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- Restoring Order in European Patent Law:  
A Proposal for the Reintroduction of the  
Substantive Patent Provisions of the Unitary  
Patent Package into EU Law.....*Michael J. Crowley*
- A Critical Look At “Use” Under the Lanham Act.....*Krystil McDowall*

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Scholars in Support of Respondents in Alice Corp.  
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and Brian J. Love*

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## PREFACE

With the close of the semester, and the 2014/15 Academic Year, comes the publishing of our Spring 2015 Issue. One point of discussion surrounding the development of this issue was the idea of time. What is the role of time in the context of the law and how does the evolution of popular opinion shape the direction of law over time? While this consideration may be the result of a looming graduation, or because we are in a time of national and global reform, this idea stuck out as a relevant issue to consider at this time in the intellectual property landscape.

This topic led us to question the role of the law and its permanence. Assuming the law is intended to reflect a desire for order, fairness and justice, is it possible to establish a standard for law in a field that is inherently designed to evolve and push boundaries? In this issue you see two opposing opinions facing the evolution of intellectual property law. While authors like Amy Lai promote the use of classical theory to address issues in copyright law, other authors, like Xiao Ma, promote the use of contemporary ideals to address emerging concerns in the digital copyright landscape. In this way we see a pull between the old and the new; a pull which, for better or worse, will always be present in intellectual property law. Additionally, works like those of Jason Schultz, Brian Love, and Steve Gordon ask us to question how already existing law can be applied to emerging industries, and whether a new system is actually preferable. With one foot planted firmly on the ground and our eyes on the future it is our hope that this issue will ask you to question how to best apply a “permanence standard” of law in a world that is always changing.

We sincerely hope you find this issue both enjoyable and enlightening.

Sincerely,

Spencer C. Joffrion  
*Editor-in-Chief*  
*NYU Journal of Intellectual Property*  
*& Entertainment Law*

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RESTORING ORDER IN EUROPEAN PATENT LAW: A  
PROPOSAL FOR THE REINTRODUCTION OF THE  
SUBSTANTIVE PATENT PROVISIONS OF THE UNITARY  
PATENT PACKAGE INTO EU LAW

MICHAEL J. CROWLEY\*

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## INTRODUCTION

Europe is on the verge of instituting a uniform patent regime that will change the landscape of patent litigation in twenty-five member countries. The unitary patent package will include a European patent with unitary effect (“unitary patent”) and the creation of a Unified Patent Court (“UPC”). Patentees will no longer have to litigate in each member country; a single litigation will be binding throughout all of the participating countries.<sup>1</sup> The unitary patent will be effective in all participating member states, and the UPC will have jurisdiction throughout the same. The UPC will apply the same laws of infringement and invalidity regardless of where infringement or litigation occurred. The outcome of litigation, whether it is a finding of infringement or invalidity, will be applicable throughout the entire jurisdiction.

The new regime is the product of many compromises and is an even more remarkable achievement in light of the controversy surrounding its enactment. In particular, patent practitioners, academics, and judges debated the inclusion of Articles 6 through 9 in the regulation implementing the unitary patent (“UPR”).<sup>2</sup>

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<sup>1</sup> *Unitary patent – frequently asked questions*, EUROPEAN PATENT OFFICE (Dec. 13, 2012), <http://www.epo.org/law-practice/unitary/faq.html> - faq-636.

<sup>2</sup> Proposal for a Regulation of the European Parliament and of the Council Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection, COM/2011/0215 final 2011/0093 (COD). For leading examples of the sides of this debate, see Rudolf Kraßer, *Effects of an inclusion of regulations concerning the contents and limits of the patent holder’s rights to prohibit in an EU regulation for the creation of unitary European patent protection*, EP LAW BLOG (Oct. 18, 2011), <http://www.eplawpatentblog.com/2011/October/Opinion%20Prof%20Krasser%20EN.pdf>; Winfried Tilmann, *The Battle About Art. 6–8 of the Union-Patent-Regulation*, UK PARLIAMENT (Feb. 28, 2012), <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmeuleg/writev/1799/upi10.htm>.

These articles constituted the substantive patent provisions. They defined the rights that the unitary patent confers, including the laws on direct and indirect infringement, patent exhaustion, and defenses to infringement.<sup>3</sup> Inclusion of these provisions in the UPR would have made them a part of European Union (“EU”) law, and therefore subject to the European Court of Justice (“ECJ”). The groups opposed to the Articles’ inclusion feared that ECJ oversight would eliminate the benefits of the patent system by slowing patent litigation and increasing costs.<sup>4</sup> Proponents of the Articles’ inclusion focused on a legal argument based on the requirements of the Treaty on the Functioning of the European Union (“TFEU”).<sup>5</sup> The EU decided to remove the Articles from the UPR and put them in the international agreement that established the UPC, called the Agreement on a Unified Patent Court (“UPCA”).

The Article’s move from the UPR to the UPCA removed the substantive patent provisions from EU law and from the ECJ’s jurisdiction. This note argues that the EU should not have removed the substantive patent provisions from the UPR and that their removal will have an unintended negative effect for the UPC. Part I looks at the relevant history and structure of the European patent system. Part II explores the probable consequences of removing the patent provisions. These probable consequences include: first, the UPC’s judicial isolation diminishing the quality of its jurisprudence; second, the exclusion of patent law from the rest of EU law damaging both patent and non-patent law because it removes the ability to balance the needs of different areas of law; and third, the harm to the European legal system because of the manner in which the removal of the provisions occurred. The Federal Circuit serves as a model for how an isolated specialist court can avoid these problems. Part III shows that the groups opposed to the provisions exaggerated their concerns over the inclusion of the substantive patent provisions in the UPR. The

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<sup>3</sup> Agreement on a Unified Patent Court, arts. 6–8, Feb. 19, 2013, 2013 O.J. (C175) 1 [hereinafter *Agreement*].

<sup>4</sup> Kraßer, *supra* note 2.

<sup>5</sup> Article 118 of the TFEU requires that “the European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall establish measures for the creation of European intellectual property rights to provide uniform protection of intellectual property rights throughout the Union and for the setting up of centralised Union-wide authorisation, coordination and supervision arrangements.” The legal argument is that the empty unitary patent found in the Regulation does not provide “uniform protection” and thus Article 118 TFEU does not authorize it. Without that authorization, the EU would be overstepping its bounds in creating the unitary patent. See Tilmann, *supra* note 2. Advocate General Bot opposed this argument but the ECJ has not decided the case. Opinion of Advocate General Bot, Spain v. Parliament and Council, Case C-146/13, [2014] E.C.R. I\_\_\_ (delivered Nov. 18, 2014) (judgment not yet issued).

inclusion of the substantive patent provisions in EU law will provide benefits to the European patent community and EU law that outweigh any negative effects.

## I

### HISTORY AND STRUCTURE OF THE UNIFIED PATENT COURT AND UNITARY PATENT

The creation of a European patent law has followed a convoluted route, and its structure reflects this process. It is necessary to understand the history of European patent law, the UPC's fit within the EU judiciary, and the structure and function of the UPC in order to understand the effects of removing the substantive patent provisions from the UPR.

#### A. *History of European Patent Law*

The European Union has tried and failed to create a uniform European patent regime for over fifty years.<sup>6</sup> Beginning in 1973, Europe took the first step toward patent harmonization—the European Patent Convention (“EPC”).<sup>7</sup> The EPC created the European patent and the European Patent Organization (“EPO”).<sup>8</sup> A European patent, which the EPO issues, is not a single patent but a bundle of national patents: one patent for each of the countries that the patentee designates on his application to the EPO.<sup>9</sup> The EPC defined many substantive patent terms for patent prosecution, including patentability, inventive step, and novelty.<sup>10</sup>

Though the EPC represented a significant step toward a unified European patent law, many aspects of patent law remain fragmented. A patentee has to enforce her patent in each of the member nations of the EU, and she incurs significant litigation costs for every jurisdiction where she enforces her rights.<sup>11</sup> In addition to EU member-states, eleven non-EU countries have also signed onto the EPC, further

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<sup>6</sup> See generally Kevin P. Mahne, *A Unitary Patent and Unified Patent Court for the European Union: An Analysis of Europe's Long Standing Attempt to Create a Supranational Patent System*, 94 J. PAT. & TRADEMARK OFF. SOC'Y 173, 175 (2012) (detailing Europe's many attempts to harmonize European patent law).

<sup>7</sup> *Id.* at 174.

<sup>8</sup> *Id.* at 173–75.

<sup>9</sup> The European patent is now the European patent without unitary effect. This note will continue to refer to them as European patents, as opposed to unitary patents. Christopher J. Harnett & Amanda F. Wieker, *The EU Unitary Patent and Unified Patent Court: Simplicity and Standardization, Challenge, and Opportunity*, 25 No. 4 INTELL. PROP. & TECH. L.J. 15 (2013).

<sup>10</sup> Mahne, *supra* note 6, at 174.

<sup>11</sup> *Id.* at 174–75.

compounding the issues associated with geographic fragmentation.<sup>12</sup> The EPC is not a part of EU law, and the EPO is not an EU institution. Therefore, the EPC is outside of the ECJ's jurisdictional reach.<sup>13</sup> In 1975, the European Economic Community attempted to create a Europe-wide unitary patent as well as a uniform set of rules governing the effect of the unitary patent. Ultimately, not all of the members ratified the agreement, and the attempt to create a unitary patent failed.<sup>14</sup>

Europe took the next step in the development of European patent law, the creation of the unitary patent package, in stages during 2012 and 2013, and it will go into effect four months after thirteen countries, including Germany, France, and the UK, ratify the UPCA.<sup>15</sup> The patent package includes the UPC and the unitary patent. The UPC and its related agreements and legislation created a single court with jurisdiction over all contracting member states. The unitary patent is a patent that is valid and enforceable throughout all contracting member states.

### *B. How the UPC Fits into the EU Judiciary*

The UPC is not an EU institution but an international court common to the member states that have acceded to the UPCA.<sup>16</sup> This means that the relationship between the UPC and the ECJ is that of a national court to a European one. It is necessary to explain the structure of the EU judiciary in order to understand the contours of this relationship.

The Court of Justice of the European Union ("CJEU") is the judicial body of the European Union. Three courts comprise the CJEU: the Civil Service Tribunal, the General Court, and the Court of Justice or European Court of Justice.<sup>17</sup> Of these,

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<sup>12</sup> In addition to all twenty-seven European Union member-states, the EPO also includes Switzerland, Liechtenstein, Turkey, Monaco, Iceland, Norway, the Republic of Macedonia, San Marino, Albania, and Serbia. *Member states of the European Patent Organisation*, EUROPEAN PATENT OFFICE (Mar. 10, 2015), <http://www.epo.org/about-us/organisation/member-states.html>; Mahne, *supra* note 6, at 173–74.

<sup>13</sup> *The European Patent Convention*, EUROPEAN PATENT OFFICE (Nov. 01, 2014), <http://www.epo.org/law-practice/legal-texts/html/epc/2013/e/ar2.html>; Gérald Sédrati-Dinet, *Academics Confirm Flaws in the Unitary Patent*, at 1, available at <http://ssrn.com/abstract=2111581>.

<sup>14</sup> Mahne, *supra* note 6, at 175–76.

<sup>15</sup> Agreement, *supra* note 3, art. 89.

<sup>16</sup> *Id.* at 1.

<sup>17</sup> The Civil Service Tribunal is a specialized court that hears disputes involving the European Union civil service, and the General Court hears disputes against European Union institutions, such as for denial of a trademark from the Office for Harmonization in the Internal Market. Litigants can make an appeal to the ECJ on points of law. The ECJ is the highest court in the

the ECJ is the only court that the UPC would deal with directly.<sup>18</sup> The ECJ is not an appellate court to the national courts, and individual parties cannot appeal decisions from the national courts to the ECJ.<sup>19</sup> Instead, the national courts may refer questions of interpretation of EU law to the ECJ, which then responds with its interpretation. The ECJ does not resolve factual disputes.<sup>20</sup> If the national court is the court of last resort for the case, then the court must refer the novel question to the ECJ.<sup>21</sup> The ECJ's opinion is binding on the national court, which helps to ensure uniform application of EU law by the national courts.

### C. *The Structure and Function of the Unified Patent Court and the Unitary Patent*

Three substantive legal documents provide the legal basis for the unitary patent package: the UPR,<sup>22</sup> which establishes the unitary patent, the regulation regarding the applicable translation requirement,<sup>23</sup> and the UPCA, which is an international agreement between the participating member states and deals with the structure, function, and make-up of the UPC as well as the substantive rights conferred by the unitary patent.<sup>24</sup> These documents grant the UPC exclusive

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European Union tasked with interpreting European Union Law. *Court of Justice Presentation*, CURIA, [http://curia.europa.eu/jcms/jcms/Jo2\\_7024/](http://curia.europa.eu/jcms/jcms/Jo2_7024/) (last visited April 10, 2015); *General Court Presentation*, CURIA, [http://curia.europa.eu/jcms/jcms/Jo2\\_7033/](http://curia.europa.eu/jcms/jcms/Jo2_7033/) (last visited April 10, 2015); *Civil Service Tribunal*, CURIA, [http://curia.europa.eu/jcms/jcms/T5\\_5230/](http://curia.europa.eu/jcms/jcms/T5_5230/) - compétence (last visited April 10, 2015).

<sup>18</sup> The ECJ's interaction with the CJEU would consist of references for preliminary rulings. The ECJ is the only court in the CJEU that can answer references from national courts. Vaughne Miller, *Taking a complaint to the Court of Justice of the European Union*, STANDARD NOTE SN05397, 7–8 (2010).

<sup>19</sup> See Lars Hornuf & Stefan Voigt, *Preliminary References – Analyzing the Determinants that Made the ECJ the Powerful Court it Is*, CESIFO WORKING PAPER No. 3769, 4 (2012).

<sup>20</sup> Ricardo Garcua Antón, *Indirect taxation and the role of the European Court of Justice within the preliminary reference procedure*, 5 PERSPECTIVES ON FEDERALISM 38, 46 (2013); Allan Rosas, *The National Judge As EU Judge; Some Constitutional Observations*, 67 SMU L. REV. 717, 720 (2014).

<sup>21</sup> Hornuf & Voigt, *supra* note 19, at 4.

<sup>22</sup> Regulation 1257/2012, of the European Parliament and of the Council of 17 December 2012 Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection, 2012 O.J. (L361) 1 (EU) [hereinafter *UPR*].

<sup>23</sup> Council Regulation 1260/2012, Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection with Regard to the Applicable Translation Arrangements, 2012 O.J. (L361) 89 (EU).

<sup>24</sup> Christoph Cordes, *The Unitary Patent and the Unified Patent Court*, 49 LES NOUVELLES 184, 185 (2014).

jurisdiction over unitary patents.<sup>25</sup> Patentees have the right for the first seven years to opt out of the UPC's jurisdiction for their European patents.<sup>26</sup> The UPC will have jurisdiction over non-opted out European patents.<sup>27</sup> The UPC's jurisdiction over European patents is not exclusive, and a litigant can bring the case in a national court, as long as there is not a pending case in the UPC.<sup>28</sup> The UPC will not have jurisdiction over European patents for which holders have exercised their opt-out right, or over national patents.<sup>29</sup>

The UPC includes the Court of Appeals and the Court of First Instance ("COFI").<sup>30</sup> The Court of First Instance has a Central Division in Paris, and two additional branches of the Central Division in London and in Munich.<sup>31</sup> In addition to the Central Division, the Court of First Instance comprises of an as-of-yet undetermined number of local<sup>32</sup> and regional divisions.<sup>33</sup> A member state can have multiple local divisions and be a member of a regional division.<sup>34</sup>

The local and regional divisions do not have static judges that consistently sit on a court, and the judges of a local or regional division are not necessarily from the same nation or group of nations as the division.<sup>35</sup> Rather, a COFI will have a panel of three judges—its composition determined by its operational history: If a COFI sees fewer than fifty patent cases over the preceding year, then the panel will include

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<sup>25</sup> Agreement, *supra* note 3; UPR, *supra* note 22, art. 9.

<sup>26</sup> Agreement, *supra* note 3, art. 83; see Paul England, *In? Out? What's it all About? Patent Opt-out and Withdrawal in the UPC*, 9 J. INTELL. PROP. L. & PRAC. 915, 915–16 (2014).

<sup>27</sup> The opted-out European patents will continue to function as a European patent without unitary effect. Agreement, *supra* note 25, art. 83; See England, *supra* note 26, at 915–16.

<sup>28</sup> Agreement, *supra* note 3, art. 83; see England, *supra* note 26, at 915–16.

<sup>29</sup> It is unknown what law national courts will apply to European patents. If a litigant brings an action involving a European patent before the UPC, it will apply UPC law. If a litigant brings a European patent before a national court or opted out the patent, it is unclear what law the national courts will be apply. The argument in favor of the national court applying UPC law is that it would be absurd to be able to forum shop which law a court will apply to the patent, when the choice of law is so wide. On the other hand, applying UPC law would potentially lead to divergent interpretations that are not under the control of the UPC and thus cannot be uniform.

<sup>30</sup> Agreement, *supra* note 3, art. 6.

<sup>31</sup> The three parts to the Central Division have different substantive specialties. London's specialty is pharmaceuticals, chemistry, and human necessities, Paris' is textiles, electricity, and physics, and Munich's is mechanical engineering. *Id.* at annex II.

<sup>32</sup> A local division is a branch of the COFI serving a particular member state. *Id.* art. 7.

<sup>33</sup> A regional division is a branch of the COFI serving multiple member states that have agreed to function as a region. *Id.*

<sup>34</sup> *Id.*

<sup>35</sup> *Id.* art. 8.

one judge who is a national of the country in which the division is located, and two judges who are nationals of a different country.<sup>36</sup> Litigants will be able to request that the panel include a single technically qualified judge. The president of the COFI will choose the technically qualified judge from a pool of qualified judges.<sup>37</sup> The parties can appeal the decision of the COFI to the Court of Appeals in Luxembourg on matters of law.<sup>38</sup> The Court of Appeals consists of a panel of five judges.<sup>39</sup> Three of the judges are legally qualified and are from differing countries. The other two judges are technically qualified judges in the relevant field.<sup>40</sup> All of the judges of the UPC will participate in a uniform training program to educate them on the substantive and procedural aspects of the new European patent law.<sup>41</sup>

Many questions remain about the structure and function of the UPC. The UPC's case law will likely answer these questions during its formative years. However, the ambiguity surrounding some of the most basic aspects of litigation, such as the average duration and frequency of bifurcation,<sup>42</sup> make any discussion of the UPC challenging. As the UPC progresses, it will provide more answers, and the patent community's understanding of the UPC will increase.

## II.

### THE BENEFITS OF INCLUDING THE SUBSTANTIVE PATENT PROVISIONS IN EU LAW

The removal of the substantive European patent provisions from the UCR will create problems for the European patent community. These problems will arise from both the court's judicial isolation, as well as the effect of placing control over substantive patent law in the hands of the individual nations. The reintroduction of

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<sup>36</sup> Agreement, *supra* note 3, at art 8.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.* art. 73.

<sup>39</sup> *Id.* art. 9.

<sup>40</sup> *Id.*

<sup>41</sup> *Id.* art. 11.

<sup>42</sup> A local or regional court will have the option to bifurcate cases into separate invalidity and infringement proceedings by sending the invalidity proceeding to the Central Division while it retains the infringement proceeding. It is unclear what the division will use to decide whether it should bifurcate or how often they will bifurcate. Agreement, *supra* note 3, art. 33; *How Will the UPC Decide on Whether or Not to Hear Infringement and Validity Together?*, UNIFIED PATENT COURT, <http://www.unified-patent-court.org/about-the-upc/22-category-i> (last visited Mar. 30, 2015) ("It is expected that the division concerned will take these decisions taking into account all relevant circumstances of the case, including grounds of fairness to the parties.").

the substantive patent provisions into EU law could lessen the impact of these problems for the UPC.

