrase "to authorize" to the text of *17 U.S.C. § 106* is to state explicitly that violators of the authorization right of copyright owners are *infringers* under the Act.

III. THE MEANING OF "INFRINGER"

The Copyright Act does not define the terms "direct infringer" or "third party infringer," but defines "infringer" broadly as "anyone who violates any of the exclusive rights of the copyright owner" n45 A plain reading of this definition of infringer together with the provision in *17 U.S.C. § 106* of authorization as an exclusive right indicates that an authorizer is an infringer. n46 However, the term "infringer" in a generic sense can include direct as well as third party infringers. The House Report on § 501 provides support for such a contention. It states that a "well-established principle of the copyright law is that a person who violates any of the exclusive rights of the copyright owner is an infringer, *including* persons who can be considered related or vicarious infringers." n47 In essence, proponents of the codification theory argue that because the language of the statute encompasses both types of infringement, this lends support to the theory that an authorizer is only a third party infringer. n48

While the conclusion reached by Nimmer and *Subafilms* is logically plausible, it fails to recognize the significance of the statutory definition of infringer, as well as the overall statutory scheme behind the addition of the phrase "to authorize." Even though the statutory definition of infringer includes direct and third party infringers, nowhere

[*97] in the statute is it required or suggested that such a distinction should be made. A close reading of the statement from the House Report n49 reveals that such a distinction is irrelevant if the right violated is an exclusive right. Since the Copyright Act explicitly states that it is concerned only with the exclusive rights of the copyright owner, n50 the only relevant inquiry is whether the violation is that of an exclusive right. If an exclusive right is violated, the violator is an infringer under the statute whether or not the violator is classified as a direct or third party infringer. Thus, the illegal authorizer is an infringer under the statute and should be subjected to the remedial scheme under *17 U.S.C. § § 502-506* regardless of whether the violator is considered a direct or third party infringer. n51

One reason for the codification theory's misunderstanding seems to be its mistaken emphasis on the words "contributory infringers," rather than on the House Report, which states that "use of the phrase 'to authorize' is intended to avoid any questions as to the liability of contributory infringers." n52 In the absence of any indication in the legislative history that Congress intended to codify the doctrine of contributory infringement, this statement from the House Report appears to be the sole legislative basis for the codification theory. The major flaw in the codification theory is that it mistakenly equates the issue of

[*98] congressional intent to avoid contributory infringement to a congressional intent to codify the doctrine of contributory infringement.

Consequently, the codification theory fails to explain how insertion of the phrase "to authorize" in the statute "avoids any questions as to the liability of contributory infringers," as stated in House Report No. 1476. If, as required under the codification theory, the liability of authorizers is still predicated upon occurrence of the authorized act, then mere codification has not "avoided" in a meaningful way the questions that arise in the context of third party infringement liability theories. Before liability can attach, the one essential question that still remains is whether the authorized infringement has taken place. However, Congress, by stating that an illegal authorizer is an infringer, makes it irrelevant to inquire whether the authorizer is a third party infringer. As a result, the question of whether the authorized infringement has taken place is avoided.

Thus, it appears Congress did not *establish* liability of third party infringers by inserting the phrase "to authorize" in the statute. Such action by Congress was unnecessary because, as described in the House Report, the principle already has been *well established* under existing law that if an exclusive right is violated, the violator is liable as an *infringer* regardless of whether he would qualify as a related infringer. n53 By specifically inserting the phrase "to authorize" in the § 106 list of exclusive rights and by stating in § 501 that an infringer is someone who violates the exclusive rights of § 106, Congress intended to *establish the liability of authorizers* where such authorizers otherwise could escape liability precisely because authorization was not considered an exclusive right under the then existing law.

This congressional intent to hold authorizers directly liable is reflected in an example presented in the House Report. n54 This example provides that "a person who lawfully acquires an authorized copy of a motion picture would be an *infringer* if he or she engages in the business of renting it to others for purposes of unauthorized public performance." n55 The Register's Supplementary Report states that "there should be no doubt that this kind of activity constitutes *infringement*." n56 The crucial point is that the House Report and the Supplementary Report stress such an activity should be considered "infringement," *not* merely

[*99] contributory infringement, because, given the context, the person in the example authorized the infringing public performance by another. This is the most likely implication of the statements from the Reports since undoubtedly, under the traditional principles of third party liability, this activity constitutes contributory infringement. n57 Thus, there seems to be no need to clarify or emphasize the liability of contributory infringers as the codification theory purports.

IV. WHAT IS AUTHORIZATION?

A. The Nature of Authorization

The Copyright Act has not defined "authorization," and apparently no court has made any serious effort to define it. Consequently, "authorization" is an evolving judicial concept in copyright law, and it may be some time before an acceptable definition is formulated. As a practical matter, authorization can be explicit or implied through conduct. n58 An obvious example of explicit authorization is found in licensing cases where the existence of authorization is not an issue. n59 On the other hand, authorization through conduct presents analytical difficulties. The issue of what conduct amounts to authorization is ultimately a matter of policy. However, in making this policy determination, courts should consider that authorization covers more conduct than implicated by the codification theory and that Congress intended the authorization right to have a broad scope.

Implicit in the argument that Congress, by using the phrase "to authorize," established the liability of authorizers as direct infringers, and not only as contributory infringers, n60 is the underlying argument that an authorization violation may not be identical to contributory infringement. It is precisely the contra-argument that underlies the codification

[*100] theory. Namely, an authorization violation must primarily, if not exclusively, fall under contributory liability. Indeed, Nimmer suggests and the *Subafilms* court agreed that the "authorization" right refers only to the doctrine of contributory infringement. n61 It should be noted, however, that some authorization violations do not involve authorization by a third party, but rather arise in situations where copyright owners themselves are the authorizers.

For example, in *Pinkham v. Sara Lee Corp.*, n62 a violation was found when an infringer exceeded the scope of the authorization granted by a copyright owner by reproducing and distributing more copies of the copyrighted work than had been authorized. n63 The statutory phrase "to authorize" also covers this type of violation since § 106 expressly provides that the copyright owner has the exclusive right "to authorize" all reproductions and distributions, subject to 17 U.S.C. §§ 107-120. n64 Thus, the codification argument, by focusing exclusively on third party conduct, espouses an unnecessarily narrow view of authorization, because it fails to recognize that authorization covers both direct and contributory infringements.

The legislative history also supports the view that Congress intended the authorization right to have a broad scope. In its example, the House Report implied authorization from the defendant's conduct of

[*101] renting a picture for purposes of illegal public performance, n65 even though the same conduct could have been labeled as contributory infringement. The court in *Columbia Pictures Industries, Inc. v. Aveco* n66 appears to have followed this legislative history correctly when it ruled the defendant's conduct amounted to an authorization. Aveco, a retailer, specifically built its premises for the "private viewing" n67 of copyrighted films. Aveco argued that it was the public (the customers) that committed the actual infringement by putting the video tape in the playing machine and turning on the controls. n68 Aveco also argued that while the viewing rooms were generally available to the public, they were private while being rented. Thus, the performances were not public. n69

However, the court characterized Aveco's conduct as an authorization because Aveco "knowingly [promoted and facilitated] public performances" of copyrighted works. n70 Though the *Aveco* court was short on explaining why it concluded the defendant's conduct was an authorization without finding contributory infringement, the court expressly relied on the House Report's example and implicitly rejected the codification argument. n71 At least one other court has given authorization a similarly broad reading by ruling that it was not necessary for a contract, or any other agreement, to exist in order to support a finding of authorization. n72

Thus, contrary to the position advocated by Nimmer and accepted in the Ninth Circuit by *Subafilms*, the legislative history

[*102] supports a broad reading of the authorization right. Judicial economy will be best achieved if courts stop arguing whether authorization is a direct or contributory infringement and instead focus on defining more precisely the conduct that amounts to authorization. Because the analysis of authorizing conduct is fact-dependent, the judiciary is particularly well-suited to determine case-by-case whether authorization has occurred. This is probably the implication behind the statutory scheme which left the phrase "to authorize" undefined. However, the codification argument fails to appreciate this statutory scheme and the intended broad scope of the authorization right. Instead, it argues that authorization right is somehow very different from the right "to do" and thus should be analyzed under third party liability theories. n73 But, as the following discussion demonstrates, the right "to do" and the right "to authorize" are very closely linked.

B. The Relationship Between the Right "To Do" and the Right "To Authorize"

The 1965 Copyright Register's Supplementary Report is probably the only legislative history document to suggest the seemingly obvious, but seldom discussed, relationship between the right "to do" and the right "to authorize." n74 The Supplementary Report states that "the right 'to do' something is probably broad enough to include the right 'to authorize' that the thing be done" n75 This key phrase expresses the basic concept that authorization is a subset of the broader set of activities called "to do." Because a subset by definition does not occupy the entire set, it is possible to affect (violate) other elements of the set "to do" without affecting (violating) the "to authorize" subset. Thus a violation of the right "to do" is not an automatic violation of the right "to authorize." However, the converse is not true, as a violation of an authorization right is an automatic violation of the "to do" right.

The Supplementary Report's statement stands for a valid proposition. There seems to be no reason why a statutory right "to do" something would not encompass the right "to authorize" someone to do that something. Especially in the case of the Copyright Act, such authorization promotes fuller commercial exploitation of the creative activity in an efficient manner and benefits not only the creator but also

[*103] society at large. n76 Indeed, the right "to do" something that does not include the right "to authorize" others to do that thing runs counter to the express recognition by the Copyright Act that any one of the exclusive rights of § 106 can be owned and transferred separately from the other exclusive rights. n77 This recognition is reinforced by the statutory definition of a copyright owner as someone "with respect to any one of the exclusive rights comprised in a copyright, [being] the owner of that particular right." n78 Such "ownership . . . may be transferred in whole or in part by any means of conveyance or by operation of law" n79 Thus the right "to do" that does not include the right "to authorize" someone to get an act done severely restricts the right "to do" and serves no major purpose of the Copyright Act. n80

The relevant sentence of the Supplementary Report reads in its entirety: "the right 'to do' something is probably broad enough to include the right 'to authorize' that the thing be done, *but* we have added the phrase 'and to authorize' in order to avoid possible questions as to the liability of contributory infringers." n81 Recognizing that such a broad statement could give rise to some possible objections, n82 the Supplementary

[*104] Report used the word "probably" in the quoted sentence; yet the authorization right was stated expressly to indicate that it should be an exclusive right that may stand on its own, regardless of whether it is universally agreed that it is a part of the "bundle" of rights called the right "to do." n83 The net effect is that it is no longer appropriate to inquire whether illegal authorization has taken place under the traditional third party liability doctrines. Rather, the only inquiry should be whether authorization to commit an exclusive act has been given. The best way to follow the intent of Congress to hold illegal authorizers liable is to make such authorizers liable as statutory infringers for the mere act of authorization. n84

In contrast, Nimmer, relying on the codification theory, argues that the authorization right is somehow different from the other exclusive rights of § 106. Therefore, the authorization right should be treated differently (such as under third party liability theory) whereas violators of other exclusive rights should be treated as direct infringers. n85 Nimmer details no evidence in the statute or in the legislative history to support this contention. Additionally, Nimmer's case law reference in support of this view is unconvincing because the holding of the particular cited case appears not to support Nimmer's position. n86 Nimmer declares

[*105] that "it is only on the assumption that [the authorization right] is construed as the source of independent rights . . . that the conclusion follows that a cause of action lies for unconsummated authorization." n87 Neither Nimmer nor the courts that have adopted his rationale have satisfactorily explained why such an assumption is untenable.

From the above discussion that the right "to do" includes the right "to authorize," it should be noted that, conceptually, authorizing an act is probably only a short step away from actually doing the act. Authorization can be visualized as an important marker on the scale of infringing activity represented at one extreme by inactivity (no infringement) and the other extreme by the actual commission of an

[*106] exclusive act (direct infringement). As one moves along this scale from inactivity to the actual commission of an act, evidence of a defendant's involvement in the infringement grows. When one reaches the point of authorization, it may become practically irrelevant that the authorized infringement actually has taken place. Congress, by expressly providing that the violation of an authorization right is an infringement, has declared its intent to attach liability to the mere act of authorization. Implicit in this argument is the recognition that one cannot violate the right "to do" without first violating the right "to authorize." Each violation of the right "to do" therefore can be viewed in a sense as an *a priori* violation of the right "to authorize" because if there were a proper authorization "to do" the complained of act, there would have been no violation of the "to do" right.

If, for liability to attach, it is irrelevant whether the authorized infringement has been committed, as argued in the foregoing, it becomes moot to inquire where such authorized infringement has been committed. Thus, an authorizer should be liable even if the authorized infringement has not taken place at all, or has taken place outside the U.S. In contrast, Professor Nimmer extends the codification argument to the extraterritorial context and insists that the authorized act must occur in the United States, and that it is immaterial where the authorization occurs. n88 However, as the following analysis on extraterritoriality demonstrates, an authorizer in the U.S. should be liable even when the authorized infringement occurs outside the U.S.

V. EXTRATERRITORIAL APPLICATION OF COPYRIGHT LAWS

An undisputed axiom in copyright law is that the U.S. Copyright Act does not apply to extraterritorial conduct. n89 If the infringement takes place both in and outside the U.S., "the copyright law reaches only the United States infringement." n90 As one court has stated, "the law is

[*107] that an infringing act occurring outside the United States is not actionable [in the U.S.] unless the act is part of, or a consequence of, an *act of infringement* occurring within the United States." n91 Accordingly, "cases which have asserted jurisdiction based on the application of copyright laws have uniformly found some act of infringement in the U.S." n92 More significantly, an act of infringement has been interpreted by many courts, n93 including the *Subafilms* and *Danjaq* courts, n94 to mean an act of statutory infringement.

While *Peter Starr* and *Pansy Ellen* correctly recognized authorization as an act of infringement occurring in the U.S., the *Subafilms* and *Danjaq* courts missed the mark. The *Subafilms* court could have disposed the case on its central holding that there was no violation of the Copyright Act as it did not recognize the authorization as a direct violation, and thus there was no violation of an act of direct infringement within the United States. n95 The extraterritorial aspects discussed in *Subafilms* were not essential to the disposition of the case. However, relying mostly on Nimmer's treatise and on a Supreme Court decision that has been legislatively overruled, the *Subafilms* court erred in its analysis of extraterritorial issues. n96 Because the issues raised in *Subafilms* will continue to be of practical significance in copyright cases in the future, n97 a brief introduction to extraterritorial concepts follows

[*108] with an analysis of Nimmer's views and the court's approach in *Subafilms*.

The basic problem in the extraterritorial application of a given statute can be summed up as the lack of clear expression of congressional intent in allowing or in prohibiting courts from exercising jurisdiction. n98 Courts generally are reluctant to apply a statute to extraterritorial conduct due to comity concerns n99 that may arise from such an application

[*109] of prescriptive jurisdiction. n100 To allay comity concerns, international law customarily recognizes five bases of prescriptive jurisdiction: (a) the territoriality principle, (b) the nationality principle, (c) the "effects" doctrine, (d) the protective principle, and (e) the universality principle. n101

The territoriality principle states that a sovereign nation has total and complete control over its territory and can prescribe laws for its territory without any concern for international comity. n102 The nationality principle and the effects doctrine are major exceptions to this strict territoriality principle. The nationality principle allows a nation to apply its laws to the conduct of its citizens taking place entirely abroad. n103 Even though this basis of prescriptive jurisdiction raises fewer controversies, it is underutilized in the U.S. courts. n104 The effects doctrine as formulated by Judge Learned Hand in *United States v. Aluminum Co. of America (Alcoa)*, n105 states that the defendant's conduct would be illegal if its conduct was "intended to affect . . . and did affect [U.S. businesses]." n106

[*110] The effects doctrine is the latest and most controversial basis of prescriptive jurisdiction. n107

A. The Relationship Between the Right "to do" and the Right "to authorize" - Extraterritorially Speaking

Imagine the following scenarios with the objective of determining the liability of authorizers. First, if both authorization and the authorized infringement occur in the United States, it is clear that the authorizer is liable under either theory of contributory or direct infringement because both the authorization and the authorized infringement are cognizable under the Copyright Act. Second, if both authorization and the authorized infringement occur extraterritorially, the authorizer is not liable because his extraterritorial conduct is not actionable due to the presumption against extraterritorial application of the U.S. copyright law unless the presumption is overcome by using the nationality principle or the effects doctrine. Third, if authorization occurs inside the United States and the authorized infringement occurs outside the United States, the authorizer is liable if the authorization in the United States is considered an act of infringement. Or alternatively, if the copyright laws are extended to the extraterritorial conduct under either the nationality principle or the effects doctrine, the authorizer can be liable even under the codification theory. In this scenario the *Subafilms* court, relying mostly on Professor Nimmer's arguments, rejected both alternatives. It refused to accept that authorization was an act of infringement in the U.S., n108 and it refused to extend copyright laws to the extraterritorial conduct. n109

Finally, consider the scenario where authorization occurs outside the United States and the authorized infringement occurs in the United

[*111] States. Under the presumption against extraterritoriality, the authorizer is not liable for extraterritorial conduct unless the reach of the Copyright Act is extended under either the nationality principle or the effects doctrine. In contrast, Nimmer, also relying on the presumption against extraterritoriality, reaches the opposite conclusion and holds that the extraterritorial authorizer is liable. n110 Nimmer reaches his conclusions through the following logic: because the U.S. Copyright Act does not apply extraterritorially, the statute should be read as if the phrase "within the United States" is contained in the text of *17 U.S.C. § 106*. n111 Nimmer inserts this phrase after the words "to do and to authorize" so that the statute would read that the copyright owner has the exclusive right to reproduce (using the reproduction right as an example) in the U.S. and to authorize such reproduction in the U.S. n112 According to Nimmer, the words "to do" and "to authorize" must be read in *pari materia*. n113 When so read, the statute leads to the conclusion that it is forbidden to reproduce in the U.S., and it is forbidden to authorize such *reproduction in the U.S.*, but it is not forbidden to *authorize in the U.S.* such reproduction abroad. n114

Many objections can be raised to Nimmer's line of reasoning. First, Nimmer fails to address the following possibilities regarding the placement of the phrase "within the U.S." in the statute. It is equally plausible to insert the phrase "within the U.S." in the text of *17 U.S.C. § 106* twice: once after the words "to do" and once after the words "to authorize" so that the statute would read that the copyright owner has the right to reproduce in the U.S. and the right "to authorize" such reproduction in the U.S. n115 Yet another plausible position to insert the phrase "within the U.S." is between the phrases "exclusive rights" and "to do and to authorize" of the preamble to *17 U.S.C. § 106* so that the statute would read: "Subject to sections 107 through 120, the owner of copyright

[*112] under this title has the exclusive rights, *within the U.S.*, to do and to authorize any of the following" The result again is that the owner has the exclusive right "to authorize" *in the U.S.* such reproduction abroad. n116

This result follows when one views the right "to do" as a set of activities which contains the subset of the right "to authorize." n117 By extension, adding the phrase "within the U.S." is a mathematical operation to be performed on the set "to do." Such an operation will affect all the elements of the set equally and produces the resulting phrases "to do within the U.S." and "to authorize within the U.S." Thus, if the right "to do" is geographically limited to the United States, then the right "to authorize" likewise is limited. Conversely, if the violation of the right "to do" does not result in a violation of the copyright law unless the violation occurs within the United States, then the violation of the right "to authorize" also is not a violation of the copyright law unless that authorization also occurs within the United States.

Additionally, Nimmer's position that the extraterritorial authorizer will be liable if the authorized infringement occurs in the U. S. violates the axiom that the Copyright Act does not apply to conduct outside the U.S. Using Nimmer's example, assume a Taiwanese citizen acting in Taiwan authorizes a U.S. citizen to commit a U.S. copyright infringement in the U.S. Under the presumption against extraterritoriality, *no* U.S. law, whether statutory or otherwise, is applicable to conduct outside the U.S. Because the phrase "to authorize" is part of the text of the Copyright Act, it also is subject to the presumption against extraterritoriality. Consequently, the Taiwanese authorizer has not violated the U.S. copyright laws and should not be held liable. The *only* way that the Taiwanese authorizer in this example might be liable is by extending the U.S. copyright law to the conduct in Taiwan based on the effects doctrine. n118 Nimmer however concludes that the Taiwanese authorizer

[*113] should be liable because the authorized act occurred in the U.S. n119 This conclusion is based on Nimmer's reasoning that authorization is not linked geographically to the U.S. but the right "to do" is so linked. n120

From the foregoing discussion, it is apparent that Nimmer's reasoning violates the premise of the presumption against extraterritoriality. Imposition of liability on alien citizens under these conditions not only raises strong comity concerns, but also can severely undermine the credibility of the U.S. justice system in the eyes of other nations that cooperate or are contemplating cooperation with the U.S. in strengthening copyright protection worldwide under the auspices of international conventions and agreements. n121 Thus, contrary to Nimmer's position, if the right "to do" is linked geographically to the United States, then the right "to authorize" also is linked geographically to the U.S. This is a natural consequence that flows from the proposition that the right "to do" is broad enough to include the right "to authorize."

Nimmer extends the example of the American authorizer to a situation where the authorized act is perfectly legal in the foreign country where the act occurs. For example, the Copyright Act prohibits the

[*114] unauthorized public display of a copyrighted work. n122 Nimmer argues that it is perverse to construe that Congress prohibits granting authorization by a U.S. citizen in the U.S. to someone in Canada to display publicly in Canada a U.S. copyrighted material because Canada does not have such a prohibition. This is certainly not the case. Congress is not concerned with what acts are legal or illegal in Canada; it is regulating only the conduct of U.S. citizens in the U.S. and abroad. n123 Under this principle, the defendant's extraterritorial conduct is irrelevant to his or her liability under U.S. law. Similarly, his or her conduct under the foreign laws is also irrelevant to a finding of liability under U.S. laws. n124 Arguing to the contrary suggests the untenable position that Congress does not pass laws to regulate the conduct of U.S. citizens inside the U.S. if such conduct also is not subject to regulation by a foreign sovereign in its own territory. Many cases are in accord with the above analysis. n125

[*115] Contrary to the position advocated by Nimmer and the *Subafilms* court, the right to do something in the United States includes the right to give, while in the United States, someone the authorization to use copyrighted material as well as the right to authorize, from anywhere in the world, someone to do that something in the United States. A mechanical application of the codification theory violates the presumption against extraterritoriality and creates international comity concerns. On the other hand, as argued below, n126 the presumption can be overcome and the U.S. copyright law can be extended extraterritorially under appropriate circumstances without raising comity concerns. *Subafilms* presented such an opportunity for the Ninth Circuit. However, it is ironic that the plaintiff in *Subafilms* was denied relief on the same concern for international comity. n127

B. Assessing the Legislative Intent in Extraterritorial Copyright Cases

The court in *Subafilms* erred in its ruling on extraterritorial issues n128 by requiring a *clear statement* from Congress of intent to apply the Copyright Act to extraterritorial conduct. n129 The *Subafilms* court uncritically followed the "clear statement" rule of *EEOC v. Arabian American Oil Co. (Aramco)*, n130 despite swift congressional overruling of

[*116] *Aramco*. n131 Earlier cases that articulated the presumption against extraterritoriality did not require such a clear statement. n132 By requiring a positive statement in the legislative history, the clear statement rule changes the concept of legislative intent as a rebuttable presumption by elevating the legislative history to statutory status. n133 One major problem with *Aramco* was that even though there was sufficient indication in the legislative history to overcome the presumption against extraterritoriality, the Court refused to give proper consideration to legislative history. n134 Similarly, the *Subafilms* court ignored some indication in the statute that Congress intended the Copyright Act to apply under certain circumstances to extraterritorial conduct. n135

[*117] The presumption against extraterritoriality also can be overcome by other means in addition to evidence in the legislative history. The Supreme Court and circuit courts have inferred a legislative intent of extraterritorial application in the context of many diverse statutes. For example, in dealing with a criminal statute in *United States v. Bowman*,¹³⁶ the Court argued that "limiting the statute to the strictly territorial jurisdiction would greatly *curtail the scope and usefulness of the statute*, and leave open a large immunity for frauds as easily committed by citizens on the high seas and in foreign countries as at home."¹³⁷ In such cases, "Congress has *not thought it necessary* to make specific provision in the law that the locus shall include the high seas and foreign countries, but allows it to be *inferred from the nature of the offense*."¹³⁸

Judge Learned Hand argued in the context of antitrust laws in *United States v. Aluminum Co. of America (Alcoa)*, that if a party's conduct is "intended to affect . . . and did affect [the U.S. businesses]," then that party is liable.¹³⁹ An inquiry into congressional intent is unnecessary.¹⁴⁰ In the securities area, a Second Circuit court in *Schoenbaum*

[*118] *v. Firstbrook* n141 exercised jurisdiction by stating that the presumption does not preclude application of the Exchange Act "when [such] application of the Act is necessary to protect American investors." n142

Judge Friendly, while acknowledging in *Bersch v. Drexel Firestone, Inc.*, n143 that there existed scant evidence in the legislative history that Congress intended securities laws to apply extraterritorially, n144 argued that extraterritorial application was justified based on "case law and commentary concerning the application of the securities laws and other statutes to situations with foreign elements and our *best judgment* as to what Congress *would have wished* if these problems had occurred to it." n145 Judge Bork also expressed similar views in *Zoelsch v. Arthur Anderson & Co.* n146 Thus, legislative history alone is not controlling to determine the congressional intent concerning extraterritorial application of a statute. Given the transnational scope of copyright violations, one can reasonably infer that Congress desired to apply the Copyright Act extraterritorially.

Instead of relying on *Aramco*, the *Subafilms* court should have followed the Supreme Court's reasoning in *Steele v. Bulova*. n147 In *Bulova*, the petitioner, a U.S. citizen, bought parts from the U.S. and elsewhere and assembled them into watches in Mexico. He affixed the mark "Bulova" on those watches and sold them in Mexico with no intention to sell the watches in the U.S. Bulova, then the world's largest watch manufacturer, had not registered its trademark in Mexico. Moreover, the petitioner owned the trademark in Mexico. n148 Bulova complained of

[*119] damage to its reputation because the Mexican watches were filtering into the U.S. n149

The Court in *Bulova* found broad jurisdictional language tied to commerce power in the trademark statute. n150 Noting that the petitioner's actions were "essential steps in the course of business consummated abroad," the Court stated that acts which are in themselves legal, "lose that character when they become part of an unlawful scheme." n151 The Court distinguished *American Banana Co. v. United Fruit Co.*, n152 because there was no foreign governmental action involved, and rejected the result of a strict territoriality principle by declaring that "we do not think that petitioner by so simple a device can evade the thrust of the laws of the U.S. in a privileged sanctuary beyond our borders." n153

The defendant in *Subafilms* also circumvented U.S. laws through a "simple device," n154 by conducting illegal distribution abroad. The defendants' acts in *Subafilms* were certainly "essential steps in the course of business consummated abroad." n155 Thus, *Bulova* provides a more relevant analytical model to apply to the facts in *Subafilms* than *Aramco*.