*A. Courts Benefit from Interacting with Other Courts' Interpretations and Choices*

The quality of the UPC's jurisprudence will suffer from the Court's isolation from the EU judiciary. An isolated court is prone to both ossification and oscillation. The U.S. Court of Appeals for the Federal Circuit demonstrates this effect; its judicial isolation has reduced the quality of patent law in the United States.<sup>43</sup> The Federal Circuit provides a look at the UPC's future and a model for potential solutions.

Congress established the Federal Circuit in 1982 with the enactment of the Federal Courts Improvement Act of 1982.<sup>44</sup> The Federal Circuit was the culmination of years of study and legislative efforts. It solved a number of problems in the judiciary, including increasing caseloads at the regional circuit courts and the prevalence of appellate forum shopping in patent law.<sup>45</sup> Congress created the Federal Circuit to reduce the circuit courts' caseloads without increasing internal circuit inconsistency or circuit splits. They also aimed to reduce forum shopping by creating more uniformity and consistency in patent law.<sup>46</sup> Efficiency and uniformity are also the two most prominent justifications for the UPC.<sup>47</sup>

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<sup>43</sup> The Federal Circuit provides a useful comparison because of its relative length of existence and the similarity between the United States and the European Union in terms of economic, legal, and technological sophistication.

<sup>44</sup> Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (codified as amended in scattered sections of 28 U.S.C.); Dunstan H. Barnes, *Technically Speaking, Does It Matter? An Empirical Study Linking the Federal Circuit Judges' Technical Backgrounds to How They Analyze the Section 112 Enablement and Written Description Requirements*, 88 CHI.-KENT L. REV. 971, 980 (2013).

<sup>45</sup> Rochelle C. Dreyfuss, *Percolation, Uniformity, and Coherent Adjudication: The Federal Circuit Experience*, 66 SMU L. REV. 505–06 (2013) [hereinafter Dreyfuss, *Percolation*]; Rochelle Cooper Dreyfuss, *What the Federal Circuit Can Learn from the Supreme Court—and Vice Versa*, 59 AM. U. L. REV. 787, 795 (2010) [hereinafter Dreyfuss, *Supreme Court*].

<sup>46</sup> Dreyfuss, *Supreme Court*, *supra* note 45, at 788.

<sup>47</sup> Agreement, *supra* note 3, art. 1; Harnett & Wieker, *supra* note 9, at 15 (“The establishment of a specialized European patent court resembles the decision of the United States Congress in 1982 to create the Court of Appeals for the Federal Circuit (Federal Circuit)—an appellate body with exclusive jurisdiction over all US patent appeals.”).

The Federal Circuit is an appellate court that, unlike the UPC, does not have a specialized trial court component.<sup>48</sup> Therefore, the Federal Circuit hears appeals from non-specialist trial courts, and is appealable to the non-specialist Supreme Court.<sup>49</sup> For its first fifteen years, the Federal Circuit was the de facto source for the final word on patent law. The Supreme Court took very few patent cases and the ones that it did deal with procedural issues.<sup>50</sup> This has completely reversed in the last decade, and the Supreme Court has taken twenty-seven patent cases from the Federal Circuit in the last thirteen years.<sup>51</sup> The appeals have been on a wide range of issues, including patentable subject matter, non-obviousness, and injunctive relief.<sup>52</sup>

Conversely, the UPC will be a national court of each of the contracting member states.<sup>53</sup> This means that the relationship between the UPC and the CJEU will not be the same as between the Federal Circuit and the Supreme Court. The UPC must refer questions of EU law to the ECJ,<sup>54</sup> and the ECJ will answer the referred questions by interpreting EU law. However, the ECJ does not apply law to the factual situation.<sup>55</sup> An individual's right of direct access to the ECJ is extremely limited, and parties have no say as to when a national court refers a question of EU law to the ECJ.<sup>56</sup>

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<sup>48</sup> *Court Jurisdiction*, UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, <http://www.cafc.uscourts.gov/the-court/court-jurisdiction.html> (last visited April 10, 2015).

<sup>49</sup> Daniel J. Meador, *Origin of the Federal Circuit: A Personal Account*, 41 AM U. L. REV. 581, 587 (1992).

<sup>50</sup> Dreyfuss, *Percolation*, *supra* note 45, at 509–10.

<sup>51</sup> Gregory Castanias, *Developments in Patent Law: A View from an Appellate Perspective*, in THE IMPACT OF RECENT PATENT LAW CASES AND DEVELOPMENTS 1, 4 (2015).

<sup>52</sup> Dreyfuss, *Percolation*, *supra* note 45, at 512–13.

<sup>53</sup> Agreement, *supra* note 3, art. 1 (“The Unified Patent Court shall be a court common to the Contracting Member States and thus subject to the same obligations under EU law as any national court of the Contracting Member States.”).

<sup>54</sup> *The Reference for a Preliminary Ruling*, EUROPA (Feb. 20, 2013), [http://europa.eu/legislation\\_summaries/institutional\\_affairs/decisionmaking\\_process/114552\\_en.html](http://europa.eu/legislation_summaries/institutional_affairs/decisionmaking_process/114552_en.html).

<sup>55</sup> The ECJ has arguably thinned the line between interpretation and application. The combination of the ECJ's willingness to take extremely narrow questions, as well as the guidance it issues which instruct the national court how to apply the interpretation, has effectively turned the national court-ECJ relationship into an inferior-superior appellate relationship. PAUL CRAIG & GRÁINNE DE BÚRCA, EU LAW: TEXT, CASES AND MATERIALS 493–94 (Oxford University Press, 5th ed. 2011).

<sup>56</sup> Miller, *supra* note 18, at 7–8 (“It must be emphasized that the individual cannot make a direct reference for a preliminary ruling; it must come from a national court or tribunal . . .”).

### 1. *The Effect of Isolation on the Federal Circuit's Jurisprudence*

The Federal Circuit's structure has created problems that Congress did not foresee. The features that Congress considered the Federal Circuit's biggest assets, such as its specialized nature and ability to adjudicate patent cases separate from other courts, have dampened the quality of its patent jurisprudence. Three features demonstrate the effect that the Federal Circuit's isolation has had on the quality of its jurisprudence: its lack of doctrinal consistency, its high rate of reversal at the Supreme Court, and its reduction of patenting standards to harmfully low levels. While a court's jurisprudence is difficult to quantify, these three factors indicate serious issues.

#### *i. Doctrinal Inconsistency*

The Federal Circuit's jurisprudence exhibits high levels of doctrinal inconsistency. Doctrines such as inequitable conduct have swung from one extreme to another. Originally, inequitable conduct was broader than common law fraud and was relatively easy to prove.<sup>57</sup> However, in a 2011 en banc decision, the Federal Circuit radically reversed this position to combat the "absolute plague" that inequitable conduct had become.<sup>58</sup> The history of the non-obviousness doctrine exhibits the same fluctuation.<sup>59</sup> Claim construction has had an even more dangerous trajectory. Claim construction doctrine has darted about without coherent direction, almost entirely dependent on panel composition.<sup>60</sup> The normal tool for resolving intra-circuit splits, an en banc hearing, has proven completely unsuccessful in the Federal Circuit.<sup>61</sup>

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<sup>57</sup> Critikon, Inc. v. Becton Dickinson Vascular Access, Inc., 120 F.3d 1253, 1257–59 (Fed. Cir. 1997); Dreyfuss, *Percolation*, *supra* note 45, at 518–19.

<sup>58</sup> Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1297 (Fed. Cir. 2011) (en banc); Dreyfuss, *Percolation*, *supra* note 45, at 518–19.

<sup>59</sup> Dreyfuss, *Percolation*, *supra* note 45, at 512–13.

<sup>60</sup> At one time, there was a website run by a law professor that would predict the outcome of the case based on the panel of judges. *The Federal Circuit Predictor*, CLAIMCONSTRUCTION.COM, <http://predictor.claimconstruction.com/> (last visited Mar. 22, 2015). Additionally, the Federal Circuit reverses an estimated 34.5–40% of claim construction appeals from district courts. Paul M. Schoenhard, *Reversing the Reversal Rate: Using Real Property Principles to Guide Federal Circuit Patent Jurisprudence*, 17 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 299, 303 (2007).

<sup>61</sup> Claim construction en banc decisions have resulted in fractious and open-ended opinions. R. Polk Wagner & Lee Petherbridge, *Did Phillips Change Anything? Empirical Analysis of The Federal Circuit's Claim Construction Jurisprudence*, THE CLAIM CONSTRUCTION PROJECT (July 14, 2007), [https://www.law.upenn.edu/blogs/polk/claimconstruction/files/wagner\\_phillips.pdf](https://www.law.upenn.edu/blogs/polk/claimconstruction/files/wagner_phillips.pdf).

This doctrinal oscillation comes from the Federal Circuit's failure to self-correct and address problematic doctrines.<sup>62</sup> In order to correct, the Court can replace old doctrines with radically new but equally untested doctrines, as with inequitable conduct, or, if the Court cannot agree on an alternative, individual camps within the Court espouse competing doctrines that they apply in their panels, as with claim construction.<sup>63</sup> In contrast, the U.S. circuit court system at large has built a self-correction mechanism. If a court has made a mistake, that opinion does not have precedential effect for a different circuit, and the new court will decide the issue on new facts.<sup>64</sup> In general, this leads to a number of circuits adopting the 'correct' interpretation. Ideally, the outlier circuits change their view based on the applied decisions of the other circuit courts.<sup>65</sup>

When the Federal Circuit makes a doctrinal shift, it affects the entire nation. If the court later determines that the decision was wrong, they can either follow *stare decisis* or upturn the entire system and take another blind stab.<sup>66</sup> They do not have the benefit of competing courts testing out doctrinal theories. The Federal Circuit's isolation, which was supposed to create a uniform and efficient system, is thus lowering both the quality and the predictability of patent law.

*ii. Reversals*

For the first decade of the Federal Circuit's existence, the Supreme Court rarely took appeals from it and even more rarely reversed it.<sup>67</sup> This low rate of

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<sup>62</sup> Jeremy W. Bock, *Restructuring the Federal Circuit*, 3 NYU J. INTELL. PROP. & ENT. L. 197, 201 (2014).

<sup>63</sup> Dreyfuss, *Percolation*, *supra* note 45, at 519.

<sup>64</sup> Cecil D. Quillen, Jr., *Response Essay: Rethinking Federal Circuit Jurisdiction – A Short Comment*, GEO L.J. ONLINE 23, 24 (2012) [hereinafter Quillen, *Response Essay*].

<sup>65</sup> Of course this sometimes does not occur, leading to circuit splits and, often, a Supreme Court opinion. Wagner & Petherbridge, *supra* note 61.

<sup>66</sup> *Moba, B.V. v. Diamond Automation, Inc.*, 325 F.3d 1306, 1322 (Fed. Cir. 2003) (Rader, J., concurring) (“Whenever a Federal Circuit panel makes an error interpreting the patent code, every district court in the nation, and even every later Federal Circuit panel, is obliged to follow and perpetuate the error. Even the Supreme Court has difficulty identifying errors for correction because this court's national jurisdiction requires universal application of a mistake.”); Quillen, *Response Essay*, *supra* note 64, at 24; Cecil D. Quillen, Jr., *Innovation and the U.S. Patent System*, 1 VA. L. & BUS. REV. 207, 232 (2006) (“However, in our current patent system, once the Federal Circuit has decided a case, there is no opportunity for alternative views to develop free from the constraints of *stare decisis*....”).

<sup>67</sup> These appeals were on technical issues. They dealt with the functioning of the Federal Circuit more than the nuances of patent law. They were not significant forays into patent law, but affirmation's of the functioning of the Federal Circuit from above the Federal Circuit itself.

reversal has not continued, and in the last thirteen years, the Supreme Court has taken twenty-seven appeals from the Federal Circuit, and it has completely reversed the Federal Circuit's opinion more than 70% of those times.<sup>68</sup> While the change from few reversals to many reversals does not necessarily indicate a decrease in quality over the time as much as a change in Supreme Court policy, the current high rate of reversal does seem to indicate an issue of quality with the Federal Circuit's jurisprudence. The Supreme Court's recent reversals tie into the issue discussed above. The Federal Circuit cannot effectively and efficiently self-correct, and therefore the Supreme Court is the only option. This, then, is both a symptom of the Federal Circuit inability to work out patent law problems without the intervention of the Supreme Court, and a demonstration of how the Supreme Court can work as a partial solution to the Federal Circuit's isolation.

*iii. Patent Friendly*

The Federal Circuit's jurisprudence has been criticized for being too patent friendly.<sup>69</sup> Its jurisprudence has decreased the standards of patentability, resulting in patent thickets.<sup>70</sup> This is not true of all areas, but some doctrines have received particular scorn for lowering the bar of patentability, such as the Federal Circuit's teaching-motivation-suggestion test. That test set the standard for combining two pieces of prior art to invalidate a patent as obvious as whether the prior art included teachings, suggestions, or motivation to combine the art. This resulted in the U.S. Patent and Trademark Office granting patents that were obvious when compared to the common knowledge of the field.<sup>71</sup>

Many of the Federal Circuit doctrines that the Supreme Court has overruled in recent years were extremely patent friendly, and the Supreme Court has had a moderating effect on the Federal Circuit's jurisprudence.<sup>72</sup> For example, the Supreme Court raised the bar of patentability and potentially reduced patent thickets by overturning the teaching-motivation-suggestion test.<sup>73</sup> The Federal Circuit's

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Dreyfuss, *Percolation*, *supra* note 46, at 509–10.; John F. Duffy, *The Festo Decision and the Return of the Supreme Court to the Bar of Patents*, 2002 SUP. CT. REV. 273, 275–76 (2002).

<sup>68</sup> Castanias, *supra* note 51, at 4.

<sup>69</sup> Arti K. Rai, *Competing with the "Patent Court": A Newly Robust Ecosystem*, 13 CHI.-KENT J. INTELL. PROP. 386, 388 (2014) (noting that the Federal Circuit's purpose is to create "a regime that, within the limits of the statutory language, promotes innovation..."); Paul R. Gugliuzza, *Saving the Federal Circuit*, 13 CHI.-KENT J. INTELL. PROP. 350, 373–74 (2014).

<sup>70</sup> Rochelle Cooper Dreyfuss, *The Federal Circuit As an Institution: What Ought We to Expect?*, 43 LOY. L.A. L. REV. 827, 835–36 (2010).

<sup>71</sup> Dreyfuss, *Percolation*, *supra* note 45, at 512–13.

<sup>72</sup> Dreyfuss, *Supreme Court*, *supra* note 45, at 795; 9, 1131–133.

<sup>73</sup> Dreyfuss, *Percolation*, *supra* note 45, at 512–13.

narrow patent-friendly jurisprudence shows insufficient regard for the purposes of patent law and is symptomatic of the heart of the problem with specialist courts.

In general, the Federal Circuit has escaped capture by either the patent bar or interested parties largely because the parties who would be the ones capturing are often on both sides of cases and therefore do not uniformly benefit from strictly pro-patentee or pro-defendant doctrines.<sup>74</sup> Regardless, the Federal Circuit has been undeniably pro-patent, partially because of the role that it plays within the U.S. patent system.<sup>75</sup> For years, the judges of the Federal Circuit viewed themselves as defenders of patents, not as adjudicators of a balanced patent system.<sup>76</sup> Patent rights took on moral tones, and the focus went from stimulating innovation to supporting patents for patents sake.<sup>77</sup> Specialized patent courts in general are at risk of following a similar pattern.<sup>78</sup>

These factors demonstrate an issue with the quality of the Federal Circuit's jurisprudence. The Supreme Court provides some of the benefits of a generalist peer court, such as increased dialogue, honing of legal arguments, the ability to test doctrines, and the chance to make law based on different factual situations. For example, Supreme Court Justices have made the point that a stronger patent law does not necessarily equate to a better patent law.<sup>79</sup>

The relationship between the Supreme Court and the Federal Circuit has been contentious in the last decade, and this has resulted in a less than ideal adjudicatory

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<sup>74</sup> Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 27–28 (1989) [hereinafter Dreyfuss, *Case Study*].

<sup>75</sup> *Id.* at 28.

<sup>76</sup> Glynn S. Lunney, Jr., *Patent Law, the Federal Circuit, and the Supreme Court: A Quiet Revolution*, 11 SUP. CT. ECON. REV. 1, 2 (2004) (“Intended, at least by some of its supporters, to rescue patents from a judiciary often suspicious, if not overtly hostile, towards patents, the Federal Circuit has taken its role as defender of the patent system seriously. Using its exclusive jurisdiction over patent appeals, and relying on the sporadic and inherently limited nature of Supreme Court review, the Federal Circuit has rewritten the nonobviousness requirement and the doctrine of equivalents, sharply limiting their reach.”).

<sup>77</sup> Lorna M. Vélez Gómez, *Minds at Work: Employed Inventors' Ideas for A Therapeutic Patent System*, 5 U. P.R. BUS. L.J. 46, 55–56 (2014); Eric Schmitt, *Business and the Law: Judicial Shift in Patent Cases*, N.Y. TIMES, Jan. 21, 1986, at D2 (“The Kodak-Polaroid patent dispute is the most prominent example of an increasingly pro-patent sentiment in American courts[.]”).

<sup>78</sup> Dreyfuss, *Case Study*, *supra* note 74, at 26.

<sup>79</sup> *Lab. Corp. of America Holdings v. Metabolite Labs. Inc.*, 548 U.S. 124, 126 (2006) (Breyer, J., dissenting) (per curiam).

environment.<sup>80</sup> Nonetheless, the Supreme Court's practice of issuing guidelines, norms, and policy has served to break up unnecessarily rigid Federal Circuit rules and has served as a shot in the arm to patent jurisprudence.<sup>81</sup> While the Supreme Court's involvement in patent law has served to increase uncertainty and has created some chaos, it has also alleviated some of the difficulties that an isolated court poses.

## 2. *The Effect of Isolation on the UPC and Potential Solutions*

The idea that courts suffer in isolation is not limited to the Federal Circuit. It applies to isolated specialized courts in general and therefore to the UPC. Indeed, the UPC will face challenges that are more significant than the Federal Circuit's because the UPC has much weaker judicial relationships. The chance for either ossification or oscillation is great. The UPC will be working in a vacuum, completely removed from other legal opinions or policy arguments. Unfortunately, the structure of the EU's judiciary and the UPC make a circuit system impossible.

The COFI cannot provide the necessary simulation and challenge for the UPC to avoid this plight. The same judges will not sit on the same court consistently, eliminating the development of a distinct jurisprudence in a specific COFI court.<sup>82</sup> Additionally, the judges' knowledge of European patent law will all stem from identical training programs.<sup>83</sup> These measures, which reduce forum shopping and increase uniformity, will also decrease the quality of the UPC's jurisprudence by removing the COFI courts' opportunity to become laboratories of independent legal thought.

Moving the substantive provisions into EU law would allow the ECJ to provide some benefit to the UPC. The ECJ's opinions would inject another court's views into the UCP's jurisprudence. It is true that this would create a different dynamic than the relationship that exists between the Federal Circuit and the Supreme Court because the ECJ would not be issuing opinions on questions that the UCP itself has answered officially. Regardless, there would still be many of the same

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<sup>80</sup> See generally The Honorable Paul R. Michel, *The Supreme Court Saps Patent Certainty*, 82 GEO. WASH. L. REV. 1751 (2014) (detailing the tension between the Supreme Court and Federal Circuit).

<sup>81</sup> John M. Golden, *The Supreme Court as "Prime Percolator": A Prescription for Appellate Review of Questions in Patent Law*, 56 UCLA L. REV. 657, 686 (2009).

<sup>82</sup> The President of the COFI will assign judges for each court on a case-by-case basis. Agreement, *supra* note 3, art. 8.