Subsequent courts, such as the Second Circuit in *Sterling Drug, Inc. v. Bayer AG*, n156 more clearly articulated the requirements of the *Bulova* standard for extraterritorial application of the Lanham Act.

[*120] These requirements are (a) that the defendant be a U.S. citizen; (b) that there be a substantial effect on United States commerce; and (c) that there be no conflict between the relevant U.S. law and the foreign law. n157 The defendant in *Subafilms*, MGM-Pathé Communications, was a U.S. citizen. Thus, extending the Copyright Act could have been based on the accepted nationality principle of international law with minimal comity concerns. It is beyond dispute that copyright piracy, in aggregation, has a substantial effect on United States commerce. The most recent estimate puts the loss of revenues from copyright piracy of audio-visual materials, books and computer software at \$ 2.3 billion in 1995. n158

While the *Subafilms* court claimed that it was concerned with preventing "unintended clashes between our laws and those of our nations which could result in international discord," n159 such concern was largely imaginary. There was no indication of any potential conflict between the U.S. Copyright Act and any foreign law. Under the Supreme Court's recent clarification in *Hartford Fire Ins. Co. v. California*, n160 there is no conflict if it is *possible* for the defendants to comply with both domestic and foreign laws. n161 However, the *Subafilms* court argued that by invoking the *Aramco* Court's "concern with preventing international discord, . . . [the e]xtraterritorial application of American law would be contrary to the spirit of the Berne convention and might offend other member nations by effectively displacing their law in circumstances in

[*121] which previously it was assumed to govern." n162 One commentator criticized that the "the major flaw in [the *Subafilms* court's] opinion is the court's misplaced concern that expanding the reach of the Copyright Act would in some way interfere with international copyright relations." n163 Further, the "court never explains just how this will occur." n164

While the *Subafilms* court dutifully respected the comity principle, it overreacted. Here, the defendant was a U.S. citizen, at least part of the questionable conduct (authorization) occurred in the U.S., and there was no sign of any foreign entity objecting to the court's exercise of jurisdiction. n165 Moreover, courts should not be concerned about disrupting the delicate balance of international affairs, because judicial acts pale in comparison to the drastic measures the legislative and executive branches take in getting other countries to respect U.S. copyrights and patents. n166

[*122] On the other hand, a court's exercise of jurisdiction sends a strong message to the extraterritorial copyright pirates that the judiciary acts in unison with the other branches of government and that pirates can not evade U.S. laws under the guise of international comity. Finally, as the dissent in *Aramco* pointed out, a statute may be construed differently, depending on the nationality of the defendant, so that "the same statute might . . . apply extraterritorially to United States nationals but not to foreign nationals." n167 Accordingly, the facts in *Subafilms* presented virtually no conflict under established principles of international law. n168 Thus, *Subafilms* would have been a suitable case to apply the *Bulova* factors to impose liability on authorizers.

It can be argued that *Bulova* is distinguishable from *Subafilms* because it invokes the Lanham Act which requires that the trademark in suit be used in commerce, whereas the Copyright Act does not have any such commerce language. n169 However, the presence or absence of a

[*123] commerce reference in a statute is not the litmus test for its extraterritorial application, but it is rather one of the factors to be considered in overcoming the presumption. The Court in *Aramco* correctly deemphasized the presence of commerce language in Title VII when it referred to the commerce language in Title VII as "boiler plate language" n170 which did not support an expansive reading of congressional intent. n171 On the other hand, the lack of a commerce reference in a statute should not be the basis for denying its extraterritorial application. For example, Congress legislatively overruled the Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, n172 wherein the Court relied

[*124] heavily on the lack of a commerce reference in the patent statute n173 and required a clear statement from Congress to that effect. n174

The contention that the absence of commerce language is not controlling is further bolstered by the observation that Congress did not address *Deepsouth*, *Foley Bros.*, and *Aramco* by inserting commerce language in the patent statute, or in the Eight Hour law, or by "strengthening" the existing commerce clause of Title VII, respectively. Rather, Congress made substantive amendments to the respective statutes. n175 Thus, the *Subafilms* court's insistence on a clear statement from Congress regarding extraterritorial application of copyright laws was inappropriate. The court should have realized that it was helping to open up a loophole similar to that created by the Court in *Deepsouth*. n176

[*125] Instead, the *Subafilms* court refused to acknowledge the significance of the congressional overruling of *Deepsouth* and required that Congress also specifically pass similar legislation in copyright law. n177

The *Subafilms* court referred to a 1976 congressional amendment in which Congress specifically expanded 17 U.S.C. § 602(a) to prohibit unauthorized importation of copyrighted works to support its theory that if Congress wanted to expand the entire Act, it could have done so then. n178 However, it is a standard argument used by many courts, including the Supreme Court in *Aramco*, n179 and is based on the oft-quoted statement from *Argentine Republic v. Amerada Hess Shipping Corp.*, n180 that "when it desires to do so, Congress knows how to place the high seas within the jurisdictional reach of a statute." n181 This seems an unreasonable view. It is undisputed that Congress writes the laws. But all may not agree that Congress always "knows" how to write the laws. Congress, in the first round, may not be able to envision all possible future situations and applications of the law and address all possible scenarios. If this were not the case, Congress would never amend its legislation and courts would not struggle in interpreting such legislation.

Alternatively, it could be argued that Congress is aware and has the power to legislatively overrule a judicial determination that is inconsistent with its objectives. Thus, even if courts erred in assuming jurisdiction where Congress did not desire, Congress could correct the course of law by legislatively overruling the decision. Given the Supreme Court's expertise in gauging congressional intent concerning extraterritorial issues, especially in light of the overrulings of *Foley Bros.*, *Deepsouth*, and *Aramco*, it may be just as unwise not to assume jurisdiction as to assume jurisdiction. Here, within the limited scope of this article, it is cautiously submitted that so far Congress has not legislatively overruled any cases that expand prescriptive jurisdiction, whereas it has overruled cases that unnecessarily limit such jurisdiction by requiring a clear statement from Congress. Given this uncertainty and the speculative nature of potential conflicts that may arise from judicial interference,

[*126] assuming, rather than declining, jurisdiction in copyright cases may better serve the policy goals of the copyright statute.

Likewise, the argument that it is "simply not possible to draw a principled distinction between an act that does not violate a copyright because it is not the type of conduct proscribed by 17 U.S.C. § 106, and one that does not violate section 106 because the illicit act occurs overseas" n182 is untenable. Such an argument assumes a simplistic view of the serious nature of copyright infringement where the Act confers liability even upon "innocent" infringers. n183 It is certainly *possible* to make this principled distinction, as the court itself did in the very argument it made. Thus an act of unauthorized public display occurring overseas can be distinguished from an act of unauthorized but private display in the U.S., the latter of which is expressly exempted by the Copyright Act, n184 thereby making the distinction both meaningful and obligatory. Some have suggested that Congress should intervene and define the liability of illegal authorizers more clearly. n185 While such congressional action would certainly be a welcome relief, such travail is unnecessary because Congress accomplished this when it added the phrase "to authorize" during the 1976 revision to the Copyright Act. Thus, it is up to the judiciary, consistent with its constitutional role, to strive to recognize and uphold congressional policies behind the Copyright Act.

C. Proper Standard to Determine Authorization Liability

Once an authorization to commit an exclusive act has been given, it becomes immaterial whether and where the exclusive act is indeed

[*127] committed. n186 The only valid inquiry should be whether the authorized conduct *could* have been an infringement had it been committed. This is precisely the inquiry the *Subafilms* court avoided, perhaps by being predisposed to the codification argument. n187

Analysis of an alleged authorization violation requires assessment of two threshold issues, either of which may be dispositive: (1) whether defendant's conduct amounts to authorization, and (2) whether the authorized act is an exclusive act. If the defendant's conduct is not considered authorization, obviously there can be no authorization violation. Alternatively, even if there is authorization, the authorizer has not violated the Copyright Act if the authorized act is not an exclusive act. This latter concept has been expressed as "a party cannot authorize another party to infringe a copyright unless the authorized conduct would itself be unlawful." n188 Put differently, Congress did not intend "to hold a party liable for merely authorizing conduct that, had the authorizing party chosen to engage in itself, would have resulted in no liability under the Act." n189

However, the essential inquiry of *what* has been authorized should be distinguished from the inquiry of whether such an authorized act has indeed occurred. The latter inquiry is based on third party liability theories and, as argued previously, n190 is unnecessary and inappropriate in the case of authorization liability. Thus, establishing both authorization and the exclusive nature of the authorized act is necessary to attach authorization liability, whereas absence of either authorization or exclusivity of the authorized act is sufficient to deny such liability. For example, when the court in *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, n191 held that the defendants violated the plaintiff's right "to authorize" public performances, it had to establish not only that there was authorization but also that the authorized act was public performance,

[*128] i.e. an exclusive act. n192 Alternatively, the *Aveco* court could have decided first whether the act committed was an exclusive act (i.e. a public performance) and then inquired whether the defendant authorized such an exclusive act.

The Court of Appeals for the Ninth Circuit in *Columbia Pictures Industries, Inc. v. Professional Real Estate Investors, Inc.*, n193 followed this alternative approach. The court, after holding that a performance in a hotel room was not a public performance, affirmed summary judgment against the plaintiff, and did not address the question of whether there was authorization. n194 After determining that the authorized act was not an exclusive act, it was unnecessary to inquire whether there was authorization because authorizing a non-exclusive act is not a violation.

However, the *Subafilms* court and Nimmer mistook this approach to mean that the court in *Professional Real Estate* was subscribing to the codification theory. n195 The argument was that because the *Professional Real Estate* court found no direct infringement since the authorized act was not an exclusive act, there could be no contributory infringement. Accordingly, the *Professional Real Estate* court purportedly felt that it was unnecessary to determine "whether defendant could be liable for 'authorization' absent primary liability. . . ." n196 The source of confusion by the *Subafilms* court and Nimmer seems to be that in *Aveco* and in *Professional Real Estate*, as in most reported cases, the authorized act had already been committed by the time of trial. Instead, a standing or executory authorization provides a better framework to clarify the confusion because such an executory authorization can properly be

[*129] enjoined to prevent or restrain infringement. n197 Thus, an analysis based on the recognition that mere authorization is actionable is more convincing and provides a better framework for analyzing authorization violations.

At first blush it seems unfair to impose liability for "merely" authorizing an infringing act when in fact no such infringement takes place. Plaintiffs, however, are unlikely to sue unless they perceive some real harm to their interests n198 and that the probable recovery from litigation outweighs the costs and effort of the litigation. A mere authorization does not usually result in meaningful harm unless there is also an actual violation of one or more of the exclusive acts of *17 U.S.C. § 106*.

Thus, there seems to be no danger of a litigation explosion when plaintiffs possess the right to sue for violations of authorization rights alone. n199 In rare cases where authorization alone results in some harm to the plaintiff, the plaintiff should be given the choice to sue, as delineated by Congress under an explicit constitutional provision. Thus, it may not be the province of a federal court to argue that plaintiffs should sue under some applicable state law even though an exclusive right under federal copyright law was violated. n200 The statutory grant of federal jurisdiction reflects constitutional and congressional deliberations in favor of allowing the plaintiff to decide and act. Even if there is a frivolous suit for a *mere* violation of an authorization right, the statute has built-in provisions to discourage such suits by conferring wide judicial discretion in remedial provisions. n201

[*130] VI. CONCLUSION

Congress added the phrase "to authorize" to the Copyright Act of 1976 in order to subject authorizers acting without permission of the copyright owner to direct liability. Yet some courts and commentators have not fully recognized the statutory scheme behind the authorization right and continue to interpret this right under traditional third party theories of liability. Accordingly, a loophole has been created whereby both the authorizer and the authorized can escape liability under U.S. copyright law if the authorized commits the infringement outside the United States. If this is what Congress intended, then the copyright owner should look to Congress to close this loophole. But *is* this really what Congress intended?

Several arguments have been presented in support of the conclusion that Congress did not intend to codify the doctrine of contributory infringement in the revised Copyright statute. The major flaw in the codification theory is its inability to explain how a mere codification of the contributory infringement doctrine would accomplish the congressional intent of avoiding the question of contributory infringer liability. By focusing on the statutory definition of "infringer" and discussing the nature of authorization, a reasonable explanation for how the Copyright Act comports with such congressional intent has been presented. Thus, a violation of the authorization right should be regarded as an infringement regardless of whether and where the authorized act was committed.

This article pointed to the Supplementary Register's Report as a novel source for discerning congressional intent on this issue and analyzed the relationship between the right "to do" and the right "to authorize." Contrary to Nimmer's position that the authorization right is somehow different from the right "to do," the rights are very closely linked. The concept of this close relationship may be applied to the extraterritorial context to show that authorization liability should attach if authorization occurs in the U.S., regardless of whether and where the authorized conduct occurs. This contention is also supported by established international laws as well as the judicial presumption against the extraterritorial application of copyright laws.