<sup>83</sup> *Id.* art. 11.

benefits. Additionally, the UCP, in referring questions to the ECJ, could provide its own thoughts and a suggested result to the ECJ.<sup>84</sup>

Further, as the line between interpretation and application becomes blurred the relationship between the UCP and the ECJ will become more like the American system. If the UPC could refer questions to the ECJ, then the UCP would try the case, applying previous ECJ opinions to the particular factual situation. If there were a new question of law, the ECJ would answer it with input from the UCP. The UCP would then take the ECJ's opinion, and apply it as it sees fit. There will be disagreements, and questions might go between the courts multiple times. It is in that process where the benefit of the system lies.

More specifically, specialist courts benefit from superior generalist courts. The structure of specialist courts, and the many roles they play, can cause them to become overly narrow in their application of law; a generalist court can help to correct when the specialist court has gone astray. The Supreme Court plays this role for the Federal Circuit by acting as a balance. The Federal Circuit must play two roles that are at times in opposition.<sup>85</sup> It must correctly decide the cases from the district courts, on the facts as they come up. Additionally, it also must take on a quasi-managerial role in patent law and must curate patent law and create doctrines that the trial courts can apply.<sup>86</sup> This role has led the Federal Circuit to adopt standards that are clear and easy to apply, but which result in less than ideal outcomes.<sup>87</sup> While the Supreme Court seldom creates its own standards, the Court has increasingly taken appeals from the Federal Circuit in order to strike down the Federal Circuit's standards and provide guidance and policy to point the Federal Circuit in a new direction.<sup>88</sup>

The ECJ could provide a similar role for the UCP. The Court of Appeals of the UPC will not simply be deciding individual cases, but will be promulgating

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<sup>84</sup> Miller, *supra* note 18, at 8 (“Finally, the referring court may, if it considers itself able, briefly state its view on the answer to be given to the questions referred for a preliminary ruling.”).

<sup>85</sup> R. Polk Wagner, *The Two Federal Circuits*, 43 LOY. L.A. L. REV. 785, 789–90 (2010).

<sup>86</sup> *Id.*

<sup>87</sup> See Sapna Kumar, *The Accidental Agency?*, 65 FLA. L. REV. 229, 231 (2013) (“The Federal Circuit engages in two agency-like functions: promulgating substantive rules and adjudicating disputes. The court has historically engaged in a form of rulemaking by issuing mandatory bright-line rules.”).

<sup>88</sup> Dreyfuss, *Supreme Court*, *supra* note 45, at 801 (“In certain respects, then, the Supreme Court ought to conceptualize its relationship with the Federal Circuit as more of a dialogue than the product of hierarchy—as I said earlier—as the substitute for percolation.”).

doctrines for the COFI to follow.<sup>89</sup> The ECJ would be able to provide high-level guidance and policy directions to the UPC, specifically to the Court of Appeals. This is ultimately a question of balance. Specialized courts tend in the direction of bright-line rules and narrow policy goals. A higher generalist court, such as the ECJ, can balance that inclination.

*B. Isolating Patent Law from EU Law Will Have Negative Consequences for Patent Law and Other Areas of Law*

Patent law and the rest of European law are not easily separable, and the thick dividing line between them is a false one.<sup>90</sup> In contrast, while the Federal Circuit has exclusive jurisdiction of patent law, the line between patent law and non-patent law disappears at the Supreme Court. This allows the Supreme Court to consider the legislative policy goals of fields of law that are in tension with one another.

First, patent law suffers from narrow specialization. As we have seen in the United States, a narrow-minded pro-patent policy can ultimately stifle innovation.<sup>91</sup> Specialization produces “tunnel visions, with judges who are overly sympathetic to the policies furthered by the law that they administer or who are susceptible to ‘capture’ by the bar that [regularly] practices before them.”<sup>92</sup> The goal of patent law, increased innovation, is not without its costs. The imposition of a government

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<sup>89</sup> The COFI is different from the trial courts in the United States in that the COFI is also a specialized patent court. This eases the burden of the Court of Appeals somewhat, because there is less need to create simple doctrines that need to be clear enough for non-specialists. Regardless, there is still a need to create workable rules, especially for a new court with judges inexperienced in the law. Additionally, the fact that the trial courts are also specialist could have a negative effect, by destroying any push back on doctrines that negatively affect non-patent areas of law.

<sup>90</sup> Where the line is drawn is often a difficult question. In the United States, the Federal Circuit’s jurisdiction is broader than the UPC’s will be. First, the Federal Circuit deals with patent cases, not just issues, which means it has to on occasion deal with non-patent issues in patent cases. Second, the Federal Circuit deals with invalidity and infringement issues, but it also deals with patents as property, including licensing and assignment issues. The UPC will not deal with the latter category. Mahne, *supra* note 6, at 187.

<sup>91</sup> Michael A. Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCIENCE 698, 698 (1998).

<sup>92</sup> Dreyfuss, *Percolation*, *supra* note 45, at 506 (“To paraphrase a well-known proverb, if all the judges have is the hammer of patent law, every social problem they encounter could easily come to look like a nail.”).

monopoly is an extreme action—one that the courts must temper with an eye toward moderation.<sup>93</sup>

The purpose of patent law is to stimulate innovation, and it cannot accomplish this without a working relation to other areas of law.<sup>94</sup> The various disciplines of intellectual property law work together to promote innovation, and courts must consider disciplines other than patent law areas before they can determine whether a patent policy or law will actually promote innovation.<sup>95</sup> Patent law is at its most effective when working in concert with all government tools to stimulate innovation.<sup>96</sup> For example, many companies and universities make use of both trade secret and patent law, and the relationship between the two fields dictates how companies use them.<sup>97</sup> Courts and legislators must be aware of such nuances in order to make decisions about patent law and policy that encourage innovation.<sup>98</sup>

There is no judicial body that can correct the UPC's mistakes, even if there is wide consensus that the UPC's doctrine should change. The EU's legislative bodies do not provide the opportunity for correction either. Changing the UPC would require the amendment of an international treaty as well as a Council Regulation.<sup>99</sup> This makes the need for an appellate body overseeing the UPC even more important.

In addition to having a negative effect on patent law, the segregation of patent law away from other areas of law has a negative effect on those other areas. There are many examples of areas that touch on patent law, such as copyright, trademark, commercial, and contract law. One of the most high profile areas in Europe is EU competition law. Competition law and patent law are intrinsically related.

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<sup>93</sup> Dreyfuss, Supreme Court, *supra* note 45, at 795; Kelly Casey Mullally, *Legal (Un)certainty, Legal Process, and Patent Law*, 43 LOY. L.A. L. REV. 1109, 1131–33 (2010).

<sup>94</sup> U.S. CONST. art. VIII, §8, cl. 8; *see generally* Agreement, *supra* note 3, art. 83.

<sup>95</sup> Robert C. Denicola, *The New Law of Ideas*, 28 HARV. J.L. & TECH. 195, 220–21 (2014).

<sup>96</sup> *Id.*

<sup>97</sup> Patent law and trade secret are interrelated; using a trade secret can preclude patenting, and a patent destroys trade secrecy. David E. Korn, *Patent and Trade Secret Protection in University-Industry Research Relationships in Biotechnology*, 24 HARV. J. ON LEGIS. 191, 191–92 (1987).

<sup>98</sup> *Id.*

<sup>99</sup> The process of implementing the UPC, during which four countries have not signed on to all of the agreements, and two of the countries sued the Council and Parliament claiming the unitary patent was illegally based, makes it extremely unlikely that there will be any sort of timely response.

European competition law works to eliminate market obstacles, including the eradication of monopolies.<sup>100</sup> Patent law is concerned with the *grant* of government-backed monopolies. These two goals are inherently at odds, and a careful balancing between the two policies is necessary.<sup>101</sup> In the United States this balancing is accomplished by the legislature and, most directly, by the Supreme Court.<sup>102</sup> In Europe, neither the legislative nor the judicial bodies can perform this role. It will be extremely difficult to make any changes to the European patent system because of European patent law's complex statutory scheme. Additionally, considering that the European Commission, which has no say on UPC law, controls the implementation of competition policy, any synergistic collusion is unlikely.<sup>103</sup> There is also no court applying both patent and competition law to balance the competing interests. While the ECJ will consider patent law while evaluating competition law claims, the UPC has no jurisdiction, expertise, or inclination to consider competition law while adjudicating patent law. This is not only a general concern; patent law can negatively affect EU competition laws in ways that the EU will be unable to control. For example, the scope of a patent and the patentee's rights will affect how the national and European courts define the market in competition law, one of the most important steps in a competition case.

In a competition case, the relevant market is a combination of the product market, which are the products that are interchangeable with the product at issue and the geographic market.<sup>104</sup> A significant factor in the determination of the relevant market is the geographic extent of patent protection.<sup>105</sup> Competition authorities will often rely on the territorial scope of protection when determining the market, because the existence of the patent rights make the territory covered by the right sufficiently different from neighboring territory.<sup>106</sup>

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<sup>100</sup> Lionel J. Frank, *Antitrust and Trade Regulation in the European Union: Information Sharing in the Global Economy*, 195 N.J. LAW. 31, 31 (1999).

<sup>101</sup> Milosz Malaga, *The European Patent with Unitary Effect: Incentive to Dominate?*, 6 INT'L REV. INTELL. PROP. & COMP. L. 621, 631–42 (2014).

<sup>102</sup> U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007), available at <http://www.ftc.gov/reports/innovation/P040101promotinginnovationandcompetition>.

<sup>103</sup> Christopher Allen, *FTC v. Actavis, Inc.: Antitrust Scrutiny of Reverse Payment Settlements in Pharmaceutical Patent Litigation*, 53 U. LOUISVILLE L. REV. 115, 115 (2014) (detailing an area where there is particular tension between antitrust and patent law).

<sup>104</sup> Malaga, *supra* note 101, at 639–41.

<sup>105</sup> *Id.*

<sup>106</sup> *Id.*

The introduction of the unitary patent could lead to a court defining the market as the entire area covered by the patent for a number of competition cases.<sup>107</sup> This significant broadening of the market definition, from national to continental, would have a serious effect on parties attempting to prove abuse of dominance.<sup>108</sup> Abuse of dominance becomes harder to prove the larger the market is.<sup>109</sup> Based on what rights the UPC assigns to the unitary patent, the definition and ease of proof for abuse of dominance can change throughout Europe. Therefore, a significant factor in determining whether an abuse of dominance has occurred will be in the hands of the UPC, an international court. Patent law will affect other areas of competition law as well, such as vexatious litigation. A national court would hear a claim of vexatious litigation, but the outcome of the case will depend on the interpretation of the patentee's right as determined by the UPC.<sup>110</sup>

It is absurd to put a court in charge of patent issues that have significant effect on other areas of law without empowering it to consider them. The potential for the UPC to negatively affect other areas of law is particularly insidious because its specialist nature blinds it to non-patent needs and arguments. It is necessary to have the ECJ balancing the EU's ultimate interest and interpreting these areas of patent law for the courts.

### *C. Removing the Substantive Patent Provisions Undermines the EU Legal System*

The removal of the substantive patent provisions from the UPR undermines the EU legal system, upsets the balance of power between the EU and the nation states, and further increases the EU's democratic deficit. The legal authorization for the unitary patent package, including the UPR, comes from Article 118 TFEU, which states that the EU "shall establish measures for the creation of European intellectual property rights to provide uniform protection of intellectual property rights throughout the Union and for the setting up of centralised Union-wide authorisation, coordination and supervision arrangements."<sup>111</sup> Through the unitary patent package, the EU does not establish European IP rights, but actually divests the power to do so to the member states.

The divestment of control over the EU's Treaty-based competences sets a dangerous precedent for other areas of law. It blurs the line between EU and national

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<sup>107</sup> *Id.*

<sup>108</sup> *Id.*

<sup>109</sup> *Id.*

<sup>110</sup> Malaga, *supra* note 101, at 641–43.

<sup>111</sup> Consolidated Version of the Treaty on the Functioning of the European Union art. 118, Oct. 26, 2012, 2012 O.J. (C 326).

powers and gives the member states the power to amend European patent law. Member states could attempt this in other areas of law and potentially weaken gains made by the EU towards increased harmonization and control.

It is true that the EU could take back the control of patent by amending the current provision which obliquely refers to the UPCA (by way of reference to national law), but this is a less than ideal situation for two reasons. First, if the EU amends the UPR, which it would have to do in order to amend substantive patent law, the amendment would wipe out the body of law created by the UPCA and UPC by cutting the UPCA out of the picture. The EU should avoid this messy and complicated situation at all costs.<sup>112</sup> Second, regardless of the fact that the EU could potentially amend EU patent law through amendment to UPR, the current situation allows the contracting nations to amend EU patent law with no input from the EU itself, merely by amending the UPCA. The member states can amend substantive European patent law without the EU by amending the UPCA.

The removal of the substantive patent provisions also increases the democratic deficit by wresting power from both the European and national parliaments. Advocate-General Bot's opinion on the UPR stated that the contracting member states are under an obligation to sign the UPCA. This means that neither the European Parliament nor the national parliaments decided the substantive European patent law. The substantive treaty provisions, embodied in the UPCA, are under the control of the signers of the treaty, since the national parliaments are bound to ratify the treaty once signed.

This confusing form of legislation is not in the best interests of the EU. The unitary patent package has come into existence by circumventing the European Parliament, the ECJ, and the national parliaments. While its existence is beneficial for Europe, the way that it has come into being is not. The ECJ has not decided the system's legality yet, but Advocate-General Bot's opinion on the case upheld the package.<sup>113</sup> Regardless of the ECJ's decision, the policy behind the package is harmful because it bypasses the correct procedure and creates a precedent of vesting EU powers in the nations.

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<sup>112</sup> The EU could amend the UPR to include all of the UPCA, theoretically retaining all case law built on the UPCA, but that is an unnecessarily messy solution.

<sup>113</sup> Opinion of Advocate General Bot, *Spain v. Parliament and Council*, Case C-146/13, [2014] E.C.R. I\_\_\_ (delivered Nov. 18, 2014) (judgment not yet issued).

### III

#### THE PREDICTED NEGATIVE CONSEQUENCES OF THE INCLUSION OF THE SUBSTANTIVE PATENT PROVISIONS WERE EXAGGERATED.

The opposition to the inclusion of the substantive patent provisions in the UPR centered on three concerns: referral to the ECJ would create debilitating delays and costs, the ECJ lacked the expertise and experience to decide patent cases correctly, and ECJ review would create instability and uncertainty in European patent law.<sup>114</sup> Some of these concerns have merit and should be a part of the discussion on the provisions inclusion in EU law. However, the negative consequences of the inclusion of the provisions in EU law would not be as significant as implied, and the apocalyptic tone of the original discussion was misplaced.<sup>115</sup> Referral to the ECJ would not destroy the UPC's achievements in efficiency and cost-savings. This section will look at the three major points of opposition to show that the concerns, while real, should not be dispositive.

##### *A. The Ability for the UPC to Refer Questions of EU Law to the ECJ Will Not Lead to Debilitating Delays or Costs.*

One of the foremost purposes of the UPC was to create a patent litigation system in Europe that is efficient, cost-effective, and streamlined.<sup>116</sup> Any claim of inefficiency in the ECJ therefore strikes at the heart of the UPC's purpose. There has been a recent influx of cases at the ECJ, caused by a vast widening of its jurisdiction after the Treaty of Lisbon<sup>117</sup> and the EU's expansion in Central and Eastern Europe.<sup>118</sup> These new cases have created a backlog and the ECJ has developed a reputation for delays and slow litigation.<sup>119</sup> However, the most recent data from the

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<sup>114</sup> Kraßer, *supra* note 2; Jochen Pagenberg, *President's Report 2011*, EUROPEAN PATENT LAWYERS ASSOCIATION (Dec. 2, 2011), [http://www.eplaw.org/Downloads/President%27s Report.pdf](http://www.eplaw.org/Downloads/President%27s%20Report.pdf).

<sup>115</sup> The European Patent Lawyers Association stated that “[i]f one wants a really unattractive, inefficient, unpredictable and probably extremely expensive patent court system, then we will get it; one must only give the ECJ a chance to receive as many referrals in patent law as possible. If one wants to see substantive patent law in Europe to be decided by judges without any solid knowledge and experience in this field, then one must involve the ECJ whenever possible.” Pagenberg, *supra* note 114.

<sup>116</sup> Harnett & Wieker, *supra* note 9, at 16.

<sup>117</sup> The ECJ's new jurisdictions cover areas of particular sensitivity and complexity, such as issues of asylum, policing, and justice. Hugo Brady, *Twelve Things Everyone Should Know About the European Court of Justice*, CENTRE FOR EUROPEAN REFORM 42 (2014).

<sup>118</sup> *Id.* at 13.

<sup>119</sup> See European Union Committee Workload of the Court of Justice of the European Union: Follow-Up Report, 2012-3, H.L. 163, at 20 [hereinafter Workload] (“However, ‘between 2000 and

ECJ shows that these concerns are misplaced, and that the ECJ has largely overcome the worst of its backlog.

When the debate over the substantive patent provisions occurred in 2012, there was substantial worry that the ECJ's delays would steadily worsen each year.<sup>120</sup> In 2012, the ECJ completed 595 cases, while there were 632 new cases.<sup>121</sup> This increased the case backlog to 886 cases. In 2011, the average duration of a reference for preliminary ruling was 16.4 months, up by 0.3 months from 2010.<sup>122</sup> The growing backlog and case duration led to proposals for judicial reform, only some of which the EU has adopted.

There is truth in this fear; referral to the ECJ will inherently cause patent litigation to be, on average, longer than if the ECJ was cut out of the picture altogether. This is not necessarily dispositive, though, and it is only a sufficient reason to remove the provisions if the delays are so substantial as to render the system ineffective. There is significant reason to believe that the delays caused by reference to the ECJ would not be fatally long.

The data on the ECJ after the decision to remove the substantive provisions provides an optimistic picture. In 2014, the average duration for a reference for preliminary ruling was 15 months.<sup>123</sup> This is the shortest average duration for preliminary rulings in the Court's history, and a 1.3 month decrease from the 2013 average.<sup>124</sup> Additionally, the case backlog, which stood at 886 in 2012, has now decreased to 787, with the ECJ completing more cases than were filed in both 2013 and 2014.<sup>125</sup>

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2010 as a trend, the number of new cases has more than doubled.' The Law Society called attention to 'the current backlog and the very long duration of proceedings (both in terms of the 'average' duration and in relation to the cases that last longer, sometimes much longer, than the average).'" (internal citation omitted).

<sup>120</sup> *Id.*

<sup>121</sup> Press Release, Court of Justice of the European Union, No. 23/13, Statistics Concerning Judicial Activity in 2012: Consolidation of the Results Achieved in Recent Years (Mar. 6, 2013), available at <http://curia.europa.eu/jcms/upload/docs/application/pdf/2013-03/cp130023en.pdf>.

<sup>122</sup> *Annual Report of the Court of Justice of the European Union*, CURIA (2011), [http://curia.europa.eu/jcms/upload/docs/application/pdf/2012-06/ra2011\\_statistiques\\_cour\\_en.pdf](http://curia.europa.eu/jcms/upload/docs/application/pdf/2012-06/ra2011_statistiques_cour_en.pdf) (last visited April 20, 2015).

<sup>123</sup> Press Release, Court of Justice of the European Union, No. 27/15, Statistics Concerning Judicial Activity in 2014 (Mar. 3, 2015) [hereinafter Press Release No. 27/15], available at <http://curia.europa.eu/jcms/upload/docs/application/pdf/2015-03/cp150027en.pdf>.