[*131] While the presumption against extraterritoriality has been used to illustrate inconsistencies in the codification argument, one should not automatically apply this presumption to every case. The presumption is rebuttable and is not a clear statement rule. Accordingly, U.S. copyright law should be extended to extraterritorial conduct in certain cases; the *Subafilms* case presented such an opportunity. If the mere fact that an act occurred extraterritorially is sufficient to prevent the application of a statute to such conduct, then the law has not progressed since *American Banana*. Such strict territoriality views are largely inconsistent with the diminishing importance of distances and time zones in the modern era.

n1 Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified at 17 U.S.C. § § 101-803).

n2 The statute provides: "Subject to . . . [certain statutory exclusions], the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work . . . ;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending;
- (4) in the case of [certain works] to perform the copyrighted work publicly;
- (5) in the case of [certain works] to display the copyrighted work publicly" 17 U.S.C. § 106 (1995) (emphasis added).

n3 The prior law had no provision concerning the authorization right. *ITSI T.V. Prods. v. California Auth. of Racing Fairs*, 785 F. Supp. 854, 860 (E.D. Cal. 1992); *Danjaq, S.A. v. MGM/UA Communications Co.*, 773 F. Supp. 194, 200-01, 21 U.S.P.Q.2d (BNA) 1665, 1670-71 (C.D. Cal. 1991), *aff'd on other grounds*, 979 F.2d 772 (9th Cir. 1992).

n4 "Usually, the party engaging in infringing conduct is held to be the direct infringer, with no explicit discussion of the issue." 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][d] at 12-94.4 n.109.1 (1996) (rel. 39-5/96); The words "direct infringement" and "primary infringement" are used to mean a direct violation of a right granted to copyright owners under § 106 of the Copyright Act. *See generally, ITSI T.V.*, 785 F. Supp. at 860.

n5 Third party infringement as used in this article refers to two sometimes distinguishable concepts known as contributory infringement and vicarious liability. The most often quoted definition of contributory infringement comes from *Gershwin Publishing Corp. v. Columbia Artists Man., Inc.* which states that "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer." 443 F.2d 1159, 1162, 170 U.S.P.Q. (BNA) 182, 184-85 (2d Cir. 1971).

While "knowledge and participation [are] the touchstones of contributory infringement," it has been stated that "benefit and control are the signposts of vicarious liability." *Demetriades v. Kaufmann*, 690 F. Supp. 289, 293, 8 U.S.P.Q.2d (BNA) 1130, 1133 (S.D.N.Y. 1988). Vicarious liability often arises in the context of employer-

employee relationship. However, "even in the absence of an employer-employee relationship one may be vicariously liable if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities." *Gershwin*, 443 F.2d at 1162, 170 U.S.P.Q. (BNA) at 184 (citing *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304, 137 U.S.P.Q. (BNA) 275 (2d Cir. 1963)).

However, the Supreme Court has noted that sometimes the distinction between contributory infringement and vicarious liability is blurred. *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 435 n.17, 220 U.S.P.Q. (BNA) 665, 675 n.17 (citing the district court's opinion), *reh'g denied*, 465 U.S. 1112 (1984).

n6 *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1092, 30 U.S.P.Q.2d (BNA) 1746, 1749 (9th Cir. 1994) (en banc), *cert. denied*, 115 S.Ct. 512 (1994). While this is the prevalent opinion, it has been argued that under certain circumstances third party infringers should be liable even in the absence of direct infringement. PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 6.3.1.2 at 6:27 (1996).

n7 *Subafilms*, 24 F.3d at 1093, 30 U.S.P.Q.2d (BNA) at 1750; 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][1] at 12-70-75.

n8 The terms "authorizers" and "illegal authorizers" are used throughout this article to refer more precisely to those authorizations that are not given by the copyright owner. Such terminology is used for the sake of simplicity, even though the issue primarily addressed in this article is whether such authorization is illegal.

n9 This argument is referred to in this article as the codification theory. It is based on views as expressed in the Nimmer treatise. 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3] at 12-86-94. The codification argument has been adopted by some courts. *See, e.g., Subafilms*, 24 F.3d at 1093, 30 U.S.P.Q.2d (BNA) at 1750.

n10 *Thomas v. Pansy Ellen Prods., Inc.* 672 F. Supp. 237, 242, 5 U.S.P.Q.2d (BNA) 1322, 1326 (W.D.N.C. 1987); *ITSI T.V. Prods. v. California Auth. of Racing Fairs*, 785 F. Supp. 854, 860 (E.D. Cal. 1992); *Curb v. MCA Records, Inc.*, 898 F. Supp. 586, 36 U.S.P.Q.2d (BNA) 1824 (M.D. Tenn. 1995); and *Peter Starr Prod. Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440, 229 U.S.P.Q. (BNA) 127 (9th Cir. 1986), *overruled by Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1092, 30 U.S.P.Q.2d (BNA) 1746, 1749 (9th Cir. 1994) (en banc), *cert. denied*, 115 S.Ct. 512 (1994).

n11 "The phrase 'to authorize' both encompasses the doctrine of contributory infringement as a third-party theory of liability *and* establishes a direct cause of action against illegal authorizers." Michael W. Ballance, Note, *Third-Party Innocence: Domestic Authorization of Foreign Copyright Infringement and Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 20 N.C.J. INT'L L. & COM. REG. 435, 446 (1995) (emphasis original).

n12 *See infra* notes 89-94 and accompanying text regarding the presumption against extraterritorial application.

n13 24 *F.3d* 1088, 1092, 30 *U.S.P.Q.2d* (BNA) 1746, 1749 (9th Cir. 1994) (en banc), cert. denied, 115 *S.Ct.* 512 (1994). *Subafilms* involved an extraterritorial distribution of the video version of plaintiff's film "Yellow Submarine" without plaintiff's authorization to do so. The court held that "mere authorization of acts of infringement that are not cognizable under the United States copyright laws because they occur entirely outside of the United States does not state a claim for infringement under the Copyright Act." *Subafilms*, 24 *F.3d* at 1099, 30 *U.S.P.Q.2d* (BNA) at 1755. Crucial to the court's holding was the conclusion that authorization is not an act of infringement. *Id.* at 1094-95, 30 *U.S.P.Q.2d* (BNA) at 1750-51.

n14 The loophole was described by the District Court in *Curb*. "Under this view, a phone call to Nebraska results in liability; the same phone call to France results in riches." *Curb*, 898 *F. Supp.* at 595, 36 *U.S.P.Q.2d* (BNA) at 1831.

n15 The reaction to *Subafilms* has been mostly critical. See Michael W. Ballance, Note, *Third-Party Innocence: Domestic Authorization of Foreign Copyright Infringement and Subafilms, Ltd. v. MGM-Pathé Communications Co.*, 20 N.C.J. INT'L L. & COM. REG. 435, 447 (1995) (emphasis original) ("the *Subafilms* court could have found the domestic authorization of foreign copyright infringements illegal under the Copyright Act"); Michael T. Crowley, Note, *Raise The Yellow Submarine! Subafilms and Extraterritorial Application of the Copyright Act*, 48 *FED. COMM. L.J.* 133, 153 (1995) ("Another controversial conclusion of the court is its outright denial that an authorization can be treated as a direct act of infringement."); *Curb*, 898 *F. Supp.* at 594, 36 *U.S.P.Q.2d* (BNA) at 1830 ("*Subafilms* relies upon a peculiar interpretation of the scope and nature of the authorization right in 17 *U.S.C.* § 106. This interpretation . . . appears contrary both to well-reasoned precedent, statutory text, and legislative history."); PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 6.3.2 at 6:29 ("*Subafilms* rests on a deceptively rigorous syllogism . . ."). But see 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][b] at 12-93-94 ("Happily, the law has progressed since the 1980's. In 1994, the Ninth Circuit, sitting *en banc*, [in *Subafilms* overruled prior law] . . . based on the [criticism in Nimmer's treatise], which it quotes extensively.").

n16 Michael T. Crowley, Note, *Raise The Yellow Submarine! Subafilms and Extraterritorial Application of the Copyright Act*, 48 *FED. COMM. L.J.* 133, 153 (1995) at 134. Mr. Crowley proposed congressional intervention to provide clear definitions for contributory and vicarious infringements and authorization. He also proposed a provision that states authorization should be treated as direct infringement. In addition, he suggests a special section should cover extraterritorial infringement aspects. *Id.* at 159-61.

n17 See *infra* notes 45-57 and accompanying text.

n18 See *infra* notes 58-64 and accompanying text.

n19 Supplementary Register's Report of the General Revision of the U.S. Copyright Law (1965), 89th Congress, 1st Session May 1965, 1, reprinted in 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT at Appendix 15-1. The Register's Supplementary Report is one of the many reports prepared for consideration while Congress was contemplating a revision of the 1909 Copyright Act. The history of this revision process was summarized by Justice Blackmun in his dissent in *Sony Corp. v.*

Universal City Studios, 464 U.S. 417, 463 n.9, 220 U.S.P.Q. (BNA) 665, 687 n.9, reh'g denied, 465 U.S. 1112 (1984). The validity and importance of the Supplementary Report as part of the legislative history are underscored by the fact that Justice Blackmun quoted it extensively in his *Sony* dissent.

n20 See *infra* notes 81-88 and accompanying text.

n21 See *infra* notes 74-88 and accompanying text.

n22 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][b] at 12-88-94.

n23 See *infra* notes 108-127 and accompanying text.

n24 *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1095-96, 30 U.S.P.Q.2d (BNA) 1746, 1751-52 (9th Cir. 1994) (en banc), cert. denied, 115 S.Ct. 512 (1994).

n25 See *infra* notes 128-135 and accompanying text.

n26 344 U.S. 280, 95 U.S.P.Q. (BNA) 391 (1952).

n27 U.S. CONST. art. I, § 8, cl. 8.

n28 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A] at 12-70.

n29 *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1093, 30 U.S.P.Q.2d (BNA) 1746, 1749-50 (9th Cir. 1994) (en banc), cert. denied, 115 S.Ct. 512 (1994). "As the Supreme Court noted in *Sony*, and this circuit acknowledged in *Peter Starr*, under the 1909 Act courts differed over the *degree* of involvement required to render a party liable as a contributory infringer." *Id.* (emphasis original) (citing *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 437-38 n.18, 220 U.S.P.Q. (BNA) 665, 676 n.18 (1984), and *Peter Starr Prod. Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440, 1443, 229 U.S.P.Q. (BNA) 127, 129 (9th Cir. 1986), overruled by *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1092, 30 U.S.P.Q.2d (BNA) 1746, 1749 (9th Cir. 1994) (en banc), cert. denied, 115 S.Ct. 512 (1994).

n30 The Supreme Court in *Sony* discussed the origins of the term "contributory infringement," and the appropriate situations in which to impose vicarious liability. *Sony*, 464 U.S. at 437-38 n.18, 220 U.S.P.Q. (BNA) at 676 n.18. The footnote discusses the so-called "dance hall cases" where vicarious liability was imposed in earlier cases. But the Court's discussion does not reasonably lend itself to the statement that the Court was noting any disagreement among lower courts over the degree of involvement before liability can be imposed. Thus, the Supreme Court was not endorsing the *Subafilms* position.

The court in *Peter Starr* stated clearly that "under the old copyright law, which did not specifically state that the copyright holder had the exclusive right to *authorize* use of the copyrighted work, courts came to mixed conclusions about how much involvement in infringing was necessary to subject a defendant to liability for an infringement." *Peter Starr*, 783 F.2d at 1443, 229 U.S.P.Q. at 129 (emphasis original). Thus, the courts were

unclear about the scope of authorization, but not about contributory infringement liability.

n31 "The owner of copyright under this title has the *exclusive rights to do and to authorize* any of the following [acts]" *17 U.S.C. § 106* (1995) (emphasis added).

n32 "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 . . . is an infringer of the copyright" *Id.* at § 501(a).

n33 *464 U.S. 417, 220 U.S.P.Q. (BNA) 665, reh'g denied, 465 U.S. 1112 (1984).*

n34 *Id.* at 435 n.17, *220 U.S.P.Q. (BNA) at 675 n.17*. However, it should be noted that the Court in *Sony* was not faced with the problem of authorization as was the *Subafilms* court.

n35 *ITSI T.V. Prods. v. California Auth. of Racing Fairs, 785 F. Supp. 854, 860 (E.D. Cal. 1992); Curb v. MCA Records, Inc., 898 F. Supp. 586, 594, 36 U.S.P.Q.2d (BNA) 1824, 1830 (M.D. Tenn. 1995).*

n36 *Subafilms, Ltd. v. MGM-Pathe Communications Co., 24 F.3d 1088, 1092-95, 30 U.S.P.Q.2d (BNA) 1746, 1749-51 (9th Cir. 1994)* (en banc), *cert. denied, 115 S.Ct. 512 (1994)*; 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-86, n.81.

n37 *Subafilms, 24 F.3d at 1093, 30 U.S.P.Q.2d (BNA) at 1750.*

n38 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-86, n.81.

n39 *ITSI T.V. Prods. v. California Auth. of Racing Fairs, 785 F. Supp. 854, 860 (E.D. Cal. 1992)*. Congress, in the House Report, has on many occasions made clear in the legislative history when it intended to create a new right in the Copyright Act. H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659. *See id.* at 5676 (the right of public display is an exclusive right recognized for the first time under the statute, *17 U.S.C. § 106(5)*); *id.* at 5774 (*17 U.S.C. § 501*, which contains a general statement of what constitutes an infringement, is new to the Act); and *id.* at 5775 (*17 U.S.C. § 509* on remedies is a new provision).