<sup>124</sup> *Id.*

<sup>125</sup> *Id.*

This decrease in caseload has come at a time where the scope and complexities of the ECJ's jurisdiction has grown rapidly.<sup>126</sup> Trademark law, for example, is a new area of European law that is creating a high number of cases for the CJEU.<sup>127</sup> The ECJ has shown the ability to handle these caseload increases and still make progress on backlog and case duration. There is hope that, as the EU institutes more of the proposed judicial reforms, the duration and backlog will become even smaller.<sup>128</sup>

The duration of a European patent case compares favorably with the American system. The UPC's current Draft Rules of Procedure estimates a duration of 20.5 months for a case to go through trial and appeal.<sup>129</sup> The average duration for the ECJ preliminary ruling is 15 months.<sup>130</sup> Therefore, if a case has a trial at the COFI, an appeal at the Court of Appeals, and a reference to the ECJ, the average duration would be 2 years and 6.5 months. The average time to trial for patent cases in the United States was 2 years and 3.72 months, though some districts had averages as high as 3 years and 8 months.<sup>131</sup> The average appeal to the Federal Circuit, which is available by right, was 11.8 months in 2013.<sup>132</sup> Therefore, the average patent case at the slowest district court takes approximately 4 years and 7.84 months, and the average case takes approximately 3 years and 3.52 months. Compared to the duration

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<sup>126</sup> *Annual Report of the Court of Justice of the European Union*, CURIA (2013), <http://curia.europa.eu/jcms/upload/docs/application/pdf/2014-06/qdag14001enc.pdf> (last visited April 20, 2015).

<sup>127</sup> Trademark cases account for 40% of the General Court's cases, and many of those cases make it to the ECJ as appeals. *See id.*

<sup>128</sup> The CJEU has recommended various proposals to increase efficiency, including increasing the size of the Grand Chamber and amending the ECJ's Rules of Procedures. Workload, *supra* note 119, at 11.

<sup>129</sup> Nine months for the written procedure, three months for the interim procedure, six weeks for oral procedure, four months to file the Statement of grounds of appeal, three months to file the Statement of Response. *See* Klaus Grabinski, *An Overview of the Draft Rules of Procedure for the Unified Patent Court*, 48 LES NOUVELLES 154, 159–68 (2013).

<sup>130</sup> Press Release No. 27/15, *supra* note 123.

<sup>131</sup> *2014 Patent Litigation Study* PWC 17, at 17 (2014), [http://www.pwc.com/en\\_US/us/forensic-services/publications/assets/2014-patent-litigation-study.pdf](http://www.pwc.com/en_US/us/forensic-services/publications/assets/2014-patent-litigation-study.pdf).

<sup>132</sup> *Median Time to Disposition in Cases Terminated After Hearing or Submission*, UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, [http://www.ca9.uscourts.gov/images/stories/Statistics/meddisptimemerits\\_table.pdf](http://www.ca9.uscourts.gov/images/stories/Statistics/meddisptimemerits_table.pdf) (last visited April 20, 2015). This calculation only uses the data for appeals from district courts because appeals from other bodies, such as the International Trade Commission, are not comparable to a patent trial court such as the COFI.

of American trials, the length of European trials, even those including a reference to the ECJ, is not catastrophically long.

The duration of a European patent trial will ultimately depend on how effectively the UPC itself is able to litigate cases. The ability to reference questions of patent law would not create such catastrophic delays that the system would become unworkable. The estimated duration of a UPC trial plus ECJ reference would still be shorter than the American system, which is widely considered to be successful.

In addition to the positive statistics, there is reason to think that the UPC would not have to refer to the ECJ as often as national courts do. A court of final resort, such as the Court of Appeals, is obligated to refer questions of EU law to the ECJ.<sup>133</sup> In any particular case, the national courts ultimately make the decision whether to refer, though the court can be subject to damages for failure to refer a necessary question.<sup>134</sup> National courts are not obligated to refer all questions of EU law though. Under the *acte clair* doctrine, the national court is not required to refer the question if “the correct application of Community law may be so obvious as to leave no scope for any reasonable doubt as to the manner in which the question is raised is to be resolved.”<sup>135</sup> The *acte clair* doctrine was established as a way to increase efficiency, as well as rein in the national courts by creating stringent requirements for the use of the doctrine.<sup>136</sup> The *acte clair* doctrine allows the courts to function as European courts while the ECJ retains control of EU law.

The relationship between the UCP and the ECJ will likely be different from the relationship between national courts and the ECJ, and further it is reasonable to expect that the application of *acte clair* will be different as well. The national courts are not applying their own national law and are theoretically less familiar with the

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<sup>133</sup> Hornuf & Voigt, *supra* note 19, at 4.

<sup>134</sup> MORTEN BROBERG & NIELS FENGER, PRELIMINARY REFERENCES TO THE EUROPEAN COURT OF JUSTICE 269–70 (Oxford University Press 2d ed. 2014).

<sup>135</sup> Case C-283/81, *CILFIT v. Ministero della Sanità*, 1982 E.C.R. 03415, ¶ 16 (1982); *see also* Case C-231/96, *Edis v. Ministero delle Finanze*, 1998 E.C.R. I-4979, ¶ 15–16 (1998). The *acte clair* doctrine holds that if the ECJ has already answered the question of EU law, then the national courts also do not have to refer.

<sup>136</sup> Vladimir Shifrin, *Article 177 References to the European Court*, 27 DENV. J. INT’L L. & POL’Y 657, 667 (1999) (“The strict requirement developed in *CILFIT* would seem not a relaxation of the duty to refer under Article 177(3), but an attempt to deter national courts from the use of *acte clair* by setting forth conditions that no national court could realistically satisfy. However, examples abound of Member States’ supreme courts not making a reference under Article 177(3) on the grounds of *acte clair*.”) (citations omitted).

EU law they are applying. Therefore, there must be strict requirements on when they may apply the law without reference to the ECJ. Though the national courts are acting somewhat as proxies of the EU, they are not European Courts.<sup>137</sup> On the other hand, the UPC—though it is technically a national court of each contracting member state—is a European court, with a European reach and a European mindset. Additionally, it will apply law that it is specifically trained and designed to apply.

In the case establishing *acte clair*, the ECJ stated that “the existence of such a possibility [of *acte clair*] must be assessed in the light of the specific characteristics of Community Law, the particular difficulties to which its interpretation gives rise and the risk of divergence in judicial decisions within the Community.”<sup>138</sup> The application of all of these factors is different for the UPC than for the national courts. The UPC will be a court trained and specialized in patent law, it will be the expert in the interpretation of European patent law, and there is no risk of divergence because the Court of Appeal’s decisions apply throughout all of the contracting member states.

The reasons for limiting the application of *acte clair* do not apply as forcefully to the UPC, in which the need for efficient decisions is heightened. The early stages of the UPC and European patent law would likely include a significant number of referrals, but once the ECJ and UPC lay down the basic doctrines it is likely that the UPC would make fewer referrals than the average national court.<sup>139</sup> This will allow for efficient patent litigation and for a more independent UPC.

Allowing references to the ECJ will increase the time and cost of patent litigation, but the increases will not be as large, nor will the effect be as catastrophic, as was previously predicted. The anticipated case duration is favorable when compared to the American patent litigation system, and there is no reason to think that the delays inherent in ECJ reference will be unduly deleterious to European innovation.

*B. The ECJ is Competent to Render Decisions in Patent Cases Despite its Lack of Experience in European Patent Law*

The groups opposed to the provisions argued that the ECJ’s opinions would lower the quality of European patent law because of their unfamiliarity with patent

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<sup>137</sup> Mark A. Pollack, *The New EU Legal History: What's New, What's Missing?*, 28 AM. U. INT’L L. REV. 1257, 1270–75 (2013).

<sup>138</sup> CILFIT, *supra* note 135, at 13.

<sup>139</sup> HOUSE OF COMMONS EUROPEAN SCRUTINY COMMITTEE, *THE UNIFIED PATENT COURT: HELP OR HINDRANCE?*, 2010–12, H.C. 1799-I, ¶ 64–65 (U.K.).

law. As discussed extensively above, a generalist court that does not focus solely on patent law is beneficial for the development of patent law. Additionally, the idea that the ECJ is incapable of understanding patent law is ludicrous.<sup>140</sup> Though the patent community often holds up patent law as an especially complex area of law,<sup>141</sup> it is hard to imagine that it is exponentially more difficult to understand than the areas with which the ECJ currently deals, including EU citizenship law, competition law, and immigration law. The judges on the ECJ have not, as of yet, dealt with European patent cases, as there have been none, but it is irrational to assume that it would be beyond their judicial capabilities. This is especially true since the ECJ would be dealing purely with the legal aspect of the case and not the application of the law to the technical facts of the case.<sup>142</sup>

The ECJ frequently has had to deal with new areas of law, including subjects like asylum, policing, and justice.<sup>143</sup> The ECJ's experience of dealing with the flood of trademark cases, an intellectual property regime that is also new to the ECJ's jurisdiction, is demonstrative of its ability to adapt to and learn new areas of law that come into its jurisdiction. The ECJ's history shows a near continual expansion of its jurisdiction. The ECJ has significant institutional experience in learning new areas of law, and there is no reason that patent law would be any different.

*C. The ECJ Will Not Substantially Decrease the Predictability or Certainty of the Patent System*

Predictability is one of the most important attributes of patent law because it is necessary for innovators to be sure that the patent system will protect their efforts before they invest resources and time.<sup>144</sup> Decisions rendered by the ECJ will apply throughout contracting member states with the same uniformity the UPC's decisions. Therefore, the issue is not geographic uniformity, but rather the potential for the ECJ to disrupt patent law with unpredictable decisions. Though the

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<sup>140</sup> Critiques often make the same claim about the Supreme Court. While reasonable minds might disagree over the correct statutory interpretation or policy choice that the Supreme Court makes in patent law, it is absurd to accuse them of making their decisions because they do not understand it. Michel, *supra* note 80, at 1753.

<sup>141</sup> Jennifer F. Miller, *Should Juries Hear Complex Patent Cases?*, 2004 DUKE L. & TECH. REV. 4, at 1 ("Some commentators argue that a 'complexity exception' to the Seventh Amendment right to a jury trial should be invoked").

<sup>142</sup> If the technical aspects are relevant to the legal interpretation, they can use a technical advisor as well though. CRAIG & DE BÚRCA, *supra* note 55, at 493–94.

<sup>143</sup> Brady, *supra* note 117, at 42.

<sup>144</sup> Mullally, *supra* note 93, at 1112.

ECJ might render some individually unpredictable decisions, its overall effect would be to stabilize the specialist court.

The ECJ might create some instability in the early stages of the UPC, but no more than the UPC itself will create. The UPCA instituted a seven-year transition period, which the UPC's administrative Committee can extend seven more years because of this inherent initial instability.<sup>145</sup> The institution of any new court and legal system will be unpredictable until there are a sufficiently large number of opinions, but that is no reason to remove the ECJ. The ECJ's positive effect on the quality and stability of UPC jurisprudence would outweigh any additional uncertainty that the relationship between the ECJ and the UPC causes.

Admittedly, there is some merit to a few of the arguments against the inclusion of the substantive patent provisions in the UPR. The change would make patent litigation on average slightly slower and it could potentially make the outcome of cases less certain, especially in the initial stages. There is ample evidence though, that the effects of the ECJ would ultimately be slight. Once balanced, the benefits of including the substantive patent provisions in the UPR outweigh the negative costs.

### CONCLUSION

The unitary patent package is a colossal achievement for Europe—the culmination of half a century of negotiation and compromise. The creation of the UPC and the unitary patent is itself an accomplishment. The goals of uniformity and efficiency are laudable, but they should not be the only focus of the unitary patent package. The ultimate goal is to encourage innovation in Europe.

When Congress created the Federal Circuit, its goals were similar: uniformity and efficiency in patent law. Lawmakers were willing to create a specialist court because they believed that the benefits would outweigh the costs. The Federal Circuit's patent jurisprudence over the last quarter of a century shows that this bargain has not worked as intended. The Federal Circuit has created a uniform body of patent laws, but at the cost of quality, nuance, and progress.

The European patent community should not make the same mistakes as the U.S. patent community twenty-five years ago. The inclusion of the substantive patent provisions in EU law would likely have some negative consequences, but they would not be as severe as predicted and they are smaller than the benefits. An

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<sup>145</sup> Agreement, *supra* note 3, art. 83; *see* England, *supra* note 26, at 917.

amendment to the UPR to place substantive patent law back into EU law would benefit patent law, other areas of EU law, and the EU legal structure.

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A CRITICAL LOOK AT “USE” UNDER THE LANHAM ACT

Krystil McDowall\*

*The concept of “use” in trademark law is fundamental. However, many activities undertaken by a mark owner in connection with the trademark are not relevant uses for the purposes of obtaining and maintaining federal trademark registration. Two recent decisions, Clorox and Gameologist, serve as reminders that there is little statutory guidance on the use requirement under the Lanham Act and that uniformity under the Act is yet to be achieved. In exploring the use requirement under the Lanham Act, this note argues that Congressional amendment to a qualitative bona fide minimal use standard would broaden the use requirement and be the most effective way to better protect all trademark owners.*

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## INTRODUCTION

There is an old adage in trademark law: “Use it or lose it.”<sup>1</sup> Whilst use of a mark may appear to be an uncomplicated idea, the concept of “use” is somewhat

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<sup>1</sup> See, e.g., *Menashe v. V. Secret Catalogue, Inc.*, No 05 Civ. 239 (HB), 2005 U.S. Dist. LEXIS 13324, at \*18 (S.D.N.Y. July 7, 2005) (“‘Use it or lose it’ is a fundamental precept of trademark law.” (citing *Capitol Records, Inc. v. Naxos of Am., Inc.*, 262 F. Supp. 2d 204, 211 (S.D.N.Y. 2003); *Holiday Inn v. Holiday Inns, Inc.*, 534 F.2d 312 (C.C.P.A. 1976))). Another old adage is “no trade -- no trademark.” See *La Societe Anonyme des Parfums le Galion v. Jean Patou*,

elusive.<sup>2</sup> In order to obtain and maintain a federal registration the “use in commerce” requirement<sup>3</sup> demands a bona fide “sale” or “transportation” of a good bearing the mark,<sup>4</sup> and subsequent activity of the mark owner, which evidences a continuous effort to use the mark in the ordinary course of trade.<sup>5</sup> But not all activities undertaken in connection with a mark are relevant “uses.” For example, various activities, which are often necessary to launch a brand, lie outside the scope of permissible use. Once one delineates what conduct constitutes the requisite use, the question then becomes what use suffices as a “continuous” effort to use the mark. For many years, courts have held that more than *de minimis* use is required to satisfy the requirement.<sup>6</sup> One of the biggest grey areas in trademark law, and a continual focus of litigation, is how much use will be “continuous use.” The line between what use is *de minimis* and what use is continuous is a murky one. Trademark owners continue to litigate the use issue because there is little statutory clarity regarding what quantum of use constitutes a sufficient use in commerce and because the current use inquiry does not reflect the commercial realities of many business owners. Particularly affected are start-ups and new market entrants with little capital,

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Inc., 495 F.2d 1265, 1274 (2d Cir. 1974); *Lucent Info. Mgmt. v. Lucent Techs., Inc.*, 186 F.3d 311, 319 (3d Cir. 1999) (“It is axiomatic that if there is ‘no trade -- no trademark.’ ” (quoting *id.* at 1274)).

<sup>2</sup> See *Aycock Eng’g, Inc. v. Airflite, Inc.*, 560 F.3d 1350, 1357 (Fed. Cir. 2009) (“Despite the seeming harmony and simplicity in the application of the use requirement to trademarks . . . opportunity exists for confusion in this area of the law.”); *cf. Zazu Designs v. L’Oreal S.A.*, 979 F.2d 499, 503 (7th Cir. 1992) (“Use is neither a glitch in the Lanham Act nor a historical relic.”).

<sup>3</sup> In this paper, all iterations of the phrase “use in commerce” whether in the form of a noun (a “use in commerce”), a verb (“to use in commerce”), or adjective (“used in commerce”), are intended, without distinction, as instances of that phrase. The “use in commerce” requirement is also referred to as the “use issue,” the “use requirement,” the “use standard,” or the “use inquiry” in this note.

<sup>4</sup> The concept of “use in commerce” is also relevant to whether a trademark has been used in the relevant sense with respect to services, as distinct from physical goods. See, e.g., *Patsy’s Italian Rest., Inc. v. Banas*, 658 F.3d 254, 267 (2d Cir. 2011) (“Due to the different nature of the marks, ‘use in commerce’ is defined differently for trademarks and service marks.” (citing 15 U.S.C. § 1127)). For the purpose of brevity, this note limits the discussion to “use in commerce” that is necessary to support an application for trademark registration in connection with goods.

<sup>5</sup> *Avakoff v. Southern Pacific Co.*, 765 F.2d 1097, 1098 (Fed. Cir. 1985) (adopting the following two-part test for use necessary for registration: “(1) Was the application upon which the registration application was founded bona fide; and (2) if [so], was it followed by activities proving a continuous effort to use the mark.”). For more recent support of the two-part test, see *Chance v. Pac-Tel Teletrac Inc.*, 242 F.3d 1151, 1157 (9th Cir. 2001) and *Dep’t of Parks & Rec. v. Bazaar Del Mundo, Inc.*, 448 F.3d 1118, 1125–26 (9th Cir. 2006).

<sup>6</sup> See, e.g., *Paramount Pictures Corp. v. White*, 31 U.S.P.Q.2d 1768, 1774 (T.T.A.B. 1994) (finding that where a game was distributed on a less-than-commercial scale at a *de minimis* volume to promote a musical group, the mark was not eligible for register).

and those in industries where there are high barriers to entry or in which products are expensive and sales are therefore infrequent.

The difficulty trademark owners face in satisfying the use requirement is not a new issue.<sup>7</sup> Two recent decisions serve as examples of the recurring and frequent difficulties that some trademark owners face when they attempt to persuade a court that the relevant use has been made. In the 2013 decision, *Clorox Co. v. Salazar*, the trademark owner had used the mark in pre-sale activities, but had not yet sold a mark-bearing product; the Trademark Trial and Appeal Board refused to find a triable issue of fact regarding whether sufficient use of the mark had been made.<sup>8</sup> Similarly, in the 2011 decision, *Gameologist Group, LLC v. Sci. Games Int'l, Inc.*, a court refused to find that there were triable issues of fact sufficient to survive a summary judgment motion despite the owner putting forth four documented sales of its product bearing the trademark.<sup>9</sup> The decisions serve as reminders of how volatile certain trademarks are under the current use requirement, which is uniform on its face but unequal in its application.

This note explores the use requirement under the Lanham Act.<sup>10</sup> Part I of this note discusses the historical context of the use in commerce requirement under the Act and how trademark owners are required to prove use sufficient to obtain and maintain a federal trademark registration. Part II considers how the use inquiry was applied in *Clorox* and *Gameologist* to deny the validity of the marks in issue. Part III critically analyzes the current use standard and, in particular, how the lack of uniformity under the use requirement causes inequity to certain trademark owners. Lastly, Part IV of this note canvasses the Australian concept of use and examines how the standard under Australian law would have produced different, and more favorable, outcomes for the plaintiffs in *Clorox* and *Gameologist*. Ultimately, this note argues that congressional amendment to the Lanham Act, to bring it closer to the Australian use standard, would be the most effective way to correct the inequity

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<sup>7</sup> See, e.g., *Le Blume Imp. Co. v. Coty*, 293 F. 344, 351 (2d Cir. 1923) (holding that “[a] casual sale or a casual importation does not establish or create a market, within the rule that a trader can protect his trade-mark or trade-name in the markets in which he sells, and prevent another trader from adopting the same trade-mark or trade-name in that territory”). The holding in *Le Blume* resulted in occasional importations of the perfume being considered too infrequent with the result that the mark owner was not entitled to trademark protection.

<sup>8</sup> *The Clorox Co. v. Salazar (Clorox)*, 108 U.S.P.Q.2d (BNA) 1083 (T.T.A.B. 2013). The Trademark Trial and Appeal Board is referred to as “the Board” throughout this note.

<sup>9</sup> *Gameologist Group, LLC, v. Scientific Games Int'l, Inc.*, 838 F. Supp. 2d 141 (S.D.N.Y. 2011).

<sup>10</sup> The Lanham Act will be referred to as “the Act” throughout this note.

in the use requirement, make the use standard more predictable, and better protect all trademark owners.