n40 PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 6.3.1.2 at 6:27 (1996).

n41 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-86. "The statute does not tie such authorization to an actual act of infringement [and it appears] that no further requirement exists of direct infringement." *Id.*

n42 *Id.*

n43 *Id.* at 12-86 n.81 (citing 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A]).

n44 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-87. The treatise reaches the above conclusion while discussing the

issue of whether there can be a cause of action for illegal authorization that does not result in any (other) direct infringement. *Id.* at 12-85-88.

n45 17 U.S.C. § 501(a)(1994). The term "anyone" applies to any person including any governmental agencies or employees. *Id.*

n46 Many cases have reached this general conclusion. *See generally, Thomas v. Pansy Ellen Prods., Inc.*, 672 F. Supp. 237, 242, 5 U.S.P.Q.2d (BNA) 1322, 1326 (W.D.N.C. 1987); *ITSI T.V. Productions v. California Auth. of Racing Fairs*, 785 F. Supp. 854, 860 (E.D. Cal. 1992); *Curb v. MCA Records, Inc.*, 898 F. Supp. 586, 594, 36 U.S.P.Q.2d (BNA) 1824, 1830 (M.D. Tenn. 1995).

n47 H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61 (1976), *reprinted in* 1976 U.S.C.C.A.N. at 5775 (emphasis added).

n48 *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1094, 30 U.S.P.Q.2d (BNA) 1746, 1750-51 (9th Cir. 1994) (en banc), *cert. denied*, 115 S.Ct. 512 (1994); *Danjaq, S.A. v. MGM/UA Communications Co.*, 773 F. Supp. 194, 201, 21 U.S.P.Q.2d (BNA) 1665, 1670-71; 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-85-88.

n49 "A well-established principle of the copyright law is that a person who violates any of the *exclusive rights* of the copyright owner is an infringer, including persons who can be considered related or vicarious infringers." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61 (1976), *reprinted in* 1976 U.S.C.C.A.N. at 5775 (emphasis added).

n50 Congress intended that federal law should be the only source of a copyright owner's exclusive rights. "All legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 . . . are governed exclusively by this title." 17 U.S.C. § 301(a)(1995). This objective appeared to be accomplished in two steps during the 1976 revision: first by stating in § 106 the "exclusive rights" copyright owner shall enjoy, and second by pre-empting under § 301 any equivalent legal or equitable rights under state laws. Congressional preemption was limited only to the extent necessary to preserve the exclusive rights of § 106. These exclusive rights are further "protected" by defining in § 501(a) "infringer" as *anyone* who violates any of the exclusive rights.

n51 However, because congressional preemption under 17 U.S.C. § 301 was limited to the exclusive rights of copyright owners, if a non-exclusive right is violated, common law liability doctrines still apply. "Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to . . . activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106" 17 U.S.C. § 301(b)(1995).

n52 H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61 (1976), *reprinted in* 1976 U.S.C.C.A.N. at 5674.

n53 *Id.* at 5775.

n54 *Id.* at 5674.

n55 *Id.* (emphasis added).

n56 Supplementary Register's Report of the General Revision of the U.S. Copyright Law (1965), 89th Congress, 1st Session May 1965, 1, *reprinted* in 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT at App. 15-40 (emphasis added).

n57 In the example, the salesperson rented the picture with knowledge of the impending public performance and he participated, if not encouraged, it through his sale. Thus, he is a contributory infringer under the *Gershwin* definition. *See Gershwin Publishing Corp. v. Columbia Artists Man., Inc.*, 443 F.2d 1159, 170 U.S.P.Q. (BNA) 182, (2d Cir. 1971).

n58 *Pinkham v. Sara Lee Corp.*, 983 F.2d 824, 831, 25 U.S.P.Q.2d (BNA) 1336, 1341 (8th Cir. 1992).

n59 *See generally Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1090 n.3, 30 U.S.P.Q.2d (BNA) 1746, 1747 n.3 (9th Cir. 1994) (en banc), *cert. denied*, 115 S.Ct. 512 (1994) (appellant's counsel conceded and court accepted that authorization consisted of a licensing agreement and that such authorization occurred within the United States); and *Curb v. MCA Records, Inc.*, 898 F. Supp. 586, 594, 36 U.S.P.Q.2d (BNA) 1824, 1830 (M.D. Tenn. 1995).

n60 *See infra* notes 61-64 and accompanying text.

n61 *Subafilms*, 24 F.3d at 1093-94, 30 U.S.P.Q.2d (BNA) at 1750.

n62 983 F.2d 824, 25 U.S.P.Q.2d (BNA) 1336 (8th Cir. 1992).

n63 The main issue was whether there was authorization from the plaintiff to allow the defendants to publish and distribute a number of the plaintiff's copyrighted books in excess of what was expressly agreed to. The defendant argued that the plaintiff copyright owner herself authorized the reproduction and distribution of her copyrighted books. The defendants claimed that such authorization could be implied from their course of dealings. The court ruled that even though the plaintiff had authorized other earlier reproductions and distributions, the particular infringements were not authorized because she had no knowledge of the reproduction and distribution. The plaintiff had given the master film to the defendants for another purpose and did not imply authorization for its use in the particular disputed instance. *Id.* at 831-33, 25 U.S.P.Q.2d (BNA) at 1341-43.

n64 While the House Report did not use this example as one of the possible violations covered by the phrase "to authorize," the conclusion that the statute covers this "two-party" authorization violation cannot be disputed. It can be argued that the two-party violation in *Pinkham* was a violation of the right "to do" rather than the right "to authorize" because the defendant was a distributor and thus violated the right "to do." However, one should recognize that practically any violation of the right "to do" is a violation precisely because there was an *a priori* violation of the right "to authorize." Stated differently, had there been a proper prior authorization, there would be no violation of the right "to do." This reasoning illustrates the close connection between the right to do and the right to authorize. *See infra* notes 81-88 and accompanying text.

n65 H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61 (1976), *reprinted in* 1976 U.S.C.C.A.N. at 5674.

n66 800 F.2d 59, 62 n.3, 230 U.S.P.Q. (BNA) 869, 871 n.3 (3d Cir. 1986).

n67 Aveco actively encouraged its customers to view copyrighted movies by providing video recorders in private viewing booths. *Id.*

n68 *Id.* at 63, 230 U.S.P.Q. (BNA) at 872.

n69 *Id.*

n70 *Id.* at 62 n.3, 230 U.S.P.Q. (BNA) at 871 n.3.

n71 The *Aveco* court deftly avoided any discussion of contributory infringement or vicarious liability in its opinion and concluded that the defendant was an *infringer* because it violated the plaintiff's exclusive right to authorize public performance. *Id.* The court quoted the example given in the House report, H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61 (1976), *reprinted in* 1976 U.S.C.C.A.N. at 5674, and stated that "this rationale applies equally to the person who knowingly makes available other requisites of a public performance." *Aveco*, 800 F.2d at 62, 230 U.S.P.Q. (BNA) at 871. Clearly the court was referring to such authorizers as statutory infringers on whom liability can be imposed regardless of whether they qualify as direct or contributory infringers.

n72 *Thomas v. Pansy Ellen Prods., Inc.*, 672 F. Supp. 237, 242, 5 U.S.P.Q.2d (BNA) 1322, 1326 (W.D.N.C. 1987).

n73 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-86 n.80.1 & 81.1. *See also infra* note 86 and accompanying text.

n74 Supplementary Register's Report of the General Revision of the U.S. Copyright Law (1965), 89th Congress, 1st Session May 1965, 1, *reprinted in* 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT at App. 15-40.

n75 *Id.*

n76 Many copyright owners simply may not be able to fully exploit their works due to lack of resources or ability. A prime example can be found in the music industry where studios are financially positioned to reap greater commercial rewards from the copyrighted work than the owner. In reality, the proposition that copyright owners must do all of the reproduction and distribution or other exclusive acts by themselves is simply untenable.

n77 "Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided . . . and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title." 17 U.S.C. § 201(d)(2) (1995).

n78 17 U.S.C. § 101 (1995).

n79 17 U.S.C. § 201(d)(1) (1995).

n80 The broad general language of many sections such as 106, 501 and 201(d)(2), and the legislative history of those sections support the congressional intent that the rights of copyright owners should be broadly construed unless expressly restricted by the statute

itself. *See, e.g.*, H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61 (1976), *reprinted in* 1976 U.S.C.C.A.N. at 5674 and 5774.

n81 Supplementary Register's Report of the General Revision of the U.S. Copyright Law (1965), 89th Congress, 1st Session May 1965, 1, *reprinted in* 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT at App. 15-40 (emphasis added).

n82 Even if there were some doubts, the Supreme Court's opinion in *Sony* indicates that it should have been a foregone conclusion that only the copyright owner has the exclusive right to authorize the exclusive acts such as public performance. "Use of the film was not [the defendant's] to authorize: the copyright owner possessed the exclusive right to authorize public performances of his work." *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 436, 220 U.S.P.Q. (BNA) 665, 676, *reh'g denied*, 465 U.S. 1112 (1984) (*discussing Kalem Co. v. Harper Brothers*, 222 U.S. 55 (1911)).

n83 If the authors of the Supplementary Report were *convinced* that there would be no doubt that the right to do included the right to authorize, the Report implies that it would have been unnecessary to add the phrase "to authorize."

n84 It may seem novel to call authorization, which typically involves third party conduct, a direct infringement. However, it was noted that "the new statute makes a number of fundamental changes in the American copyright system, including some so profound that they mark a shift in direction for the very philosophy of copyright itself." Barbara Ringer, *First Thoughts on the Copyright Act of 1976*, 22 N.Y.L. SCH. L. REV. 477, 479 (1977). Ms. Ringer was then Register of Copyrights and had substantial input in drafting the 1976 Revision. It is argued here that one of the fundamental changes involved the liability of authorizers.

n85 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-86 n.80.1 & 81.1.

n86 The treatise argues, for example, by citing *Original Appalachian Artworks, Inc. v. Schlaifer Nance & Co.*, 679 F. Supp. 1564, 4 U.S.P.Q.2d (BNA) 1657 (N.D. Ga. 1987), that the "authorization right is different in kind" from other § 106 rights. 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-86 n.81.1. The footnote 81.1, while being an identical reproduction of footnote 80.1 (except for the missing letter "X" after the words "it is beyond cavil"), suffers from a typographical error or otherwise does not seem to convey its intended message. That case can be illustrated as following: O, the owner of the copyright of product P granted A exclusive rights to license its products derived from product P. Next, O developed another product Q and granted B a license to manufacture product Q. A sued O and B claiming that product Q was a "derivative" of product P within the meaning of 17 U.S.C. § 106(2). A claimed that its exclusive right to license others to use product P is one of the "bundle of rights" under § 106 and that O, by granting B a manufacturing license of a derivative of product P, had violated A's exclusive right to authorize. *Original Appalachian*, 679 F. Supp. at 1571, 4 U.S.P.Q.2d (BNA) at 1661. A cited to the broad language of § 106 on exclusive rights and § 201(d) on ownership and the divisibility rights. A also cited to certain cases that dealt with manufacture, distribution and sale rights. The court rejected these cases stating that the manufacture, sale and distribution

rights were expressly covered under § 106 rights. The court held that A was not a copyright owner to begin with in order to claim those § 106 rights and that any rights A had from O originated from the contract between A and O, not from the copyright laws. *Id. at 1572, 4 U.S.P.Q.2d (BNA) at 1662*. Thus A lacked standing to sue under § 501(a). *Id.*

The court rejected the case law authority cited by A, stating that the cases were inapposite because they dealt with distribution, manufacture and sale rights which are expressly covered by § 106. From the court's reasoning, however, one should not conclude that because the present case was concerned with the authorization right, that right is different from the other rights. It is also erroneous to conclude that the court was implying that the authorization right is not expressly covered under § 106. The court's argument, however, was that A, by citing to those cases that dealt with distribution and other rights, was incorrectly asking the court to construe A's right to license, which is a derivative right from O under the statute, at the same level as O's right to authorize. That is, the court would have allowed A's claim if the right to authorize also appeared in the enumerated list of § 106, along with other enumerated acts such as distribution (which is the third enumerated act).