## I

### THE PREREQUISITES FOR FEDERAL TRADEMARK RIGHTS

#### *A. Historical Context of “Use in Commerce”*

It is a fundamental rule of trademark law that creating or merely adopting a mark, on its own, is insufficient to create trademark rights.<sup>11</sup> In order to obtain registration under federal trademark law, the owner must make “use” of its trademark “in commerce.”<sup>12</sup> The basis for rights under the federal trademark registration regime is not the ingenuity or invention that may accompany the creation of the trademark, but rather making sufficient public use of the mark in the marketplace.<sup>13</sup> It therefore follows that use in commerce of a trademark is one of the prerequisites in order to gain, and maintain, protectable rights in a trademark under the Lanham Act.<sup>14</sup> If a federal registration is issued in circumstances where a trademark has not been properly used, the registration is *void ab initio*.<sup>15</sup>

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<sup>11</sup> See, e.g., *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413 (1916) (“[T]he right grows out of use, not mere adoption.”). For more recent pronouncements of this statement, see *Aycock Eng’g*, 560 F.3d at 1358 (“[M]ere adoption (selection) of a mark accompanied by preparations to begin its use are insufficient . . . for claiming ownership of . . . the mark.” (quoting *Intermed Commc’ns, Inc. v. Chaney*, 197 U.S.P.Q. 501, 507–08 (T.T.A.B. 1977))); *Int’l Bancorp, LLC v. Societe Des Bains De Mer Et Du Cercle Des Etrangers a Monaco*, 329 F.3d 359, 364 (4th Cir. 2003) (“[T]he right to a particular mark grows out of its use, not its mere adoption.” (quoting *United Drug Co. v. Theodore Rectanus, Co.*, 248 US 90, 97 (1918))).

<sup>12</sup> Lanham Act § 1, 15 U.S.C. § 1051(a) (“Application for use of trademark . . . the owner of a trademark *used in commerce* may register his trademark. . . .” (emphasis added)); see, e.g., *Rescuecom Corp. v. Google, Inc.*, 562 F.3d 123, 133 (2d Cir. 2009) (stating that “[§ 1] sets the standards and circumstances under which the owner of a mark can qualify to register the mark and to receive the benefits and protection provided by the Act”) (emphasis omitted).

<sup>13</sup> *Allard Enters. v. Advanced Programming Res., Inc.*, 146 F.3d 350, 356 (6th Cir. 1998) (“One of the bedrock principles of trademark law is that trademark . . . ownership is not acquired by federal . . . registration. Rather, ownership rights flow only from prior appropriation and actual use in the market.” (quoting *Homeowners Grp., Inc. v. Home Mktg. Specialists, Inc.*, 931 F.2d 1100 (6th Cir. 1991)) (internal quotations marks omitted)); *S Indus., Inc. v. Diamond Multimedia Sys., Inc.*, 991 F. Supp. 1012, 1018 (N.D. Ill. 1998) (“Trademark rights are acquired by adoption and use, not by registration.”); *Blue Bell, Inc. v. Farah Mfg. Co.*, 508 F.2d 1260, 1265 (5th Cir. 1975) (“[C]onception of the mark, . . . [does not] establish[] trademark rights.”).

<sup>14</sup> See, e.g., *In re Compagnie Generale Mar.*, 993 F.2d 841, 854 (Fed. Cir. 1993) (“[U]se in commerce . . . is essential to obtain a federal registration of a mark.”).

<sup>15</sup> *Aycock Eng’g*, 560 F.3d at 1357 (“The registration of a mark that does not meet the use requirement is void ab initio.” (citing *Gay Toys, Inc. v. McDonald’s Corp.*, 585 F.2d 1067, 1068

The Act defines the term “use in commerce” to mean “the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark.”<sup>16</sup> This definition has been in effect for some 27 years and was introduced by the Trademark Law Revision Act of 1988 which implemented a radical change to the concept of use as it was then understood.<sup>17</sup> The revised definition of use in commerce abandoned the practice of “token” use and introduced the concept of “bona fide” use “in the ordinary course of trade” — resulting in a more rigorous use standard.<sup>18</sup> Regarding the shift to bona fide use, the Federal Circuit recently remarked that the “bona fide use language was intended to eliminate token uses, which occurred when applicants used marks in conjunction with selling goods or offering services for the sole purpose of obtaining registration, and with no intention of legitimately using the mark in commerce until a later date.”<sup>19</sup> Under the token use concept, a trademark owner was able to use a mark solely for the purpose of reserving rights in the mark as there was no intent-to-use system.<sup>20</sup> Under the current

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(CCPA 1978))). “Void ab initio” means “[n]ull from the beginning.” BLACK’S 1064 (8th ed. 2004); see also *Premier Pool Mgmt. Corp. v. Lusk*, No. CIV S-11-2896 GEB CKD, 2012 U.S. Dist. LEXIS 63350, at \*15 (E.D. Cal. May 3, 2012) (“The registration of a mark that does not meet the use requirement is void ab initio.” (quoting *Quia Corp. v. Mattel, Inc.*, No. C 10-1902 JF (HRL), 2011 U.S. Dist. LEXIS 76157, at \*10 (N.D. Cal. Jul. 14, 2011))).

<sup>16</sup> Lanham Act § 45, 15 U.S.C. § 1127 (“Use in Commerce”); see *Aycock Eng’g*, 560 F.3d at 1357 (stating that “[f]or trademarks, the use in commerce requirement is met when a mark is (1) placed on the good or container, or on documents associated with the goods if the nature of the goods makes placement on the good or container impracticable, and (2) that good is then sold or transported in commerce” (internal quotation marks omitted)).

<sup>17</sup> Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 (effective November 16, 1989) (codified at 15 U.S.C. § 1127 (2006)). The Trademark Law Revision Act of 1988 is referred to as “the TRLA” in this note.

<sup>18</sup> *Id.* The change to a bona fide use standard has been described as a “stricter” standard. See *Allard*, 146 F.3d at 357 (explaining that the purpose of the amended standard “was to eliminate token use as a basis for registration, and that the stricter standard contemplates instead commercial use of the type common to the particular industry in question.” (quoting *Paramount Pictures*, 31 U.S.P.Q.2d at 1774), *aff’d*, 108 F.3d 1392 (Fed. Cir. 1997)); *Chance*, 242 F.3d at 1157 (referring to the use standard implemented in 1988 as a “stricter standard”).

<sup>19</sup> *Aycock Eng’g*, 560 F.3d at 1357 (internal quotation marks omitted); see also *Automedx Inc. v. Artivent Corp.*, 95 U.S.P.Q.2d 1976, at \*5 (T.T.A.B. 2010) (explaining that token sales are “artificially made solely to reserve a right in a mark and not made as part of a usual product or service launch” (quoting MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 19:109 (4th ed. 2010))).

<sup>20</sup> See *Planetary Motion, Inc. v. Techsplosion, Inc.*, 261 F.3d 1188, 1199 n.17 (11th Cir. 2001) (“The reason ‘token use’ was expressly eliminated was that the [Trademark Law] Revision Act had created an ‘intent-to-use’ application system that rendered such a ‘commercial sham’ unnecessary.” (citing 134 Cong. Rec. 32,053 (Oct. 20, 1988) (Sen. DeConcini))).

use standard, a bona fide use of a mark must be made before federal registration will issue and in order to maintain a registration if challenged.<sup>21</sup>

*B. Proving “Use in Commerce”*

At the outset, it is useful to note that a claimant’s ability to prove it has made a use in commerce of a trademark depends on what type of use is in issue, as the type of use, including the standard applied by the court and the evidence it will consider, may differ depending on the context of the dispute and the claims made by the parties.<sup>22</sup> Of specific relevance to this note is the use required to obtain and maintain a valid federal registration, in which the framework for analyzing use hinges on the definition of “use in commerce.”

The current use standard has two aspects: that a bona fide use occur by way of a “sale” or “transportation,” and that continuous use be made of the mark after the initial sale or transportation.<sup>23</sup> Satisfying the “sale” or “transportation” aspect of the use standard requires a technical use, which is use of the relevant mark on, or in

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<sup>21</sup> *NetJets Inc. v. IntelliJet Group, LLC*, No. 15a0138n.06, 2015 U.S. App. LEXIS 2621, at \*7 (6th Cir. 2015) (“The requirement that the use in commerce be a bona fide use . . . in the ordinary course of trade . . . requires that the goods or services have been used in a way which is typical in a particular industry . . . .” (internal quotation marks omitted)); *Chance*, 242 F.3d at 1157 (“[B]ecause token use is not enough, mere adoption of a mark without bona fide use, in an attempt to reserve it for the future, does not create trademark rights.”) (internal quotation marks omitted) (citation omitted); *see also Allard*, 146 F.3d at 357.

<sup>22</sup> For example, analysis of use is also required when the parties are in a priority dispute. In such disputes, each party is attempting to persuade the trier of fact that it was the first to use the trademark, and is therefore the rightful owner. The standard of use, in addition to the type and quantum of evidence of use that is considered when the court is adjudicating a priority dispute, is different than the use analysis regarding registration use. *See, e.g., Allard*, 146 F.3d at 358 (holding, in relation to a priority dispute, that “ownership may be established even if the first uses are not extensive and do not result in deep market penetration or widespread recognition.”); *Sheila’s Shine Prods., Inc. v. Sheila Shine, Inc.*, 486 F.2d 114, 123 (5th Cir. 1973) (holding that a low volume of door-to-door sales of goods over ten years was sufficient to establish priority, reasoning that “the mere fact that a business is small and its trade modest does not necessarily militate against its . . . acquiring goodwill and rights in a trademark.”). Additionally, use is also relevant when a trademark owner alleges infringement of its mark but the use analysis regarding alleged infringement by a defendant is entirely different. *See, e.g., Rescuecom*, 562 F.3d at 133 (noting that “The Act employs the term ‘use in commerce’ in two very different contexts . . . . The first . . . sets the standards . . . under which the owner of the mark can qualify to *register* the mark . . . [The second] appears as part of the Act’s definition of reprehensible conduct, i.e., the conduct which the Act identifies as infringing of the rights of the trademark owner . . . .”).

<sup>23</sup> *See Avakoff*, 765 F.2d at 1098, *see also Chance*, 242 F.3d at 1157 and *Dep’t of Parks & Rec.*, 448 F.3d at 1125–26 (9th Cir. 2006).

connection with, the goods.<sup>24</sup> The affixation requirement was liberalized with the passage of the TRLA, making it easier to satisfy.<sup>25</sup> Generally, the requirement is satisfied by an owner affixing the mark to the goods in question “in any manner” and selling the goods with the mark so affixed.<sup>26</sup> However, the law acknowledges that it is not always practicable to put a mark on goods and, in such circumstances, the trademark owner may place the mark on documents associated with the sale of the goods.<sup>27</sup>

A further aspect of the use in commerce requirement is that the sale or transportation be open and public.<sup>28</sup> The logic behind the requirement is that sale or transport will lead intended consumers of the relevant product to become aware of both the availability of the goods and the mark.<sup>29</sup> The terms “sale” and “transportation” do not correspond to ordinary dictionary definitions, as the meaning of both terms in trademark law is influenced by the necessity that the use be open and public. As such, “[s]ecret, undisclosed internal shipments are generally

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<sup>24</sup> Lanham Act § 45, 15 U.S.C. § 1127(1); *see also* Kelly-Brown v. Winfrey, 717 F.3d 295, 305 (2d Cir. 2013) (stating the “use in commerce” definition and the affixation requirement under § 1127(1) and holding that “the use in commerce requirement . . . is satisfied if the mark is affixed to the goods in any manner.”) (internal quotation marks omitted).

<sup>25</sup> *See Rescucom*, 562 F.3d at 135 (discussing and describing the new requirement as “less complicated” and “more accommodating”).

<sup>26</sup> Lanham Act § 45, 15 U.S.C. § 1127(1)(A). Section 45 of the Act states that a mark is deemed to be used in commerce on goods when “it is placed *in any manner* on the goods . . . .” *See, e.g., Blue Bell*, 508 F.2d at 1267 (holding that “[e]lementary tenets of trademark law require that labels or designs be affixed to the merchandise actually intended to bear the mark in commercial transactions”).

<sup>27</sup> Lanham Act § 45, 15 U.S.C. § 1127(1)(A).

<sup>28</sup> *See, e.g., Gen. Healthcare Ltd. v. Qashat*, 364 F.3d 332, 335 (1st Cir. 2004) (stating that “transportation” requires “open and public use before customers” and that “courts . . . require[] an element of public awareness of the use.”) (citing *New England Duplicating Co. v. Mendes*, 190 F.2d 415, 418 (1st Cir. 1951) (“[U]se in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind . . . is competent to establish ownership, . . . .”); *Dynamet Technology, Inc. v. Dynamet Inc.*, 197 U.S.P.Q. (BNA) 702, 705–06 (T.T.A.B. 1977) (“[U]se must be open and notorious public use directed to the segment of the purchasing public for whom the [products] are intended.”), *aff’d*, 593 F.2d 1007, 201 U.S.P.Q. (BNA) 129 (1979); *Chere Amie, Inc. v. Windstar Apparel, Corp.*, No. 01 Civ. 0040 (WHP), 2002 U.S. Dist. LEXIS 4950, at \*17 (S.D.N.Y. Mar. 25, 2002) (holding that an intra-company shipment is devoid of the requisite open and public use before customers).

<sup>29</sup> *See, e.g., Smith International, Inc. v. Olin Corp.*, 209 U.S.P.Q. 1033, at \*10 (T.T.A.B. 1981) (holding that “use of a mark must be open and notorious so that the *purchasing public* for whom the goods are intended are aware of the *availability of the goods* and aware of *use of the mark* . . . .” (emphasis added) (citing *Bellanca Aircraft Corporation v. Bellanca Aircraft Engineering, Inc.*, 190 U.S.P.Q. 158 (T.T.A.B. 1976)).

inadequate to support use.”<sup>30</sup> Consequently, there are limitations on what constitutes a sale or a transportation under the Act. For example, intra-company shipments are not a transportation because such transactions are neither arms-length, nor public, and are likely to be considered sham shipments.<sup>31</sup> Lastly, in order to file an application that meets the requirements for registration, a single sale or transportation of a good will suffice.<sup>32</sup>

However, in order to maintain registration, the Act requires more than a single public sale or transportation of the good bearing the mark.<sup>33</sup> A mark owner must be able to demonstrate that it has made continuous use of its mark since the initial sale or transportation.<sup>34</sup> The Act, however, does not state how much use constitutes continuous use. The continuous use requirement is therefore one of trademark law’s fuzziest requirements. Despite the lack of a specific statutory threshold regarding the quantum of continuous use, the legislative history and the case law provide some limited assistance in answering the quantum question.<sup>35</sup>

### *C. Nature and Quantum of Use Necessary to Prove Continuous Use*

The Act does not explicitly mandate a specific quantum of use in order to maintain federal registration. The Act’s legislative history, however, states that use adopts a measure of flexibility, with the sufficient amount of use viewed in the context of the trademark owner’s industry. Specifically, Congress has said that use should be interpreted to mean “commercial use which is typical in a particular

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<sup>30</sup> *Mystique, Inc. v. 138 Int’l, Inc.*, 375 F. App’x 997, 999 (11th Cir. 2010) (quoting *Planetary Motion, Inc. v. Techsplosion, Inc.*, 261 F.3d 1188, 1196 (11th Cir. 2001)).

<sup>31</sup> Another example of circumstances in which a sale or transportation has not satisfied the requirements of the Act is *Jaffe v. Simon & Schuster, Inc.*, No. 86 Civ. 1577 (GLG), 1987 U.S. Dist. LEXIS 14902, at \*46 (S.D.N.Y. Feb. 3, 1987) (internal nominal sales of goods to friends and relatives).

<sup>32</sup> *Blue Bell, Inc. v. Jaymar-Ruby, Inc.*, 497 F.2d 433, 437 (2d Cir. 1974) (recognizing that a number of courts have accepted “a minimal amount of interstate commerce -- either a sale or transportation -- will suffice [to satisfy the trademark laws]”).

<sup>33</sup> *S Indus., Inc. v. Stone Age Equip., Inc.*, 12 F. Supp. 2d 796, 808 (N.D. Ill. 1998) (holding that a single use of the mark on the goods was insufficient where “[t]here is no evidence that this [single use] was followed by active use that allows consumers to associate a mark with particular goods . . . .” (internal quotations marks omitted)).

<sup>34</sup> *La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc.*, 495 F.2d 1265, 1271–72 (2d Cir. 1974) (holding that “[t]o prove bona fide usage, the proponent of the trademark must demonstrate that his use of the mark has been deliberate and continuous . . . .”); *Momentum Luggage & Leisure Bags v. Jansport, Inc.*, No. 00 CIV. 7909 (DLC), 2001 U.S. Dist. LEXIS 10253, at \*21 (S.D.N.Y. July 23, 2001).

<sup>35</sup> *White v. Paramount Pictures Corp.*, 108 F.3d 1392, at \*2 (Fed. Cir. 1997) (stating that “[t]he legislative history of the [ ] Act is instructive as to the quantum of use required for registration.”).

industry.”<sup>36</sup> Congress, quite rightly, recognized that sales patterns and use vary from industry to industry — indeed, infrequent sales may be part of the ordinary course of trade in some industries, but not in others.<sup>37</sup> The acknowledgement that use differs from industry to industry is the reason Congress urged that the revised definition be interpreted with some flexibility, encompassing “various genuine, but less traditional, trademark uses.”<sup>38</sup> Less frequently cited in literature concerning trademark use is Congress’ intent to preserve ownership rights if a unique situation disrupts the use. Specifically, the Senate Report states that ownership rights should be preserved “if, absent an intent to abandon, use of a mark is interrupted due to special circumstances.”<sup>39</sup> Congress, however, did not elaborate on what type of special circumstances may be encompassed under this concept, and it appears the courts have not considered the passage of the report in case law at any length.<sup>40</sup>

Whilst the legislative history provides some guidance as to how the use standard is to be interpreted by the courts, the case law provides insight as to how courts evaluate the quantum issue and whether such use meets the continuous use threshold. A continuous use has been held to mean use that is “maintained without interruption.”<sup>41</sup> Additionally, the case law clearly says that *de minimis* use of a mark is not continuous use.<sup>42</sup> Nonetheless, *de minimis* use is not a defined concept, and

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<sup>36</sup> S. Rep. No. 100-515, 100th Cong., 2d Sess. at 44 (Sept. 15, 1988); *see also White*, 108 F.3d at \*3 (citing the Senate Report in determining the required quantum of “use in commerce” under the Act).

<sup>37</sup> S. Rep. No. 100-515 (Sept. 15, 1988); H. Rep. No. 100-1028, 100th Cong., 2d Sess. at 15 (Oct. 3, 1988).

<sup>38</sup> S. Rep. No. 100-515 at 44 (Sept. 15, 1988).

<sup>39</sup> *Id.* at 45.

<sup>40</sup> A search of cases in Lexis that contain the phrase “interrupted due to special circumstances” generates only two case references: *FN Herstal, S.A. v. Clyde Armory, Inc.*, No. 3:12-CV-102 (CAR), 2015 U.S. Dist. LEXIS 4310, at \*27 n.98 (M.D. Ga. Jan. 8, 2015) and *Electro Source, LLC v. Brandess-Kalt-Aetna Grp., Inc.*, 458 F.3d 931, 940 (9th Cir. 2006).

<sup>41</sup> *Casual Corner Assoc., Inc. v. Casual Stores of Nevada, Inc.*, 493 F.2d 709, 712 (9th Cir. 1974). For more recent pronouncements of this statement, *see, Neurovision Med. Prods. v. NuVasive, Inc.*, 494 F. App’x 749, 751 (9th Cir. 2012) (quoting *Casual Corner*, 493 F.2d at 712); *Quiksilver, Inc. v. Kymsta Corp.*, 466 F.3d 749, 762 (9th Cir. 2006).

<sup>42</sup> *Planetary Motion*, 261 F.3d at 1196 (“In general, uses that are *de minimis* may not establish trademark ownership rights.”); *Allard*, 146 F.3d 350 at 359 (“Trademark rights are not created by sporadic, casual, and nominal shipments of goods bearing a mark.” (quoting *La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc.*, 495 F.2d 1265, 1274 (2d Cir. 1974))); *Major League Baseball Properties, Inc. v. Opening Day Prods.*, 385 F. Supp. 2d 256, 265 (S.D.N.Y. 2004) (“[U]se of the mark . . . [must be] deliberate and continuous, not sporadic, casual or transitory.” (quoting *La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc.*, 495 F.2d 1265, 1271 (2d Cir. 1974))); *Larsen v. Terk Techs. Corp.*, 151 F.3d 140, 146 (4th Cir. 1998).

whether use is *de minimis* is considered on a case-by-case basis.<sup>43</sup> Despite the lack of definition, the courts hold that some use may be deemed so isolated or minimal that rights are never created in the mark. For example, in *Momentum Luggage & Leisure Bags v. Jansport, Inc.*, a single sale of eight pieces of luggage for \$760 in two years was *de minimis* and insufficient to prove use as a mark.<sup>44</sup> The following examples are other cases in which federal courts have held that the alleged use was insufficient because it was minimal, *de minimis*, or too sporadic; they demonstrate that attempts at proving use are surrounded with seemingly insurmountable difficulties:

- *LeBlume Import Co. v. Coty* (1923): Occasional casual importations of perfume considered so infrequent that the perfume producer was not entitled to trademark protection.<sup>45</sup>
- *Vapon, Inc. v. Dreyfuss* (1957): Evidence of customer orders, shipping orders and invoices showing one shipment of the product bearing the mark each year between 1944 to 1953 to customers in Connecticut, Massachusetts, New Jersey and Pennsylvania, with a total sales value of \$478.44 held to be sporadic and inconsequential use.<sup>46</sup>
- *United Plywoods Corp. v. Congoleum-Nairn, Inc.* (1959): During a period of upwards of two years, the applicant had made two sales of goods bearing the mark; which was held to be sporadic.<sup>47</sup>
- *Philip Morris, Inc. v. Imperial Tobacco Co.* (1965): Sales of cigarettes and tobacco bearing the trademark were considered over a 55 year period. The largest amount of tobacco sold in a year did not exceed 300 pounds and cigarette sales did not exceed \$51,000. Sales were considered sporadic, casual and nominal in character and thus created no trademark rights.<sup>48</sup>

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<sup>43</sup> *Chere Amie*, 2002 U.S. Dist. LEXIS 4950 at \*12 (“Whether a trademark has been used in commerce is a question to be determined on a case by case basis, considering the totality of the circumstances surrounding the alleged use of the mark.”) (citing *Johnny Blastoff, Inc. v. L.A. Rams Football Co.*, 188 F.3d 427, 433 (7th Cir. 1999)).

<sup>44</sup> No. 00 CIV. 7909 (DLC), 2001 U.S. Dist. LEXIS 10253 (S.D.N.Y. July 23, 2001).

<sup>45</sup> 293 F. 344, 351 (2d Cir. 1923).

<sup>46</sup> 110 U.S.P.Q. 142 (Comm’r of Patents 1956).

<sup>47</sup> 121 U.S.P.Q. 102 (T.T.A.B. 1959).

<sup>48</sup> 251 F. Supp. 362 (E.D. Va. 1965), *aff’d*, 401 F.2d 179 (4th Cir. 1968).

- *D. M. & Antique Import Corp. v. Royal Saxe Corp.* (1969): Use relating to one sale was held transitory and minimal.<sup>49</sup>
- *La Societe Anonyme des Parfums Le Galion v. Jean Patou, Inc.* (1974): Holding that 89 sales of perfume bottles over a 20 year period was held as a “meager trickle of business” and that could not constitute bona fide use to afford trademark protection.<sup>50</sup>
- *Paramount Pictures Corp. v. White* (1994): Affixing mark to a game consisting of three pieces of paper and distributing the game to promote a musical group was *de minimis* use.<sup>51</sup>
- *WarnerVision Entm’t Inc. v. Empire of Carolina Inc.* (1996): The plaintiff’s promotional efforts failed to establish sufficient use where only a few presentations were made to industry buyers, even though one resulted in a sale to a major retailer.<sup>52</sup>
- *S. Indus., Inc. v. Diamond Multimedia Sys., Inc.*, (1998): Denying summary judgment to the mark owner because sales of five computers for \$5,301 over three years were *de minimis* sales did not establish continuous use under the Act.<sup>53</sup>
- *Lucent Info. Mgmt. Inc. v. Lucent Techs. Inc.* (1999): A single sale and no advertising was held to be inadequate to demonstrate sufficient use.<sup>54</sup>
- *Harod v. Sage Prods., Inc.* (2002): A low level sales of samples to distributors, followed by sporadic sales thereafter, did not establish trademark rights (\$70 of sales to distributors in 1996 and sales of \$75 in 2000 and \$60 in 2001 with no advertising).<sup>55</sup>

In *Momentum Luggage* the court held “a single use in trade may sustain trademark rights if followed by *continuous* commercial utilization.”<sup>56</sup> However, even where subsequent use is made of the mark by the trademark owner after an initial sale, it may be difficult to satisfy the continuous use requirement as courts interpret use strictly, denying rights in a mark if subsequent use appears objectively

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<sup>49</sup> 311 F. Supp. 1261, 1270 (S.D.N.Y. 1969).

<sup>50</sup> 495 F.2d 1265, 1272 (2d Cir. 1974).

<sup>51</sup> 31 U.S.P.Q.2d 1768, 1774 (T.T.A.B. 1994).

<sup>52</sup> 915 F. Supp. 639 (S.D.N.Y. 1996).

<sup>53</sup> 991 F. Supp. 1012, 1019 (N.D. Ill. 1998).

<sup>54</sup> 186 F.3d 311 (3d Cir. 1999).

<sup>55</sup> 188 F. Supp. 2d 1369, 1378 (S.D. Ga. 2002).

<sup>56</sup> *Momentum Luggage*, 2001 U.S. Dist. LEXIS 10253, at \*21 (emphasis added).

haphazard or random. The rationale, as one court observed, is that a single sale of a product followed by “frenetic but futile efforts to make a second sale” does not justify the grant of trademark rights by “denying its use to sellers who can actually sell.”<sup>57</sup> The theory behind such reasoning is that trademark rights become stronger with public acceptance and recognition of the mark, which occurs as the owner makes greater bona fide public use of the mark.<sup>58</sup> As one scholar notes, “[i]f it is true that trademark rights arise from actual use of the mark, it is also true that greater rights arise from greater use.”<sup>59</sup>

It can be surmised, then, that under the current standard of use, a single use of a mark without subsequent continuous use in the ordinary course of trade does not create trademark rights sufficient to maintain a federal registration under the Act, but a single sale will suffice to create rights so long as the initial sale is succeeded by a commercial use of the mark which is not merely sporadic or *de minimis*.<sup>60</sup> As there are no bright line rules regarding what quantum of use will be considered sufficient, or what level of use will cross the threshold to use that is continuous (as distinguished from use that is merely sporadic), the standard for registration use therefore raises practical challenges for trademark owners to knowing what degree of use is required.<sup>61</sup>

## II

### THE CASES

The use inquiry undertaken by the courts is fact-sensitive and compels the courts to consider a number of case-by-case factors including the amount of use, the nature or quality of the transaction, and what use is typical within a particular

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<sup>57</sup> *Custom Vehicles, Inc. v. Forest River, Inc.*, 476 F.3d 481, 486 (7th Cir. 2007).

<sup>58</sup> See ANNE GILSON LADONDE, *GILSON ON TRADEMARKS* § 3.02[9] (“As more and more bona fide public trademark use is made and increasing sales and advertising under the mark show a degree of consumer acceptance, legal rights become stronger and stronger.”).

<sup>59</sup> *Id.*

<sup>60</sup> See, e.g., *Chance*, 242 F.3d at 1157 (holding that “where a mark has been placed on goods, a single sale or shipment may be sufficient to support an application to register the mark, providing that [the] shipment or sale . . . is accompanied . . . by activities which . . . tend to indicate a continuing effort or intent to continue such use and place the product on the market on a commercial scale within a time demonstrated to be reasonable in the particular trade.” (citing *Hydro-Dynamics, Inc. v. George Putnam & Co.*, 811 F.2d 1470, 1472–74 (Fed. Cir. 1987))); *Custom Vehicles*, 476 F.3d at 485–86; *Chere Amie*, 2002 U.S. Dist. LEXIS 4950, at \*11–12.

<sup>61</sup> *White*, 108 F.3d at \*2 (“This court has yet to set any bright line rules concerning the quantum and nature of use necessary to constitute an ‘ordinary use in trade’ under the . . . Act.”).

industry.<sup>62</sup> In *Clorox* and *Gameologist* the courts were unimpressed with the alleged uses of the trademarks in question. In *Clorox*, the applicant had difficulty satisfying the use standard as the applicant's evidence indicated that annual sales of its product were likely to be one sale (or less) annually. In *Gameologist*, the court dismissed the plaintiff's actual evidence of sales as being minimal and did not give any weight to other evidence of marketing and promotions as use of the mark. Each of these decisions serve as examples of the recurring and frequent difficulties that some trademark owners face when attempting to prove the necessary use has been made.

#### A. *Clorox*

In *Clorox*, a 2013 precedential opinion of the Board, the applicant sought to register the term "Clorotec" and an accompanying design for certain electronic equipment relating to the manufacture of various cleaning solutions. The opposer brought a summary judgment application claiming that relevant use of the Clorotec mark had not been made. The Board ultimately blocked registration of the mark, siding with the opposer, and holding that the applicant had not made the relevant use in commerce of its mark at the time of filing.<sup>63</sup>

#### B. *The Arguments and Evidence*

A number of grounds for opposition to registration were advanced by the opposer, including that the applicant's use of the mark was not bona fide use in commerce.<sup>64</sup> This argument was made on the basis of statements made by the applicant in the discovery process to the effect that the applicant had not used the mark on a product sold within the United States. Specifically, in response to interrogatories, the applicant stated (*inter alia*) that "[it] has not yet used the [m]ark on any product sold in the United States" and "[n]o units have been sold to clients inside the United States."<sup>65</sup> In response, the applicant alleged that such statements misrepresented the substance of its responses, and the mark had been used in commerce.<sup>66</sup> To further its argument, the applicant pointed to evidence

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<sup>62</sup> See, e.g., *Electro Source, LLC v. Brandess-Kalt-Aetna Grp.*, 458 F.3d 931, 940 (9th Cir. 2006) ("Evaluating whether a use is in 'the ordinary course of trade' is often an intensely factual undertaking."); *Johnny Blastoff, Inc. v. L.A. Rams Football Co.*, 188 F.3d 427, 433 (7th Cir. 1999) ("The determination of whether a party has established protectable rights in a trademark is made on a case by case basis, considering the totality of the circumstances.") (citing *New West Corp. v. NYM Co. of Cal., Inc.*, 595 F.2d 1194, 1200 (9th Cir. 1979) *cert. denied*, 528 U.S. 1188 (2000)).

<sup>63</sup> *Clorox*, 108 U.S.P.Q.2d at \*8.

<sup>64</sup> *Id.* at 2.

<sup>65</sup> *Id.* at 2-4.

<sup>66</sup> *Id.* at 5.

demonstrating the mark had been used in internet advertising offering the goods for sale, as well as evidence demonstrating that machinery parts bearing the mark (but not the actual product) had been shipped interstate from an interstate manufacturer to the applicant in Mexico via the applicant’s licensee.<sup>67</sup>

The applicant contended that requiring an actual sale or transportation of its goods would be “inequitable and inconsistent with Congress’ intent.”<sup>68</sup> The alleged inequity, argued the applicant, would occur by requiring sales in low-volume, high-cost businesses: Sales of the applicant’s products only occurred once per year (or even less frequently); price points ranged from \$200,000 to \$2,000,000 per item; and products were approximately one ton and custom-made to the customers’ requirements.<sup>69</sup>

### *C. The Board’s Findings*

The Board poured cold water on the applicant’s congressional intent argument, ruling that a sale still must be made, even in an industry that has infrequent sales patterns. It emphasized that no authority had been cited to hold otherwise.<sup>70</sup> In holding that the applicant’s congressional intent argument was without merit, the Board noted that the “[a]pplicant’s position is in conflict with the clear and plain statutory definition of use in commerce.”<sup>71</sup> Along a similar line of reasoning, the Board concluded that the applicant’s argument that it had made use of its mark by way of advertising a product bearing the mark was unavailing; ultimately, the Board held that the relevant use requires such advertising to accompany an actual sale or transport of the goods in commerce.<sup>72</sup> Finally, the Board specifically disavowed the applicant’s contention that shipment of parts of goods bearing the mark could constitute use, holding that an actual finished product must be shipped.<sup>73</sup> However, the Board noted that even if a finished product had been shipped, the parts were shipped from the manufacturer to the applicant; this was merely delivery of goods to the trademark owner in preparation for offering the goods for sale, and not a bona fide use of the mark in commerce.<sup>74</sup>

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<sup>67</sup> *Id.*

<sup>68</sup> *Id.* at 5–6.

<sup>69</sup> *Clorox*, 108 U.S.P.Q.2d at \*5–6.

<sup>70</sup> *Id.* at 9.

<sup>71</sup> *Id.* (internal quotation marks omitted).

<sup>72</sup> *Id.*

<sup>73</sup> *Id.* at 9–10.

<sup>74</sup> *Id.* at 10.

The Board granted summary judgment against the applicant, ruling that there was no genuine dispute of material fact and that there had been no bona fide use of the mark in commerce at the time the applicant filed its use-based application.<sup>75</sup>

#### *D. Gameologist*

In *Gameologist*, a 2013 decision of the United States District Court for the Southern District of New York, the plaintiff had a trademark registration for the mark “BLING BLING 2002”<sup>76</sup> and it sought to establish that it had protectable rights for the bling mark in relation to, *inter alia*, board games.<sup>77</sup> The plaintiff initially sought to register the bling mark in relation to lottery tickets, but the plaintiff failed to file the requisite evidence of its use of the bling mark in connection with lottery tickets.<sup>78</sup> The plaintiff sued for trademark infringement under the Act for the defendant’s use of the term “bling” in connection with the marketing of lottery tickets.<sup>79</sup> In order to sue for infringement, one of the elements the plaintiff was required to prove was that its bling mark was a valid mark entitled to protection. Such a showing required the plaintiff to demonstrate it had made a use in commerce of the mark.<sup>80</sup> The defendant argued that the plaintiff could not succeed in establishing the requisite use and moved to dismiss the suit by way of a summary judgment application. The Court sided with the defendant, holding that the plaintiff’s *de minimis* use of its mark was not sufficient to maintain its registration.

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<sup>75</sup> *Clorox*, 108 U.S.P.Q.2d at \*11.

<sup>76</sup> Referred to in this note as the “bling mark.”

<sup>77</sup> *Gameologist*, 838 F. Supp. 2d at 149.

<sup>78</sup> *Id.* at 149, 153 n.4. As the trademark application filed by the plaintiff was an intent-to-use application, the plaintiff divided its application so a registration would issue for the bling mark in relation to board games. As such, no trademark registration was obtained for the bling mark in relation to “lottery tickets.”

<sup>79</sup> *Id.* at 147. The plaintiff also sued for a variety of related claims including false designation of origin, unfair competition and false advertising under the Lanham Act. The plaintiff alleged claims under New York common law for unfair competition, passing off, breach of contract, unjust enrichment and *quantum meruit*.

<sup>80</sup> *Id.* at 152–54. To succeed on a federal claim for trademark infringement the plaintiff must establish that “(1) it has a valid mark that is entitled to protection under the Lanham Act; and that (2) the defendant used the mark, (3) in commerce, (4) in connection with the sale . . . or advertising of goods or services, 15 U.S.C. § 1114(1)(a), (5), without the plaintiff’s consent.” *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400, 406–07 (2d Cir. 2005) (internal quotation marks omitted) (citing *Time, Inc. v. Petersen Publ’g Co.*, 173 F.3d 113, 117 (2d Cir. 1999)); *see also* *Genesee Brewing Co. v. Stroh Brewing Co.*, 124 F.3d 137, 142 (2d Cir. 1997). Only element one has been discussed as the remaining elements are not relevant to the use requirement which is the focus of this paper.

*E. The Evidence and the Arguments*

Despite the plaintiff’s application for the bling mark in relation to lottery tickets, the board game is the only product that was both sold by the plaintiff and featured the bling mark.<sup>81</sup> In an attempt to demonstrate that relevant use of the bling mark had been made, the plaintiff put a variety of evidence forward. In particular, the plaintiff had manufactured 500 units of its board game featuring the bling mark and indicated that all 500 units were either sold or given away.<sup>82</sup> However, the number of board games actually sold by the plaintiff was in dispute. The plaintiff submitted documentary evidence substantiating four sales of the board game at about \$30 each,<sup>83</sup> claiming that about half of the remaining units were sold via unrecorded cash transactions and the remainder were distributed as promotional items without charge.<sup>84</sup> Additionally, there was evidence that the plaintiff posted an online slot machine, free of charge that bore the mark. Lastly, the plaintiff also relied on negotiations with potential licensees of the bling mark and various advertising, marketing, and promotion using the bling mark.<sup>85</sup>

*F. The Court’s Findings*

The court curtly dismissed the plaintiff’s claims, stating that the plaintiff “take[s] ‘bling’ too far.”<sup>86</sup> The Court was unconvinced by the plaintiff’s arguments, holding that the evidence of use of the bling mark was minimal and not sufficiently widespread.<sup>87</sup>

In relation to the court’s finding that the use made of the bling mark was minimal, the court pointed out that even if plaintiff could substantiate the undocumented case sales, “*de minimis* sales such as these are insufficient to demonstrate use in commerce under the Lanham Act.”<sup>88</sup> The Court also took issue with the lack of widespread use of the bling mark. The plaintiff attested to it having attended trade shows, publishing press releases and advertisements, producing product prototypes, and purchasing an email blast directed to the gaming industry informing recipients of the “bling bling” casino game.<sup>89</sup> However, the plaintiffs

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<sup>81</sup> *Gameologist*, 838 F. Supp. 2d at 151.

<sup>82</sup> *Id.*

<sup>83</sup> *Id.*

<sup>84</sup> *Id.*

<sup>85</sup> *Id.* at 155.

<sup>86</sup> *Id.* at 147.

<sup>87</sup> *Gameologist*, 838 F. Supp. 2d at 155–56.

<sup>88</sup> *Id.* at 155 (emphasis added).

<sup>89</sup> *Id.*

were unable to provide evidence as to how widespread its efforts were.<sup>90</sup> As a result, the Court held that the plaintiff had failed to raise a genuine issue of material fact that its use of the mark was anything other than “sporadic, casual or transitory.”<sup>91</sup> Accordingly, the plaintiff’s mark was not entitled to protection under the Act, and the defendants were entitled to summary judgment on the plaintiff’s infringement claim.<sup>92</sup>

### III

#### ANALYSIS OF THE USE REQUIREMENT

The following analysis of *Clorox* and *Gameologist* does not question whether the application of the law or the analytical framework applied by the courts is correct. Indeed, in this note’s view, both decisions largely comport with the law and the established principles for the use standard applied by the courts. Similarly, neither case stands out as causing a significant change in trademark law or would be expected to cause a significant future impact on how courts approach the use inquiry. The importance of *Clorox* and *Gameologist*, however, is that the decisions highlight a distinct issue of trademark law which make certain trademark owners more vulnerable than others. The purpose of this section is to analyze the use in commerce requirement and discuss why it is more difficult for certain trademark owners to prove use than others. Ultimately, it can be seen that the unequal application of the use requirement is more acute for business owners who, like the applicants in each of the decisions, offer infrequent sales of large and expensive goods, or are small businesses and start-ups whose initial sales patterns are haphazard or minimal.