Thus O has statutory support to authorize others to do any of the enumerated acts, but has no statutory support to authorize others to authorize because "authorization" is not an enumerated act. A's right to authorize must find support in some other source, such as the contract between O and A. This is precisely the court's holding. The court's reasoning, at most, supports the proposition that there are two kinds of authorizations: those that are directly related to the doing of the exclusive acts of § 106 and those that are not so related. The statute is only concerned with the former kind of authorization. Thus the court's reasoning does not seem to support Nimmer's proposition that the authorization right is "different" from the right "to do."

n87 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-86 n.81.

n88 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-93.

n89 *Id.* at 12-88; *Subafilms, 24 F.3d, at 1095, 30 U.S.P.Q.2d (BNA) at 1752* (quoting 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][b] at 12-88); *see also Robert Stigwood Group, Ltd. v. O'Reilly, 530 F.2d 1096, 1101, 189 U.S.P.Q. (BNA) 453 (2d Cir. 1976), cert. denied, 429 U.S. 848 (1976)*.

n90 *Metzke v. May Dept. Stores Co., 878 F. Supp. 756, 760-61, 34 U.S.P.Q.2d (BNA) 1844, 1847 (W.D. Pa. 1995)* (citing *Update Art. Inc. v. Modiin Pub., Ltd., 843 F.2d 67, 73, 6 U.S.P.Q.2d (BNA) 1784, 1788 (2d Cir. 1988)*). If directly infringing conduct occurs outside the U.S., it "cannot serve as the basis for holding liable under the Copyright Act one who is merely related to that activity within the United States." 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][b] at 12-88.

n91 *Zenger-Miller, Inc. v. Training Team, GmbH, 757 F. Supp. 1062, 1071, 19 U.S.P.Q.2d (BNA) 1131, 1137 (N.D. Cal. 1991)* (citations omitted) (emphasis original).

n92 *Id. at 1072, 19 U.S.P.Q.2d (BNA) at 1137.*

n93 See *Robert Stigwood Group, Ltd. v. O'Reilly*, 530 F.2d 1096, 1101, 189 U.S.P.Q. (BNA) 453, 458 (2d Cir. 1976), cert. denied, 429 U.S. 848 (1976) (defendant's activities in the U.S. in preparation for Canadian performances did not amount to a direct infringement in the U.S.); *P&D Int'l. v. Halsey Publishing Co.*, 672 F. Supp. 1429, 1432, 5 U.S.P.Q.2d (BNA) 1133, 1136 (S.D. Fla. 1987) (defendant's copying in the U.S. of plaintiff's copyrighted film was sufficient to hold defendant liable even though he might have contributed to another infringing conduct extraterritorially by another); *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d. 45, 52 (2d Cir. 1939) (illegal copying in the U.S. of plaintiff's play actionable even though distribution of the derivative films occurred extraterritorially); and *Curb v. MCA Records, Inc.*, 898 F. Supp. 586, 594-95, 36 U.S.P.Q.2d (BNA) 1824, 1830-31 (M.D. Tenn. 1995) (defendant must have reproduced the master copies in the U.S. and thus is held liable even though extraterritorial distribution occurred by other entities).

n94 *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1094-95, 30 U.S.P.Q.2d (BNA) 1746, 1751 (9th Cir. 1994) (en banc), cert. denied, 115 S.Ct. 512 (1994); *Danjaq, S.A. v. MGM/UA Communications Co.*, 773 F. Supp. 194, 202-03, 21 U.S.P.Q.2d (BNA) 1665, 1671-72.

n95 *Subafilms*, 24 F.3d at 1099, 30 U.S.P.Q.2d (BNA) at 1755.

n96 See *infra* notes 128-168 and accompanying text.

n97 U.S. copyright owners are estimated to have lost approximately \$ 2.3 billion in 1995 in revenues due to overseas copyright piracy. Rone Tempest, *China on Brink of Trade War for 2nd Year*, L.A. TIMES, June 17, 1996, at A1. Aside from piracy related to traditional entertainment industry products such as musical recordings, compact disc players and video cassettes, piracy of computer programs through electronic bulletin boards is fast developing into a major problem. Kelly Tickle, *The Vicarious Liability of Electronic Bulletin Board Operators for the Copyright Infringement Occurring on Their Bulletin Boards*, 80 IOWA L. REV. 391, 396 (1995). It is estimated that as much as \$ 800 million worth of software is being copied illegally through electronic bulletin boards. *Id. at 418 n.42*. With the instantaneous access provided by electronic bulletin boards to customers worldwide, the issue of extraterritorial infringement will take on more commercial significance in the future.

n98 If Congress clearly intended to apply a statute extraterritorially, the courts will adjudicate, even if that means ruling against customary international laws. *United States v. Aluminum Co. of America (Alcoa)*, 148 F.2d 416 (2d Cir. 1945). A U.S. court "cannot look beyond [its] own law." *Id. at 443*.

n99 Throughout this article, the words comity and comity concerns are used to reflect the general notions expressed in the following quote: "'Comity,' in the legal sense, is neither a matter of absolute obligation, . . . nor of mere courtesy and good will But it is the recognition which one nation allows within its territory to the legislative, executive or judicial acts of another nation, having due regard . . . to international duty . . . and to the rights of its own [citizens or domiciliaries]." *Hilton v. Guyot*, 159 U.S. 113, 164 (1895).

Judicial concern for comity has been stated in terms of a rule and a presumption. The rule articulated by Chief Justice Marshall was that "an act of Congress ought never to be construed to violate the law of nations if *any other possible construction remains . . .*" *Murray v. The Schooner Charming Betsy*, 6 U.S. (2 Cranch) 64, 118 (1802) (emphasis added). The presumption was succinctly stated by Justice Holmes as "all legislation is prima facie territorial." *American Banana Co. v. United Fruit Co.*, 213 U.S. 351, 357 (1908) (citations omitted).

A fundamental distinction between these two presumptions is that the Marshall rule does not prohibit adjudication if the construction of a statute does not amount to ascribing to Congress an intent of disrespect toward international laws. That is, if the statute could be construed so that there would be no concern or minimal concerns for comity, then the Marshall presumption is not a barrier. Thus the recognized bases of extraterritorial jurisdiction, such as territoriality and nationality principles pass this test. *See infra* notes 111-117 and accompanying text for a brief introduction to these principles. On the other hand, the Holmes presumption, if taken too far, bars adjudication, even if the statute can be construed to comply with international laws. The Holmes presumption in such cases converts absence of congressional consideration of extraterritoriality of *any statute* into *evidence* of congressional rejection of its extraterritorial application.

n100 Prescriptive or legislative jurisdiction is the "authority of a state to make its laws applicable to particular conduct, relationships, or status." It is distinct from subject matter jurisdiction (judicial jurisdiction) and prescribes the substantive law to govern a given dispute, regardless of where the dispute will be heard. *See generally*, GARY B. BORN & DAVID WESTIN, INTERNATIONAL CIVIL LITIGATION IN THE UNITED STATES COURTS, COMMENTARY AND MATERIALS 541 (2d ed. 1992).

n101 RESTATEMENT (THIRD) FOREIGN RELATIONS LAW OF THE UNITED STATES § 402, cmt. c (1987). The protective principle applies to national security, and becomes hardly a factor in international civil litigation. *Id.* at § 402(3). The universality principle applies to acts that deserve universal condemnation, such as piracy on the high seas, and is also unimportant for the present purposes. *Id.* at § 404.

n102 *Id.* at § 402, cmt. c. The territoriality principle is the oldest and most universally recognized basis of prescriptive jurisdiction and still plays a prominent role. *Id.*

n103 *Id.* at § 402(2). The nationality principle was first enunciated clearly in *Blackmer v. United States*, 284 U.S. 421 (1931). The issue there was whether the United States could compel its citizens domiciled abroad to obey U.S. laws. "While the legislation of the Congress, unless the contrary intent appears, is construed to apply only within the territorial jurisdiction of the United States, the question of its application, so far as citizens of the United States in foreign countries are concerned, is *one of construction*, not of legislative power." *Id.* at 437 (citations omitted) (emphasis added). "With respect to such an exercise of authority, there is *no question* of international law, but solely of the purport of the municipal law which establishes the duties of the citizen in relation to his own government." *Id.* (footnotes omitted) (emphasis added).

n104 Jonathan Turley, *"When in Rome": Multinational Misconduct and the Presumption against Extraterritoriality*, 84 *NW. U. L. REV.* 598, 610 n.79 (1990) (citation omitted).

n105 148 *F.2d* 416 (2d Cir. 1945). The issue was whether the Sherman Act covered Alcoa's anti-competitive conduct abroad.

n106 *Id.* at 443-44. Judge Hand acknowledged that the Sherman Act should be read with international comity concerns in mind but argued that "it is settled law . . . that any state may impose liabilities, even upon persons not within its allegiance, for conduct outside its borders that has consequences within its borders which the state reprehends; and these liabilities other states will ordinarily recognize." *Id.* at 443, (citing *Strassheim v. Daily*, 221 *U.S.* 280 (1911) (other citations omitted) and RESTATEMENT OF CONFLICT OF LAWS § 65). The effects doctrine would apply regardless of a defendant's nationality, even if the entire conduct took place abroad, and the defendant was acting lawfully under its national laws. A defendant's conduct will be judged by domestic standards and the defendant has the burden of proving that the conduct under examination did not have any U.S. market effect.

n107 RESTATEMENT (THIRD) FOREIGN RELATIONS LAW OF THE UNITED STATES § 402(1) cmt. d (1987).

n108 *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 *F.3d* 1088, 1094-95, 30 *U.S.P.Q.2d* (BNA) 1746, 1751 (9th Cir. 1994) (en banc), *cert. denied*, 115 *S.Ct.* 512 (1994).

n109 *Id.* at 1097, 30 *U.S.P.Q.2d* (BNA) at 1754-55.

n110 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][b] at 12-89-90. Nimmer concludes that there is no geographical nexus required to impose liability on violators of authorization right whereas such geographical nexus is required in case of violators of the "to do" right. *Id.*

n111 *Id.* at 12-89.

n112 *Id.*

n113 *Id.*

n114 *Id.* at 12-89-90.

n115 To prevent this result, the treatise changes its earlier stance, *supra* note 94 and accompanying text, that the right to do is different from the right to authorize, and states that "deference must be paid to the House Report's construction of 'to do' and 'to authorize' *in pari materia*." 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][b] at 12-89-90 (emphasis original).

n116 This structure is substantially identical to a section of the patent statute: "Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, *within the United States* during the term of the patent therefor, infringes the patent." 35 *U.S.C.* § 271(a) (1996) (emphasis added).

n117 *See supra* notes 74-80 and accompanying text for an exploration of the relationship between the right to do and the right to authorize.

n118 *See supra* notes 106-108 and accompanying text. Additionally, even if one desired to apply the effects doctrine and hold the Taiwanese authorizer liable, such jurisdiction should be exercised after more cautious analysis because the Taiwanese example presents strong grounds for comity concerns. Otherwise, a Taiwanese national acting on Taiwanese territory and presumably complying with Taiwanese laws would be charged with violating the U.S. laws which have no application to him in Taiwan. "For another jurisdiction, if it should happen to lay hold of the actor, to treat him according to its own notions rather than those of the place where he did the acts, not only would be unjust, but would be an interference with the authority of another sovereign, contrary to the comity of nations, which the other state concerned justly might resent." *American Banana Co. v. United Fruit Co.*, 213 U.S. 351, 356 (1908) (citations omitted). The *Subafilms* court invoked comity concerns on facts far less compelling than these. *See infra* notes 173-178 and accompanying text. The only case that explicitly applied the effects doctrine in the copyright area appears to be *GB Marketing USA v. Gerolsteiner Brunnen GmbH*, 782 F. Supp. 763, 21 U.S.P.Q.2d (BNA) 1982 (W.D.N.Y. 1991). In *Gerolsteiner*, the direct infringement of labeling and sale of water bottles containing infringing labels occurred in Germany. The contributory infringement of importation into the U.S. was committed by a third party. The court ruled that it did have subject matter jurisdiction over the direct infringer in Germany under the effects doctrine. *Id.* at 773, 21 U.S.P.Q.2d (BNA) at 1989. "The general principle . . . is that it is unfair to hold a person liable under the laws of this nation for acts done abroad, except when those acts are intended to, and do, have an effect within the United States." *Id.* The court continued that it "does not limit its inquiry to a purely mechanical examination of where Gerolsteiner's acts physically took place. In fact, it is precisely because the copyright statutes are aimed at infringement in the United States that the court must also consider the location of the effect of Gerolsteiner's alleged actions, i.e., the location of the ultimate direct infringement." *Id.*

n119 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][b] at 12-90.

n120 *Id.* at 12-92.

n121 Ironically, this is one of the arguments the *Subafilms* court raised in support of its holding that the defendant was not liable for its authorizations in the U.S. *Subafilms*, 24 F.3d at 1097-98, 30 U.S.P.Q.2d (BNA) at 1754.

n122 17 U.S.C. § 106(5) (1995).

n123 *But see* 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][b] at 12-93-94.

n124 Another example cited by Nimmer argues that anyone in the U.S. can authorize the reproduction of U.S. copyrighted material in a country that does not have a copyright law. *Id.* at 12-94-95. Again, the treatise wrongly focuses on foreign laws and foreign conduct in assessing a defendant's conduct under the U.S. laws.

n125 The *Subafilms* court itself properly rejected the plaintiff's contention that the defendants' activities would be considered illegal under the laws of virtually every nation. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1093, 30 U.S.P.Q.2d