#### *A. The Open and Public Use Aspect of the Sale or Transportation Requirement is Burdensome*

The *Clorox* decision demonstrates that, when interpreting the use requirement to prove the validity of a federal registration, the courts follow a literal interpretation of the Act, which mandates a “sale” or “transportation” of the goods bearing the mark.<sup>93</sup> It is this note’s contention that the stringent interpretation of the open and

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<sup>90</sup> *Id.*

<sup>91</sup> *Id.* at 156.

<sup>92</sup> *Id.*

<sup>93</sup> As noted earlier in this paper, the Board stipulated “sales” must still be made, stating that the “Applicant’s position is in conflict with the clear and plain statutory definition of use in commerce.” *Clorox*, 108 U.S.P.Q.2d at \*9 (internal quotation marks omitted); see also *Scorpiniti v. Fox TV Studios, Inc.*, 918 F. Supp. 2d 866 (N.D. Iowa 2013) (“The language of the statute . . . makes plain that advertisement and actual use of the mark in commerce are required . . .” (quoting *Aycock Eng’g, Inc. v. Airflite, Inc.*, 560 F.3d 1350, 1360 (Fed. Cir. 2009))).

notorious public use aspect of the sale or transportation requirement is inequitable, as it makes it more difficult for trademark owners who operate in industries with high barriers to entry to prove use. In *Clorox*, the manner in which the sale or transportation requirement was interpreted required the Board to disregard evidence of bona fide use relating to both the applicant’s internet advertising, via its website, and an interstate shipment of parts of the applicant’s products bearing the mark.<sup>94</sup> The shipment of parts of the applicant’s products from Utah to Mexico would have posed no difficulty satisfying the jurisdictional prerequisite that the use in question have an effect on commerce with foreign nations.<sup>95</sup> Thus, inequity follows where the Act requires invalidation of a federal registration in circumstances where an applicant is making a bona fide use of a mark, and significantly investing in its brand, in order to obtain an *initial* sale.<sup>96</sup> If sales are typically infrequent in a given industry, a sale is going to be unquestionably harder to make in that industry. It logically follows that a trademark owners’ ability to satisfy the sale or transportation requirement of the Act is more burdensome where the standard of use dictates a sale must be made, but the trademark owner’s evidence of its open and public use of the mark in connection with obtaining a sale (which would likely be building some public association between the mark and the good) is disregarded. Consequently, the use requirement is unequal in its application as the sale or transportation requirement does not factor in that sales are more difficult to attain in certain industries.

The Act’s legislative history expresses the desire of Congress to interpret use in commerce flexibly, and to accommodate use that is typical in a particular industry.<sup>97</sup> However, Congress’ desire for a flexible interpretation focuses on use of a mark made *after* an initial sale or transportation of the good bearing that mark. The need for a flexible interpretation of use equally applies to uses that may be made of a mark *before* an initial sale or transportation of the good has been made. Trademark owners would receive greater protection and certainty if the Act stipulated a more flexible commercial standard of use that incorporated open and public pre-sales use of a mark (that is, use occurring before an initial sale or

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<sup>94</sup> *Id.* at 9–10.

<sup>95</sup> See *Rescuecom Corp. v. Google, Inc.*, 562 F.3d at 133, *supra* note 12.

<sup>96</sup> *But cf.* *Zazu Designs v. L’Oreal S.A.*, 979 F.2d 499, 503 (7th Cir. 1992) (stating that “[c]ourts have read ‘used’ in a way that allows firms to seek protection for a mark before investing substantial sums in promotion.”). *Zazu Designs* then cites to a 1968 pre-TRIA decision, *Fort Howard Paper Co. v. Kimberly-Clark Corp.*, 390 F.2d 1015 (CCPA 1968), in support of this proposition.

<sup>97</sup> S. Rep. 100-515, 100th Cong., 2d Sess., p 44 (Sept. 15, 1988); see also Part I of this note which discusses the legislative history in more detail.

transportation takes place) as sufficient. This is especially important where applicants, like the applicant in *Clorox*, operate in an industry where products are high-end, custom made goods and therefore sales are, by their inherent nature, more infrequent and difficult to obtain. As the system currently stands, injustice results to the extent that the law requires businesses to invest in a mark to secure a sale, only to have a registration invalidated at a later date merely because the trademark owner had not actually attained any sales.

*B. The Continuous Use Threshold Disadvantages  
Small Businesses and New Market Entrants*

The *Gameologist* decision, and the litany of cases before it litigating the use issue, indicate that, in order to maintain a valid registration, more than minimal use of a trademark is required.<sup>98</sup> In this note's view, the continuous approach to use is undesirable as courts are essentially required to make a ruling regarding whether a brand is growing fast enough.<sup>99</sup> In *Gameologist*, the requirement for more than *de minimis* use compelled the court to disregard documented bona fide evidence of actual sales of the plaintiff's products bearing the mark, with the court holding, "de minimis sales such as these are insufficient to demonstrate use in commerce."<sup>100</sup> In simple terms, the court effectively said that the plaintiff's use of its mark was not good enough. Thus, *Gameologist* highlights the difficulty trademark owners face when attempting to determine whether use of the mark crosses the threshold from minimal to sufficient, as there is no bright line test to answer this question.<sup>101</sup>

Many start-up and small businesses have sporadic initial sales patterns for a number of justifiable reasons, including a lack of resources or expertise (if the mark owner is new to the industry) or lack of capital (which may prevent the mark owner from obtaining legal counsel). It follows, then, that the continuous use standard is prejudiced in favor of those brands that are already strong, or have sufficient capital, over those that are starting out. In this way, the continuous use standard under the Act is unequal in its application as the standard is biased in favor of the strong. Where *de minimis* use is in issue, the law says "might is legally right," or at least,

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<sup>98</sup> See Part I of this note.

<sup>99</sup> Cf. *Bell v. Streetwise Records, Ltd.*, 640 F. Supp. 575, 580 (D. Mass. 1986) (stating in relation to trademark use, albeit in a priority dispute, that "[I]t is not required that a product be an instant success the moment it hits the market, [but] its usage must be consistent with a present plan of commercial exploitation." (internal quotation marks omitted) (quoting *La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc.*, 495 F.2d 1265, 1273 (2d Cir. 1974))).

<sup>100</sup> *Gameologist*, 838 F. Supp. 2d at 155.

<sup>101</sup> See *White*, 108 F.3d at \*2

“legally better.” As a result, the continuous use standard deprives some new or start-up businesses from growing a burgeoning brand into a thriving core asset.<sup>102</sup>

Leading trademark scholar Jerome Gilson has voiced similar concerns stating that start-ups should not be deprived of obtaining federal registration because of minimal use.<sup>103</sup> Whilst Gilson’s concerns are not identical to the opinions expressed in this note, Gilson has spoken out against the “usage by industry” approach adopted by Congress with the introduction of the TRLA. Gilson rightly notes that the legislative history does not address the fact that usage within an industry varies significantly. Indeed, there are “likely to be as many different levels of product sales and trademark uses as there are businesses.”<sup>104</sup> Accordingly, attempting to find an industry standard in any given industry “would pose a virtually insurmountable problem both for the courts and for businesses attempting in good faith to comply with the statutory requirements.”<sup>105</sup> Furthermore, Gilson notes that attempts to prove an industry standard may be prohibitive from a cost perspective and inconclusive or unreliable due to the sensitivity with which businesses often treat sales figures of products.<sup>106</sup>

#### IV

#### MOVING FORWARD: CONGRESSIONAL AMENDMENT TO ADDRESS THE USE DILEMMA - AN ALTERNATIVE APPROACH TO USE UNDER AUSTRALIAN TRADEMARK LAW

This note advocates equal treatment for all trademark owners under the use inquiry of the Lanham Act. As in United States law, the concept of use is a bedrock principle of Australian trademark law, and it is fair to say that under both systems trademarks are born from use.<sup>107</sup> Whilst both systems require use to a lesser or greater extent in order to maintain federal registration, and both adopt a measure of

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<sup>102</sup> See Kathreiner’s *Malzkaffee v. Pastor Kneipp Medicine Co.*, 82 F. 321, 326 (7th Cir. Ill. 1897) (“[I]t is . . . not necessary, . . . that a trade in an article should be fully established, in the sense that the article be widely known, . . . . Otherwise it might be impossible, with respect to a valuable and desirable article or product of manufacture, designated by a particular brand or in a particular manner, ever to establish a trade.”).

<sup>103</sup> GILSON LADONDE, *supra* note 60, at § 3.02[8][b][ii] (discussing the commercial use standard).

<sup>104</sup> *Id.*

<sup>105</sup> *Id.*

<sup>106</sup> *Id.*

<sup>107</sup> In Australia, the word trademark is spelled as two words, “trade mark.” See *Trade Marks Act 1995* (Cth) (Austl.). For the purposes of consistency, the author has used the American spelling throughout this note.

flexibility in analyzing this type of use, a comparison of use under both systems demonstrates that the differences are more than merely theoretical or academic.<sup>108</sup> The focus on the use being open and public is less pronounced under Australian trademark law. Additionally, in contrast to the United States, Australia mandates a minimal use standard in evaluating whether there has been sufficient use of the trademark.<sup>109</sup> In Australia, minor use will suffice to maintain a registration as long as it is genuine use. Put another way, genuineness trumps volume, resulting in a focus on use that is qualitative rather than quantitative.<sup>110</sup> The analysis of *Clorox* and *Gameologist* suggests that uniformity under the Act has not been achieved for certain trademark owners. The benefits that adoption of a broader use requirement may have can be seen when the outcomes for the plaintiffs in *Clorox* and *Gameologist* are analyzed under use concept standards akin to the standard in Australia. Under the Australian use standard, the outcomes would have been more favorable to the respective mark owners because the use demands placed on Australian trademark owners are modest in comparison to those placed on their American counterparts. Consequently, there is a need for legislative action to amend the use requirement to better protect trademark owners who are vulnerable under the current standard. Specifically, Congress should revise the Lanham Act, broadening

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<sup>108</sup> For example, in Australia the meaning of “trade” encompassed in the phrase “use in the ordinary course of trade” has a much wider meaning than the sale or transportation requirement under the “use in commerce” definition. *See, e.g.* *Angela Christou v Tonch Pty Ltd* [2008] ATMO 24, 22 (“The term ‘trade’ . . . is undoubtedly a wide one. It encompasses a wider range of commercial transactions than the actual sale and purchase of marked goods.” (quoting *Oakley Inc v Franchise China Pty Ltd* [2003] FCA 105; (2003) 58 IPR 452, 459)); *Moorgate Tobacco Co. Limited v Philip Morris Limited and Another*, [1983-1984] 156 CLR 414, 433 (“it is not necessary that there be an actual dealing in goods bearing the trade mark before there can be a local use of the mark as a trade mark.”); *Malibu Boats West Inc v Catanese* [2000] FCA 1141, [27] (“While the mark must be used for the purpose of indicating a connection in the course of trade, this does not mean that any actual trade or dealing in the goods is required.”).

<sup>109</sup> *See, e.g.*, *Angela Christou* [2008] ATMO 24, 22 (holding that use will “probably amount” to trademark use where a mark owner demonstrates that “it is committed to supplying marked goods to persons prepared to purchase them, activities preliminary to the actual commencement of selling the goods, such as the distribution of marked samples and marked brochures to agents, so that they could show them to prospective customers in soliciting business . . . .” (quoting *Oakley, Inc. v Franchise China Pty Ltd* (2003) 58 IPR 452, 459)).

<sup>110</sup> Australian courts having consistently held for decades that very minimal use of the trademark is required to prove use under Australian law. *See, e.g.*, *Re New Atlas Rubber Co.* (1918) 35 RPC 269; *Seven-up Co. v. O.T. Ltd* (1947) 75 CLR 203, 211; *Aston v. Harlee Manufacturing Co.* (1960) 103 CLR 391, 400; *Thunderbird Products Corp v Thunderbird Marine Products Pty Ltd* (1974) 131 CLR 592, 600.

the use requirement to bring it more in line with the less demanding standards of Australian trademark law.

*A. Broadening the Use in Commerce Standard*

If a broader use requirement is to be effective, any change should indicate the types of use that would qualify as sufficient to maintain federal registration. Looking to the Australian standard, a broader use inquiry should at least include use of a trademark by way of preparatory or other steps showing an objective commitment to using the trademark that meets the jurisdictional prerequisite that the use have the requisite effect on commerce.<sup>111</sup> Under such standard, there would be less emphasis on the use being open and public and greater weight placed on how that use has contributed to, and built, the mark owner’s brand.

In order to demonstrate an objective commitment to using the trademark, this category of use may encompass circumstances where an owner has not yet sold or transported a good bearing the mark, but has gone beyond mere consideration of whether to use a mark and has taken objective steps to commit itself to using the mark, such as shipping parts of branded products or building brand awareness by way of preparatory activities.<sup>112</sup> In other words, use would be satisfied under this category where a mark owner could objectively demonstrate carrying its intention to use the mark into effect and such use has the necessary effect on interstate or foreign commerce.<sup>113</sup> For example, if a mark owner had committed itself by taking a number of steps, such as obtaining business cards, letterhead or signs bearing the

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<sup>111</sup> *Buying Systems (Aust) Pty Ltd v Studio SrL* [1995] FCA 1063; *Woolly Bull Enterprises Pty Ltd v Reynolds* [2001] FCA 261, 40.

<sup>112</sup> In order to fit within this category of use, the approach taken by courts in Australia is that a mark owner must have gone beyond simply considering or investigating whether to use a trademark and must have carried its intention to use the mark into effect. *See Woolly Bull Enterprises*, [2001] FCA 261, 40 (“[T]he owner will not use its mark unless it has so acted to show that it has gone beyond investigating whether to use the mark and beyond planning to use the mark and has got to the stage where it can be seen objectively to have committed itself to using the mark, that is, to carrying its intention to use the mark into effect.”).

<sup>113</sup> In *Woolly Bull Enterprises*, the court held “[T]he owner will not use its mark unless it has so acted to show that it has gone beyond investigating whether to use the mark and beyond planning to use the mark and has got to the stage where it can be seen objectively to have committed itself to using the mark, that is, to carrying its intention to use the mark into effect.” [2001] FCA 261, 40.

mark and taken steps towards production, evidence of such activities would constitute an objective commitment to use the mark.<sup>114</sup>

The benefits of the suggested statutory amendment can be readily seen when applicants, like the applicant in *Clorox*, is considered. Under the broader use standard, the applicant in *Clorox* could have maintained its registration, assuming the applicant was ready to manufacture its custom-made goods.<sup>115</sup> The combination of the advertising of the goods via the applicant's website and shipping parts of its products across borders would suffice to constitute use under the "objective commitment to using the trademark" category.

Opponents may argue that intent-to-use applications could be filed in circumstances where the applicant is in an industry where sales are infrequent.<sup>116</sup> But that argument simplifies the complexity of the matter. The current United States use inquiry does not take into account that, in some industries — especially those in which the products sold have high barriers to entry for the producer of the goods — an initial sale will be harder to obtain and the requirements for registration are thereby harder to satisfy. Additionally, arguing that an intent-to-use application could have been filed is not relevant to the continuous use issue because even if an applicant is able to obtain a sale or transportation of a good, it must continue to use the mark and have more than *de minimis* use in order to be considered use "in the ordinary course of trade."

Any potential issues that may arise from the proposed changes to a broader use standard are negligible compared to the inequities under the current use standard that permits trademarks whose owners have invested heavily in obtaining a sale to later be invalidated because the use was not good enough. While the current use standard may arguably promote competition by reserving registration only to those trademark owners who have made the best use of a trademark by way of an actual sale or transportation, this rationale works against trademark owners who have to

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<sup>114</sup> For an example of a case that found that conduct fell within this category, see *Buying Systems*, [1995] FCA 1063. In *Buying Systems*, the mark owner had applied for a trademark in respect of magazines. Evidence was filed showing the mark owner had obtained business cards and letterheads bearing the mark and that it had solicited third parties to advertise in the magazine. Although these activities could not constitute a sale of the goods, the activities were held to demonstrate an objective commitment to use the trademark.

<sup>115</sup> This is assuming the applicant in *Clorox* was ready to accept an order to build one of its custom-made products. The decision did not specifically discuss this issue, but there is nothing in the decision to suggest otherwise.

<sup>116</sup> An intent to use application is based on an applicant's intent to use the mark at a future date. Lanham Act § 1(b), 15 U.S.C. § 1051(b).

invest in the trademark in order to obtain a sale. A legislative change to broaden the use standard would provide equal protection to trademark owners, irrespective of the ease or difficulty the owner has in obtaining a sale. Such a change would thereby offer greater certainty and predictability to business.

*B. The Continuous Use Standard Should be Replaced by a Minimal Use Standard*

In order to achieve uniformity under the Act’s use requirement, the more than *de minimis* use threshold encompassed within the “ordinary course” of a mark owner’s trade should be replaced with a standard of minimal, but bona fide, use that trademark owners can rely on in order to defend against invalidation of a federal registration. In order for a minimal use standard to be effective, the Act should adopt a qualitative, rather than quantitative, analysis that considers evidence of use of the mark after the initial sale. Such evidence may include the mark owner’s ongoing efforts to promote, advertise and market the goods and such use should suffice to create trademark rights if the use is bona fide. Although some case law indicates that registration may be upheld in spite of modest sales programs, that position is not consistently applied in the case law.<sup>117</sup> A lack of consistent subsequent sales after an initial sale should not be determinative of whether requisite use has been made of a mark. The courts should be instructed by legislation to consider other evidence of use including how much the business has spent on use of the mark, how many sales have been made, and what ongoing efforts the mark owner has made to promote and market the goods. Notwithstanding, use of the mark in advertising should be simultaneous with availability of the goods in the marketplace.<sup>118</sup> In other words, advertising alone should not constitute use, but advertising coupled with availability of the advertised goods for sale should suffice to create use so long as the use activities meet the jurisdictional prerequisite that have the requisite effect on commerce.

An intermediate standard has been advanced by Gilson, who states that a more realistic inquiry would consider the “ordinary course” of the trademark owners *own*

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<sup>117</sup> See, e.g., *La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc.*, 495 F.2d 1265, 1272 (2d Cir. 1974) (“It is true, . . . that trademark rights have often been upheld in spite of modest sales programs . . . [where] the trademark usage, although limited [is] part of an ongoing program to exploit the mark commercially.” (internal citations omitted)).

<sup>118</sup> The approach taken by courts in Australia is that use of a trademark in advertising must be concurrent with the placing of the goods on the market. See, e.g., *John Toh v Paris Croissant Co. Ltd* [2010] ATMO 34, 11 (“An advertisement on its own does not amount to trade mark use but may amount to preparations for use if the [goods] are concurrently available.”).

trade, not the industry in which the mark owner trades in.<sup>119</sup> Under Gilson's inquiry, relevant considerations are size of the trademark owners business and the volume of products shipped.<sup>120</sup> Gilson elaborates using the following example: “[*I*]f Company A typically ships 5,000 cases of cola to distributors in a three-state area when launching a new brand, that level of activity should establish a trademark use standard for the company which it can refer to in filing affidavits in the Patent and Trademark Office.”<sup>121</sup>

The advantages of a minimal use threshold are apparent when considering plaintiffs like the plaintiff in *Gameologist*. Under a qualitative minimal use focus, which focuses on the bona fides of the transactions regarding the mark, the plaintiff in *Gameologist* would have maintained its registration as its initial documented sale of the board game, in addition to its substantial efforts to promote its branded goods (e.g., by way of manufacture of 500 products even though only four had been sold, online advertising and negotiations with licensees), would suffice to create the requisite rights.

Critics may suggest that a minimal use approach would stem the incentive to compete embedded in the current use standard and that greater competition is fostered under the current standard by encouraging mark owners to establish themselves as quickly as possible. But this argument must be balanced against the fact that the current use standard systematically works against certain segments of the market, such as trademark owners who are small businesses or start-ups who are simply not able to quickly establish themselves. Adopting the minimal “single sale will suffice” standard of Australian law will allow American trademark owners a period of time after registration in which to establish and grow their business, without requiring immediate success judged by sales volume and significant advertising and marketing budgets. One benefit of this type of qualitative approach is that it fosters greater inclusiveness, which would better encompass the vast cross-section of commercial enterprises within the American landscape. It also means fewer federal registrations would be invalidated. Additionally, this type of approach would provide greater certainty to all trademark owners as businesses would be able to invest in a mark with greater certainty in knowing quality of use, not quantity, is the yardstick upon which a federal registration is measured. A legislative change to a qualitative, bona fide, minimal use focus thereby fosters greater equality.