(BNA) 1746, 1750 (9th Cir. 1994) (en banc), cert. denied, 115 S.Ct. 512 (1994). See also *Robert Stigwood Group, Ltd. v. O'Reilly*, 530 F.2d 1096, 1101, 189 U.S.P.Q. (BNA) 453, 457 (2d Cir. 1976), cert. denied, 429 U.S. 848 (1976) (defendant's extraterritorial acts in Canada are not actionable and defendant's preparations in the United States do not amount to an act of infringement; "the Canadian performances, while they may have been torts in Canada, were not torts here." *Id.*); *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52, 42 U.S.P.Q. (BNA) 540, 545 (2d Cir. 1939) (defendant copied plaintiff's play without permission and caused distribution overseas and was liable because his copying in the U.S. was an act of infringement; the extraterritorial conduct was irrelevant for liability); *Update Art. Inc. v. Modiin Pub., Ltd.*, 843 F.2d 67, 73, 6 U.S.P.Q.2d (BNA) 1784, 1788 (2d Cir. 1988); ("If [the direct infringement] occurred in Israel, American copyright laws would have no application to the Israeli newspapers."); *De Bardossy v. Puski*, 763 F. Supp. 1239, 1239-40 (S.D.N.Y. 1991) ("No infringing acts took place within the United States, as books allegedly distributed in Hungary were legally printed in the United States, and the contracts providing for Hungarian distribution were negotiated in Hungary."); *Metzke v. May Dept. Stores Co.*, 878 F. Supp. 756, 761, 34 U.S.P.Q.2d (BNA) 1844, 1847 (W.D. Pa. 1995) ("May can not be contributorily liable for Maru Fung's actions that occurred outside the United States." Thus a Taiwanese entity can not be a direct infringer for its actions in Taiwan because the U.S. copyright laws have no extraterritorial effect. *Id.* at 760, 34 U.S.P.Q.2d (BNA) at 1847); *Ahbez v. Edwin H. Morris & Co.*, 548 F. Supp. 664, 666-67 (S.D.N.Y. 1982) (Plaintiff failed to show acts of infringement occurring in the U.S. because the alleged activities occurred in Europe.); and *ITSI T.V. Prods. v. California Auth. of Racing Fairs*, 785 F. Supp. 854, 863 (E.D. Cal. 1992) ("Because 'authorization' is itself actionable as a 'direct' act of copyright infringement, the fact that the act 'authorized' occurs abroad is irrelevant to the question whether the court has subject matter jurisdiction over a claim for authorization.").

n126 See *infra* notes 136-78 and accompanying text.

n127 *Subafilms*, 24 F.3d at 1097, 30 U.S.P.Q.2d (BNA) at 1753.

n128 The extraterritorial aspects discussed in *Subafilms* were not essential to the disposition of the case. The court could have ruled that because it did not recognize the authorization as a direct violation, and that violation of an act of direct infringement must occur within the United States for liability to extend extraterritorially, there was no violation of the Copyright Act. In fact, this was its central holding. However, the *Subafilms* court did address the issue of congressional intent for the Copyright Act to apply extraterritorially.

n129 "There is no clear expression of congressional intent in either the 1976 Act or other relevant enactments to alter the preexisting extraterritoriality doctrine." *Subafilms*, 24 F.3d at 1096, 30 U.S.P.Q.2d (BNA) at 1752.

n130 499 U.S. 244 (1991). The plaintiff, a U.S. citizen, complained that his U.S. employers discriminated against him while he was employed overseas and filed a Title VII complaint. See *Boureslan v. Aramco*, 857 F.2d 1014 (1988), *aff'd on rehearing*, 892 F.2d 1271 (5th Cir. 1990) (en banc) for prior history.

Aramco itself relied on an earlier but factually similar case, *Foley Bros., Inc. v. Filardo*, 336 U.S. 281 (1948), even though Congress legislatively overruled the specific

ruling of *Foley Bros.* within weeks after the decision. In *Foley Bros.*, the plaintiff alleged that he was denied overtime payment under the Eight Hour Law when he worked for the defendants in Iran. The Eight Hour Law at issue drew no distinction between alien laborers and U.S. laborers. The Court reasoned that if the statute were applicable to extraterritorial conduct, it would offend the foreign nation because the statute would be in effect prescribing conduct for both the U.S. citizens there and the local citizens if they happened to contract with the U.S. company. The Court was purporting to apply the comity reasoning of *American Banana Co. v. United Fruit Co.*, 213 U.S. 351, 357 (1908) (citations omitted), but failed to properly gauge an essential ingredient of comity analysis, namely the interests of the foreign government in the dispute at hand. The case was solely between two U.S. parties and there was no evidence of potential concern expressed by any foreign entity.

n131 The Civil Rights Act of 1991, Pub. L. No. 102-166, 105 Sta. 1077 (reprinted in 42 U.S.C. § § 1981 et seq.)

n132 In fact, in the seminal case, *American Banana Co. v. United Fruit Co.*, 213 U.S. 351, (1908) (citations omitted), Justice Holmes did not even mention or in any way suggest that congressional history should be consulted before ruling on the issue. Any reference to congressional history was also absent in *United States v. Bowman*, 260 U.S. 94 (1922), and in *Blackmer v. United States*, 284 U.S. 421 (1931).

n133 "Clear-statement rules operate less to reveal *actual* congressional intent than to shield important values from an *insufficiently strong* legislative intent to displace them. When they apply, such rules foreclose inquiry into extrinsic guides to interpretation . . . and even compel courts to select less plausible candidates from within the range of permissible constructions . . ." *Aramco*, 499 U.S. at 262-63 (Marshall, J., dissenting) (citations omitted) (emphasis original).

n134 More specifically, the Court refused to look to the legislative history behind the alien exclusion clause that specifically exempted application of Title VII to U.S. employers employing citizens of foreign countries in foreign lands. *Id.* at 268-69 (Marshall, J., dissenting). The alien exclusion clause was first introduced to circumvent the *Foley Bros.* rationale, where the Court concluded that the lack of distinction between aliens and U.S. citizens meant that the Eight Hour Law did not apply abroad. *Id.* at 272.

n135 The Copyright Act is not totally bereft of extraterritorial concerns. Congress certainly contemplated and provided that infringing material manufactured abroad should be prohibited from being imported into this country. *See* 17 U.S.C. § § 601-603 (1994). Additionally, the definition of infringer under 17 U.S.C. § 501(a) includes those who import such pirated material. The most logical explanation for Congress not including an explicit provision to cover the factual situation of *Subafilms* is that Congress did not foresee either that such infringement would be perpetrated overseas by U.S. citizens, or that the judicial interpretation of such conduct would result in a loophole created as in the case of *Subafilms*. Otherwise, "are we to assume that Congress is *not concerned* if an American company authorizes infringement to take place [in certain places overseas] and directly profits from it?" Michael T. Crowley, Note, *Raise The Yellow Submarine! Subafilms and Extraterritorial Application of the Copyright Act*, 48 *FED. COMM. L.J.* 133, 155 (1995) (emphasis added).

n136 260 U.S. 94 (1922). Specific charges against the defendant included criminal conspiracy to defraud the U.S. government on high seas as well as in Brazil. *Id.* at 96-97. The defendant argued that the criminal statute in question was silent on the issue of extraterritoriality and thus under the presumption articulated in *American Banana*, he would not be liable for acts committed on high seas or within the jurisdiction of Brazil. *Id.*

n137 *Id.* at 98 (emphasis added).

n138 *Id.* (emphasis added).

n139 148 F.2d 416, 444 (2d Cir. 1945).

n140 *Id.* at 443. Judge Hand acknowledged that the Sherman Act should be read with international comity concerns in mind. *Id.* at 443. But he argued that "it is settled law . . . that any state may impose liabilities, even upon persons not within its allegiance, for conduct outside its borders that has consequences within its borders which the state reprehends; and these liabilities other states will ordinarily recognize." *Id.* (citations omitted).

n141 405 F.2d 200, *rev'd on other grounds*, 405 F.2d 215 (2d Cir. 1968) (en banc), *cert. denied*, 395 U.S. 906 (1969).

n142 *Id.* at 206 (emphasis added).

n143 519 F.2d 974 (2d Cir.), *cert denied*, 423 U.S. 1018 (1975).

n144 "We freely acknowledge that if we were asked to point to [legislative history that] compelled [the extraterritorial application], we would be unable to respond. The Congress that passed [these securities laws] . . . could hardly have been expected to *foresee* the development . . . thirty years later . . ." *Id.* at 993 (emphasis added).

n145 *Id.* (emphasis added).

n146 824 F.2d 27 (D.C. Cir. 1987). Judge Bork rationalized that "fifty years ago, Congress did not consider how far American courts should have jurisdiction to decide cases involving predominantly foreign securities transactions with some link to the United States." *Id.* at 30. He noted that Congress could not have imagined the extensive nature and complexity of the international securities markets. *Id.* "In this state of affairs, our inquiry becomes the dubious but apparently unavoidable task of discerning a purely hypothetical legislative intent." *Id.*

n147 344 U.S. 280, 95 U.S.P.Q. (BNA) 391 (1952).

n148 *Id.* at 285, 95 U.S.P.Q. (BNA) at 393.

n149 *Id.*

n150 *Id.* at 283, 95 U.S.P.Q. (BNA) at 392. The scope of commerce power included "all commerce which may lawfully be regulated by Congress" and commerce "entered into between the United States and foreign nations." *Id.* at 283-84, 95 U.S.P.Q. (BNA) at 392-93 (citing 15 U.S.C. § 1127).

n151 *Id.* at 287, 95 U.S.P.Q. (BNA) at 394.

n152 213 U.S. 347 (1908).

n153 *Bulova*, 344 U.S. at 287, 95 U.S.P.Q. (BNA) at 394. Moreover, the Court was encouraged by the Mexican Supreme Court's upholding the repeal of Steele's trademark protection in Mexico. *Id.* at 285, 95 U.S.P.Q. (BNA) at 393. The "simple device" the Court was referring to was the defendant's illegal scheme of manufacturing in Mexico to bypass the U.S. trademark laws.

n154 The authorization by the defendant, MGM-Pathé, in *Subafilms* is in fact a "simpler" device than the elaborate scheme devised and the efforts expended by the defendant Steele in *Bulova*.

n155 Indeed, in *Subafilms* it appears that the direct infringer was waiting for approval from MGM-Pathé and arguably would not have proceeded to infringe had there been no authorization from MGM-Pathé.

n156 14 F.3d 733, 745, 29 U.S.P.Q.2d (BNA) 1321, 1330 (2d Cir. 1994). For an earlier discussion of the *Bulova* factors and an excellent recognition by the Second Circuit of the extraterritorial issues, see *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 109 U.S.P.Q. (BNA) 438 (2d Cir.), cert. denied, 352 U.S. 871 (1956).

n157 *Vanity Fair Mills*, 234 F.2d at 745-46, 29 U.S.P.Q.2d (BNA) at 1330.

n158 Rone Tempest, *U.S., China on Brink of Trade War for 2nd Year*, L.A. TIMES, June 17, 1996, at A1; Tony Walker, *Sanctions Deadline Prompts Propaganda Onslaught*, FINANCIAL TIMES, June 17, 1996, at 3.

n159 *Subafilms*, 24 F.3d at 1097, 30 U.S.P.Q.2d (BNA) at 1753.

n160 509 U.S. 764 (1993). In *Hartford Fire*, the respondents alleged that both domestic and foreign defendants conspired to affect the American insurance market. The defendants argued that, due to a conflict between British law and American law, the suit be dismissed for reasons of comity.

n161 *Id.* at 799 (citing RESTATEMENT (THIRD) FOREIGN RELATIONS LAW OF THE UNITED STATES § 403 cmt. e (1987)). The Supreme Court implicitly recognized that Congress rejected attempts to limit its prescriptive jurisdiction when it declined to codify RESTATEMENT (SECOND) FOREIGN RELATIONS § 403. See H.R. Rep. No. 686, 97th Cong., 2d Sess. 13 (1982). The Restatement's approach was essentially similar to that announced by the Ninth Circuit in *Timberlane Lumber Co. v. Bank of America, N.T. & S.A.*, 749 F.2d 1378 (9th Cir. 1984). The *Timberlane* factors were meant to guide judges in deciding when to apply a statute extraterritorially. However, careful evaluation of the factors is required; otherwise, the application of the statute will be restricted. For a sharp criticism of *Timberlane's* approach, see *Laker Airways Ltd. v. Sabena, Belgian World Airlines*, 731 F.2d 909 (D.C. Cir. 1984). The congressional rejection of codification in § 403 is a clear signal of its unwillingness to self-restrict its extraterritorial jurisdiction in the name of comity.

n162 *Subafilms, Ltd. v. MGM-Pathé Communications Co.*, 24 F.3d 1088, 1097, 30 U.S.P.Q.2d (BNA) 1746, 1754 (9th Cir. 1994) (en banc), cert. denied, 115 S.Ct. 512 (1994).

n163 Michael T. Crowley, Note, *Raise The Yellow Submarine! Subafilms and Extraterritorial Application of the Copyright Act*, 48 FED. COMM. L.J. 133, 153 (1995).

n164 *Id. at 156.*

n165 Given the absence of objection from any source from the United Kingdom in this case, the comity concern raised by the court in *Subafilms* seems to be largely imaginary. Foreign reaction is often expressed by the foreign government itself in the form of an *amicus curie* brief submitted to the U.S. courts as in case of *Hartford Fire Ins. Co. v. California*, 509 U.S. 764 (1993). More commonly, the foreign government makes a diplomatic protest to the Department of Justice. In the most egregious cases, foreign outrage takes the shape of blocking statutes that would make it illegal for any non-U.S. citizen to cooperate or comply with U.S. laws that apply extraterritorially. Such blocking statutes, such as that passed by the U.K. government, are common in the antitrust area. *See generally* GARY B. BORN & DAVID WESTIN, *INTERNATIONAL CIVIL LITIGATION IN THE UNITED STATES COURTS, COMMENTARY AND MATERIALS* 541, 602-3 (2d ed. 1992).

n166 For the past decade the Executive Branch and Congress have aggressively negotiated and made difficult compromises in getting many nations to sign the General Agreement on Tariff and Trade (GATT). For a recent version of GATT, *see* Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Apr. 15, 1994, reprinted in H.R. Doc. No. 316, 103d Cong., 2d Sess. 1326 (1994). Further rules on trade-related intellectual property rights (TRIPS) were annexed to GATT. Agreement on Trade Related Aspects of Intellectual Property Rights, art. 41(2), Annex 1C, Agreement Establishing the World Trade Organization, Apr. 15, 1994, reprinted in H.R. Doc. No. 316, 103d Cong., 2d Sess. 1621 (1994). The major purpose behind the TRIPS agreement was to obtain greater protection of U.S. intellectual property. Statement of Administrative Action, Pub. L. No. 103-465, 1994 U.S.C.C.A.N. (108 Stat.) 4280.

Given the lucrative market for pirated goods, the U.S. government's task of stamping out international piracy of U.S. copyrighted products is a continuous and challenging one. Most recently, the U.S. threatened to impose sanctions of more than \$ 2 billion against Chinese imports if China did not cooperate in protecting American copyrights. *See* Rone Tempest, *China on Brink of Trade War for 2nd Year*, L.A. TIMES, June 17, 1996, at A1 and Tony Walker, *Sanctions Deadline Prompts Propaganda Onslaught*, FINANCIAL TIMES, June 17, 1996, at 3. China threatened that it would retaliate and impose sanctions on American exports to China. However, what would have been the biggest trade sanctions in history were avoided when China eventually acquiesced. Editorial, *China Bends on Copyright Pirates*, CHICAGO TRIBUNE, June 18, 1996, at N14.

Three lessons can be gleaned from these examples. First, courts should not be concerned about raising international tensions when they exercise extraterritorial jurisdiction in intellectual property matters. Both the President and Congress will likely welcome such support from the judiciary. Second, as stated, judicial action sends a strong message to pirates that the judiciary fully understands international relations and will not be misled by superficial arguments based on international comity concerns. Third, exercising jurisdiction eliminates the hypocritical situation that arises when the U.S. aggressively pursues other nations to honor its copyrights while its courts appear not to hold its own citizens liable for committing similar violations in a foreign country.

n167 *Boureslan v. Aramco*, 499 U.S. at 274 (Marshall, J., dissenting) (citations omitted). In other words, under the Marshall Rule, *supra* note 109, there was another construction *possible* that would not violate the international laws.

n168 See also Michael T. Crowley, Note, *Raise The Yellow Submarine! Subafilms and Extraterritorial Application of the Copyright Act*, 48 *FED. COMM. L.J.* 133, 156 (1995).

n169 It is also arguable that the concepts from the trademark area are not transferable to the copyright area. The majority of the Supreme Court in *Sony* rejected the argument that the standard for contributory infringement in the trademark area should be applied to that case. *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 439 n.19, 220 U.S.P.Q. (BNA) 665, 677 n.19, *reh'g denied*, 465 U.S. 1112 (1984). The Court stated: "we have consistently rejected the proposition that a [kinship similar to that between copyrights and patents] exists between copyright law and trademark law. . . ." *Id.*, (citing among others, *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918) ("trademark right 'has little or no analogy' to copyright or patent.")).

Despite the strength of the majority's reasoning in *Sony*, the issue here is not the standard of contributory infringement, but rather, whether and when a statute should be applied extraterritorially. Accordingly, such a distinction between patent, trademark, and copyright laws is not meaningful in the case of extraterritorial application of the respective statutes. In fact the individual *Bulova* factors as articulated in *Sterling Drug*, *supra* notes 170-71 and accompanying text, are all based on one overriding principle, namely the concern to maximize international comity, which is the ultimate concern in the extraterritorial application of any statute. The *Bulova* factors of defendant's citizenship, and inquiry into conflicts with foreign law are applicable to extraterritorial application of any statute. The third *Bulova* factor of substantial adverse effects on the economy of affected nation would be universally recognized as a valid reason to exercise prescriptive jurisdiction and should raise no alarm in international community.

Additionally, *Subafilms* is factually much closer to *Bulova* than *Aramco*. It should also be pointed out that the *Aramco* context is civil rights, where enforcement of those rights is charged to the Equal Employment Opportunity Commission. Whereas in the case of trademarks and copyrights, enforcement is left to individual owners of those rights. Consequently, the policy and enforcement objectives are very different between the statutes in *Aramco* and *Subafilms*.

n170 *Aramco*, 499 U.S. at 252. Title VII of the 1964 Civil Rights Act defined commerce as "trade, traffic . . . among the several States; or between a State and *any place outside thereof*. . . ." Reprinted in 42 U.S.C. § 2000e(g) (1992) (emphasis added). Cf. *Steele v. Bulova*, 344 U.S. 281, 284, 95 U.S.P.Q. (BNA) 391, 393 (1952) (the commerce language of the Lanham Act includes commerce "entered into between the United States and foreign nations"). The commerce language in Title VII is substantially similar in scope to the commerce language in Lanham Act. While the Court's attempt in *Aramco* to de-emphasize Title VII's commerce language by calling it "boiler plate" was unconvincing, the Court reached the correct result.

n171 *Aramco*, 499 U.S. at 258. The court pointed to numerous statutes which contained commerce language but nonetheless have been held to have no extraterritorial application. *Id.* at 250-51.

n172 406 U.S. 518, 173 U.S.P.Q. (BNA) 769 (1972), *reh'g. denied*, 409 U.S. 902 (1973). In *Deepsouth*, the defendant was exporting individual components overseas and having those parts assembled and sold there. The finished product would have infringed under U.S. patent law if the assembly had taken place in the U.S. The patent statute clearly uses the words "within the United States" when defining the scope of patent infringement. Accordingly, the Supreme Court in *Deepsouth* held that the defendant by assembling outside the U.S. the several elements of a combination claimed in a U.S. patent was not an infringer because the U.S. patent grant applied only to U.S. activity. *Id.* at 531, 173 U.S.P.Q. (BNA) at 774.

Congress amended the statute by adding to 35 U.S.C. § 271 a new subsection 271(f), which recognized an exception to the territoriality of § 271. Patent Law Amendments of 1984, 130 CONG. REC. H10,525 (daily ed. Oct. 1, 1984), 98th Cong., 2d Sess., *reprinted in* 1984 U.S.C.C.A.N. 5827. Congress stated that "§ 271(f) [was in response] to the decision in *Deepsouth Packaging Co v. Laitram Corp.* concerning the need for a legislative solution to close a loophole in the patent law." 1984 U.S.C.C.A.N. § 5827.

n173 Even more burdensome for the plaintiff in *Deepsouth* was the fact that the patent statute expressly stated that it was concerned with infringement activity in the United States only. 35 U.S.C. § 271(a) (1995) provides: "Except as otherwise provided in this title, whoever without authority makes, uses, or sells any patented invention, *within the United States* during the term of the patent therefor, infringe the patent." (emphasis added).

n174 "We would require a clear and certain signal from Congress before approving the position [that the patent laws are applicable extraterritorially.]" *Deepsouth*, 406 U.S. at 531, 173 U.S.P.Q. (BNA) at 774.

n175 In the case of the patent statute, Congress added § 271(f) to Title 35, which contained no commerce language. Similarly, congressional overruling of *Aramco* consisted of adding a new § 2000e(f) to Title 42 which specified that the definition of "employee" included a U.S. citizen. Civil Rights Act of 1991, Pub.L. No. 102-166, 105 Stat. 1077. Additionally, Title VII was amended to make exemptions to the application of Title VII in the face of international comity concerns. *Id.* Congress did not amend or add any new commerce language to the statute. Further, in case of the Eight Hour Law, Congress inserted an alien-exemption provision that specifically exempted U.S. employers employing citizens of foreign countries in foreign lands. H.R. Rep. No. 4453, 81st Cong., 1st Sess. (1949). Again, Congress did not use commerce language to accomplish its objective.

n176 The plaintiff in *Subafilms* indeed argued that, by analogizing copyrights with patents, the court should notice that Congress enacted 35 U.S.C. § 271(f) to specifically overrule *Deepsouth*. *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1092, 30 U.S.P.Q.2d (BNA) 1746, 1749 (9th Cir. 1994) (en banc), *cert. denied*, 115 S.Ct. 512 (1994). Such an analogy is made by the Supreme Court in *Sony*. See *Sony Corp. v.*

Universal City Studios, 464 U.S. 417, 439 & n. 19, 220 U.S.P.Q. (BNA) 665, 677 n.19, reh'g denied, 465 U.S. 1112 (1984).

n177 *Subafilms*, 24 F.3d at 1092 n.7, 30 U.S.P.Q.2d (BNA) at 1749 n.7.

n178 *Id.* at 1096, 30 U.S.P.Q.2d (BNA) at 1752.

n179 *Aramco*, 499 U.S. at 258.

n180 488 U.S. 428 (1989).

n181 *Id.* at 440.

n182 *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1094, 30 U.S.P.Q.2d (BNA) 1746, 1751 (9th Cir. 1994) (en banc), cert. denied, 115 S.Ct. 512 (1994) (citing *Danjaq, S.A. v. MGM/UA Communications, Co.*, 773 F. Supp. 194, 203, 21 U.S.P.Q.2d (BNA) 1665, 1672 (C.D. Cal. 1991), aff'd on other grounds, 979 F.2d 772 (9th Cir. 1992).

n183 "In a case where the infringer sustains the burden of proving . . . that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court it [sic] its discretion may reduce the award of statutory damages to a sum of not less than \$ 200." 17 U.S.C. § 504(c)(2) (1994). Thus an innocent infringer can not escape liability completely. Many courts have recognized the basic principle that "intent to infringe is not a prerequisite to liability for infringement." Michael J. McCambridge, *Contributory Infringement by Providing the Means: The Staple Article of Commerce Doctrine and an Alternative Analysis for Copyright Law*, 18 J. MARSHALL L. REV., 703, 707 n.19 (1985).

n184 17 U.S.C. §§ 107-120 (1995) provide for various defenses against assertion of exclusive rights of 17 U.S.C. § 106.

n185 See Michael T. Crowley, Note, *Raise The Yellow Submarine! Subafilms and Extraterritorial Application of the Copyright Act*, 48 FED. COMM. L.J. 133, 159-61 (1995).

n186 See *supra* notes 49-51, 88, and 126 and accompanying text.

n187 "We express no opinion on whether liability might attach when a party authorizes an act that *could* constitute copyright infringement, but the 'attempted' infringement fails." *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1094 n. 8, 30 U.S.P.Q.2d (BNA) 1746, 1751 n.8 (emphasis original). The court might have legitimately avoided the inquiry suggested in the text because the court was not presented with the issue directly. But this line of inquiry is essential to understand the scope of authorization.

n188 *Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*, 964 F.2d 965, 970, 22 U.S.P.Q.2d (BNA) 1857, 1861 (9th Cir. 1992), cert. denied, 507 U.S. 985 (1993).

n189 *Subafilms*, 24 F.3d at 1094, 30 U.S.P.Q.2d (BNA) at 1751.

n190 See *supra* notes 49-51, 88, and 126 and accompanying text.

n191 800 F.2d 59, 62, 230 U.S.P.Q. (BNA) 869, 871 (3d Cir. 1986).

n192 In *Aveco*, the court first determined that defendant had authorized certain conduct. Then the court proceeded to inquire if the authorized conduct was a public or a private display and determined that the authorized conduct was a public display and only then held that the defendant was liable.

n193 866 F.2d 278, 9 U.S.P.Q.2d (BNA) 1653 (9th Cir. 1989).

n194 *Id.* at 279-81, 9 U.S.P.Q.2d (BNA) at 1654-55.

n195 *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1092, 30 U.S.P.Q.2d (BNA) 1746, 1749 (9th Cir. 1994) (en banc), cert. denied, 115 S.Ct. 512 (1994); 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-87 n. 82.

n196 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-87 n. 82. However, it should be noted that the court in *Professional Real Estate* distinguished *Aveco* on the facts, but seemed to have followed the basic reasoning of *Aveco*. "[Defendant's] operation differs from [the operation in *Aveco*] because its 'nature' is the providing of living accommodations and general hotel services, which may incidentally include the rental of videodisks to interested guests for viewing in guest rooms." *Professional Real Estate*, 866 F.2d at 281, 9 U.S.P.Q.2d (BNA) at 1655.

n197 "Any court having [appropriate jurisdiction] may . . . grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." 17 U.S.C. § 502(a) (1995).

n198 If the plaintiff knows in advance of the defendant's infringing activity, then injunction is available under 17 U.S.C. § 502. But this is rarely a useful device when the defendant is a commercially sophisticated operator and the profits from infringement are substantial, in which case the defendant keeps the fact of authorization as much a secret as possible.

n199 *But see* 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3][a] at 12-87-88 for the argument that state law causes of action are adequate to address plaintiff's complaints and that federal courts should dismiss those cases. One court apparently was influenced by this reasoning. *Danjaq, S.A. v. MGM/UA Communications Co.*, 773 F. Supp. 194, 201, 21 U.S.P.Q.2d (BNA) 1665, 1671.

n200 This argument severely undercuts the constitutional underpinnings of the copyright law and raises questions as to the role of the judiciary as a supra-legislative body. *See also* PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 6.3.2 at 6:27.

n201 The copyright owner can recover statutory damages, instead of actual profits and damages, "a sum of not less than \$ 500 or more than \$ 20,000 as the court considers just." 17 U.S.C. § 504(c)(1) (1995) (emphasis added). If there is willful infringement of the authorization right, the statute provides for statutory damages of not more than \$ 100,000, subject to court's discretion. *Id.* § 504(c)(2) (1995). If the defendant can prove that she lacked actual knowledge of the infringement, "the court it [sic] its discretion may

reduce the award of statutory damages to a sum of not less than \$ 200." *Id.* § 504(c)(2) (1995) (emphasis added).