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<sup>119</sup> GILSON LADONDE, *supra* note 60, at § 3.02[8][b][ii] (discussing the commercial use standard).

<sup>120</sup> *Id.*

<sup>121</sup> *Id.*

### CONCLUSION

It is time for Congress to empower “weaker” trademark owners by way of added protections to the Lanham Act that achieve greater uniformity in the application of the use requirement. In doing so, Congress would finally provide protection to trademark owners whom the Act, as currently written, denies. In order to ensure the Act’s use requirement is uniform in its application, Congress should amend the Act to broaden the nature of the activities that constitute use and ensure the use inquiry is a qualitative analysis that explicitly includes bona fide but minimal use.

The current use requirement is unpredictable and blurry, given that what constitutes a *de minimis* quantum of use is ultimately at the court’s discretion and is not readily predictable by market participants. The regularity of federal cases litigating the use issue can be explained by the lack of a bright-line rule specifying what types of activity, and what quantum of use, will satisfy the use threshold. Without any change or development in the law, one can expect that actions will continue to saturate the courts. By broadening and clarifying the use provision — including specifying that certain pre-sales activity constitutes use and loosening the quantum of use standard — Congress can keep countless lawsuits from the federal court system while strengthening the underlying spirit of the Act.

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ESTABLISHING AN INDIRECT LIABILITY  
SYSTEM FOR DIGITAL COPYRIGHT INFRINGEMENT  
IN CHINA: EXPERIENCE FROM THE UNITED STATES'  
APPROACH

BY XIAO MA\*

*In order to address the digital revolution that has challenged copyright protection, China has carried out a series of legislative attempts at developing an indirect copyright liability system in recent years. The joint tort oriented, knowledge-centered liability attribution rules and a set of borrowed safe harbor provisions from the United States have set out the rudiments of the indirect copyright liability regime to deal with digital copyright infringements.*

*However, there have been constant debates on the confusing joint tort law underpinnings, the inconsistent knowledge standard and the conflicting nature of safe harbors, which are major factors impeding the effective copyright law enforcement and the efficient operation of the intermediary's business.*

*Through analyzing current rules in China and the United States, this article finds that compared to the borrow-to-use approach, a more efficient build-to-suit approach for a viable legal transplantation is recommended. To construct an efficient, well-balanced and predictable indirect copyright liability system*

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*for dealing with digital copyright infringement in China, this article proposes an independent-tort theory and a culpable conduct based indirect liability system, with modified safe harbor provisions. In this way, a justified and compatible indirect liability system can be optimized through equilibrium among relevant parties.*

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## INTRODUCTION

Indirect copyright liability is a term used to describe the liability imposed upon a defendant who is not the direct infringer,<sup>1</sup> but whom the law nonetheless

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<sup>1</sup> Copyright law prescribes “acts restricted by copyright” that are enjoyed by copyright owners. (See, e.g., Section 16(1) of The Copyright, Designs and Patents Act of 1988 (“CDPA”)) Direct (or primary) copyright infringement takes place when an infringer conducts a restricted act that he is not entitled to, such as communicating the work to the public. Indirect copyright liability is premised on direct copyright liability. See PAUL GOLDSTEIN & BERNT HUGENHOLTZ,

holds liable for damages which the copyright owner suffers from the infringement.<sup>2</sup> Indirect liability requires that the defendant (also referred to as the “indirect infringer” below) assist, promote, facilitate or benefit from the direct infringement.<sup>3</sup> The indirect copyright liability rule has different names such as secondary liability or derived liability,<sup>4</sup> and has various forms across jurisdictions.<sup>5</sup> For instance, the United Kingdom adopts the notion of “authorisation” in its copyright legislation to deal with intermediaries who authorise the infringing acts done by the third party.<sup>6</sup> The United States, on the other hand, has developed doctrines of contributory liability, vicarious liability and inducement liability through case law.<sup>7</sup> In China, however, there has been no notion of “indirect liability” in the copyright law regime. The issue of indirect copyright liability has been dealt with under the joint tort liability regime.<sup>8</sup>

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INTERNATIONAL COPYRIGHT 338 (3<sup>rd</sup> ed. 2012) (“For a defendant to be held contributorily or vicariously liable, a direct infringement must have occurred.”).

<sup>2</sup> See GOLDSTEIN & HUGENHOLTZ, *supra* note 1, at 337. (“The law in most countries will, under prescribed conditions, impose secondary liability on those who, though not directly infringing copyright, have materially contributed to the infringement.”).

<sup>3</sup> These are requirements under the different forms of indirect liabilities such as contributory liability, inducement liability and vicarious liability.

<sup>4</sup> PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW 1 (Alain Strowel ed., 2009); see also Jane C. Ginsburg, *Separating the Sony Sheep From the Grokster Goats: Reckoning the Future Business Plans of Copyright-Dependent Technology Entrepreneurs*, 50 ARIZ. L. REV. 577, 580 (2008) (referring to indirect liability as “derivative liability”).

<sup>5</sup> See DAVID BAINBRIDGE, *INTELLECTUAL PROPERTY*, at 182-185 (9<sup>th</sup> ed. 2012).

<sup>6</sup> Section 16(2) of CIPA provides that “[c]opyright in a work is infringed by a person who without the license of the copyright owner does, or *authorises* another to do, any of the acts restricted by copyright” (emphasis added).

<sup>7</sup> See Allen N Dixon, *Liability of Users and Third Parties for Copyright Infringement on the Internet: Overview of International Development*, in PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW 12, 15 (Alain Strowel ed., 2009).

<sup>8</sup> See Yiman Zhang, *Establishing Secondary Liability With a Higher Degree of Redefining Chinese Internet Copyright Law to Encourage Technology Development*, 16(1) PAC. RIM L. & POL’Y J. 257 (2007) (“The current legal framework, which premises copyright

In order to address digital challenges, especially the increasing use of peer-to-peer (P2P) technologies, China has developed a series of instruments—including laws, regulations, judiciary interpretations and administrative measures—to regulate Internet intermediaries’ copyright liability for infringement committed by users. These legal documents establish a joint tort liability system under which network service providers (“NSPs”)<sup>9</sup> share joint liability with direct infringing users under certain conditions. The most notable of these legal instruments includes: the Copyright Law of the People’s Republic of China 1990<sup>10</sup> which was revised in 2001<sup>11</sup> and 2010;<sup>12</sup> the 2000 Networks

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liability upon a direct infringement and joint liability theory, unfortunately has produced considerable ambiguity both within the judiciary and the affected industries.”).

<sup>9</sup> The term Network Service Provider has not been defined in Chinese copyright law, but this term has been used in all relevant laws regulating network service providers in information networks. The services include automatic access services, automatic transmission services, automatic storage services, storage space services, and searching and linking services. *See* Regulations for the Protection of the Right of Communication through Information Network, (promulgated by the State Council, May 10, 2006, effective July 1, 2006, revised on January 16<sup>th</sup>, 2013), art. 6 (China) [hereinafter *2006 Regulation*], translation available at <http://www.cpahkLtd.com/UploadFiles/20100315165559735.pdf>.

<sup>10</sup> Zhonghua Renmin Gongheguo Zhuzuo Quanfa [Copyright Law of the People's Republic of China] (promulgated by the Standing Comm. Nat'l People's Cong., Sept. 7, 1990, effective June 1, 1991) (China) [hereinafter *1990 Copyright Law*], translated in Zheng Chengsi and Michael Pendleton, COPYRIGHT LAW IN CHINA 215 (1991).

<sup>11</sup> Zhonghua Renmin Gongheguo Zhuzuoquan Fa [Copyright Law of the People's Republic of China] (promulgated by the Standing Comm. Nat'l People's Cong., Oct. 27, 2001, effective Oct. 27, 2001), art. 10 (China) [hereinafter *2001 Copyright Law*], translated in WORLD INTELL. PROP. ORG. (2014), available at [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=125980](http://www.wipo.int/wipolex/en/text.jsp?file_id=125980). A new right of “communication of information on networks” was added to the list of exclusive rights. *See* 2001 Copyright Law, art. 10(12).

<sup>12</sup> Zhonghua Renmin Gongheguo Zhuzuoquan Fa [Copyright Law of the People's Republic of China] (promulgated by the Standing Comm. Nat'l People's Cong., Feb. 26, 2010, effective Apr. 1, 2010), art. 48 (China) [hereinafter *2010*

Copyright Interpretation issued by the Chinese Supreme People's Court, which was amended twice in 2004 and 2006;<sup>13</sup> the Regulations for the Protection of the Right of Communication through Information Network, which embodies a set of so called "safe harbor" provisions;<sup>14</sup> the Tort Liability Law of the People's Republic of China<sup>15</sup> with one specific provision regulating ISP liability;<sup>16</sup> and the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in Hearing Civil Dispute Cases Involving Infringement of the Right of Dissemination on Information Networks.<sup>17</sup> However, in China, debates surrounding intermediary liability issues have never stopped. First, the judiciary and scholars have been confronted with an obscure legal underpinning of indirect copyright liability due to the lack of an independent category of indirect infringement in the tort law. The success of an indirect copyright liability claim under the joint tort liability principle without the existence of joint intent or knowledge is questionable. It is equally problematic to impose indirect liability on a separate tort basis. To overcome this lacuna, a survey of current tort law is

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*Copyright Law*], translated in WORLD INTELL. PROP. ORG. (2014), available at [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=186569](http://www.wipo.int/wipolex/en/text.jsp?file_id=186569).

<sup>13</sup> Hereinafter the *Network Interpretations* are respectively referred to as the 2000, 2004, and 2006 Network Interpretation. The 2006 Interpretation was repealed by the 2013 Provision.

<sup>14</sup> *2006 Regulation*, *supra* note 9.

<sup>15</sup> Zhonghua Renmin Gongheguo Qinquan Zeren Fa [Tort Law of the People's Republic of China] (promulgated by the Standing Comm. Nat'l People's Cong., Dec. 26, 2009, effective July 1, 2010) (China) [hereinafter *2010 Tort Liability Law*], translated in WORLD INTELL. PROP. ORG. (2014), available at [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=182630](http://www.wipo.int/wipolex/en/text.jsp?file_id=182630). The notes provide that "[t]his Law is the basic tort legislation of China and provides general provisions for determining liability, assumption of liability, and mitigation of liability as well as special provisions concerning joint tortfeasors and seven special torts." *Id.*

<sup>16</sup> *Id.*, art. 36.

<sup>17</sup> Zuigao Renmin Fayuan Guanyu Shenli Qin Hai Xinxin Wangluo Chuanboquan Minshi Jiufen Anjian Shiyong Falv Ruogan Wenti de Guiding [Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in Hearing Civil Dispute Cases Involving Infringement of the Right of Dissemination on Information Networks] (issued by the Supreme People's Court, Dec. 17, 2012, effective Jan. 1, 2013) (China) [hereinafter *2013 Provision*], translation available at <http://en.pkulaw.cn>.

required to test the viability of engaging indirect copyright liability under the guidance of the general tort law regime.

Second, courts have been struggling with the incompleteness of liability attribution rules, especially the constitutive element that has been used to establish the culpability of the defendant. The issue in the spotlight is the inconsistent knowledge standard. Current rules that are used to define and interpret whether someone “knows,” “has reason to know” and “should know” have been the subject of contention.

Third, the Chinese safe harbor provisions, inspired by the United States DMCA safe harbors, fail to accommodate the specific conditions in China. The 2006 Regulation adopted the legislative model of ruling on both liability attribution and liability exemption, which caused confusion as to the nature of the safe harbors. Unlike the United States’ approach that has provided specific guidance on the interpretation of the safe harbors through case law, Chinese legislation has failed to correctly address the knowledge standard or control and benefit standard.

In addition to addressing the above-mentioned debates, this article thoroughly reviews current laws and cases in China and compares them with United States laws on indirect copyright liability. In the United States, liability attribution rules have evolved and formed three categories: contributory liability, which stresses elements of constructive knowledge and material contribution; vicarious liability, which emphasizes factors of ability to control and direct financial interest; and inducement liability, which focuses on purposeful, culpable conduct and expression. China has adopted the aiding and abetting liabilities which correspond to the United States’ contributory and inducement liabilities. However, the one-sided emphasis on applicable knowledge has impaired the importance of other constitutive elements such as the intent, the relationship with direct infringers, the ability to control direct activities, the means that are used for infringement, and due care. The United States has developed concrete explanations for the application of exemption rules in indirect copyright liability

in case laws.<sup>18</sup> In China, however, safe harbors have set a higher standard to exempt liability for NSPs, compared with the standards of the United States.<sup>19</sup>

This article begins by exploring three major debates concerning Chinese NSP liability rules. The issues in these debates are factors that have hampered the establishment of an indirect copyright liability system in China. Through an analysis of recent efforts that China has taken to construct a set of NSP liability rules, this study highlights the incompatibility of safe harbor rules, provides an overview of comprehensive liability factors, and calls for remolding and updating China's relevant regulatory instruments by reexamining the United States' experience. Part II revisits the key doctrines of indirect copyright liability in the United States, finding that judicial practice has stepped out of the traditional analysis of knowledge and material contribution elements in contributory liability and of the control and financial benefit factors in vicarious liability. Instead, a series of subjective and objective factors—including the relationship, control, knowledge, means and due care—have all invited consideration. Part III proposes guidelines and specific suggestions in establishing an indirect liability system for digital copyright infringement in China. This article concludes with a strong

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<sup>18</sup> See, e.g., *UMG Recordings, Inc. v. Shelter Capital Partner LLC*, 718 F.3d 1006 (9th Cir. 2013); *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102 (9th Cir. 2007); *Viacom Int'l, Inc. v. YouTube, Inc.*, 676 F.3d 19 (2d Cir. 2012); *Viacom Int'l, Inc. v. YouTube, Inc.*, 07 Civ. 2103 (S.D.N.Y. 2013); *Viacom Int'l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010).

<sup>19</sup> The liability provided in Article 22 of the 2006 Regulation is actually stricter than that imposed by the DMCA because it requires only financial benefit as immunity rather than the two indispensable requirements of both financial benefit and right and ability to control the infringing activity in section 512(c) and (d) of the DMCA. A higher threshold for liability exemption is therefore established in the 2006 Regulation.

[T]here are two indispensable constitutive requirements for the 'vicarious liability' in DMCA: The financial benefit directly attributable to the infringing activity, and the network service provider's right and ability to control the infringing activity. But there is only one requirement in the Regulations. If the Regulations are implemented by word, a stricter liability will be imposed on the network service provider than in the US, which is not tenable.

Qian Wang, *Study on Copyright Infringement of Video-Sharing Websites*, 5(2) FRONT. L. CHINA 275, 299 (2009).

recommendation that, to construct an efficient, well-balanced and predictable indirect copyright liability system for dealing with digital copyright infringement in China, an independent tort theory-oriented, culpable conduct-based indirect copyright liability system, with modified safe harbor provisions, is needed.

## I

### DEBATES ON NSP LIABILITY RULES IN CHINA

In China, there have been no systematic rules on the issue of indirect liability for copyright infringement in legislation. This was compatible with the original focus of copyright protection in China, because the legislative and applicative focus had been the act of direct infringement since establishing the copyright system. This focus can partly be explained by the previous technological conditions where the general public could not afford to copy technologies and only a select few, with certain financial and material resources, were capable of conducting severe direct infringement. In this light, the copyright owners could gain sufficient remedies through chasing legal liabilities from those direct infringers.

With fast developments in copying and disseminating technology, however, individuals are now capable of conducting severe copyright infringement. Nevertheless, it is not easy for copyright owners to locate the infringers, nor to gain sufficient compensation from chasing individual liability. Moreover, if they are not immediately restrained, some expanding infringements will produce very serious outcomes for copyright owners. In practice, the uniformity of court judgments at different levels is not guaranteed.<sup>20</sup> Therefore, the copyright laws in China should not only introduce fundamental principles guiding indirect infringement of copyright, but also make concrete and detailed provisions to construct a comprehensive and systematic indirect liability system for copyright infringement online.

Civil liability for copyright infringement is stipulated in relevant articles of the General Principles of the Civil Law (“GPCC”), which prescribes that “citizens and legal persons shall enjoy rights of authorship (copyrights) and shall be entitled to sign their names as authors, issue and publish their works and obtain

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<sup>20</sup> Jessica Haixia Jia, *Copyright Infringement in the Network Environment—China’s Perspective*, 19(2) COMPUTER L. & SEC. REP. 101 (2003).

remuneration in accordance with the law.”<sup>21</sup> When dealing with infringement, it provides joint liability for joint infringements.<sup>22</sup> The Supreme Court’s Opinion of the Civil Law further states that “any person who incites or assists another to commit a tort is the joint tortfeasor.”<sup>23</sup>

Relevant articles in the 2010 Tort Liability Law can be applied when dealing with copyright liabilities,<sup>24</sup> including strict liability, fault-based liability, and joint and several liabilities.<sup>25</sup> It is noteworthy that the 2010 Tort Liability Law prescribes defines abetting and assisting activities as two forms of infringing acts which lead to joint and several liabilities.<sup>26</sup> Article 36, which specifically deals with NSP liability in the network environment,<sup>27</sup> affirms the notice and

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<sup>21</sup> Zhonghua Renmin Gongheguo Minfa Tongze [General Principles of the Civil Law of the People's Republic of China], (adopted at the Nat'l People's Cong., April 12, 1986), art. 94 (China) [hereinafter GPC], *translation available at* [http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content\\_1383941.htm](http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content_1383941.htm).

<sup>22</sup> *Id.*, art. 130 (“[I]f two or more persons jointly infringe upon another person’s rights and cause him damage, they shall bear joint liability.”)

<sup>23</sup> Opinion of the Supreme People’s Court on Questions Concerning the Implementation of the General Principles of the Civil Law of the People's Republic of China (issued by the Supreme People’s Court, Jan. 26, 1988) art. 148 (China), *translated in* Whitmore Gray & Henry Ruiheng Zhen, 52 LAW & CONTEMP. PROBLEMS 59 (1989).

<sup>24</sup> 2010 Tort Liability Law, *supra* note 15, art. 2 (“Those who infringe upon civil rights and interests shall be subject to the tort liability according to this Law. ‘Civil rights and interests’ used in this Law shall include . . . copyright . . .”).

<sup>25</sup> *Id.*, art. 6. (“One who is at fault for infringement upon a civil right or interest of another person shall be subject to the tort liability. One who is at fault as construed according to legal provisions and cannot prove otherwise shall be subject to the tort liability.”); *Id.*, art. 7. (“One shall assume the tort liability for infringing upon a civil right or interest of another person, whether at fault or not, as provided for by law, shall be subject to such legal provisions.”); *Id.*, art. 8 (“Where two or more persons jointly commit a tort, causing harm to another person, they shall be liable jointly and severally.”).

<sup>26</sup> “One who abets or assists another person in committing a tort shall be liable jointly and severally with the tortfeasor.” *Id.*, art. 9.

<sup>27</sup> *Id.*, art. 36(1) (“A network user or network service provider who infringes upon the civil right or interest of another person through network shall assume the tort liability.”).

takedown provisions<sup>28</sup> provided in the 2006 Regulation<sup>29</sup> and makes clear that a fault-based liability is applied to the NSP who has knowledge of a third party's infringement.<sup>30</sup> This article is a principled stipulation for indirect liability that needs to be further interpreted. The main problems involve the interpretation of certain terms in this article such as "necessary measures," "in a timely manner" and "know." For example, whether "know" is perceived as actual knowledge, or as knowledge including "should know," was under hot debate.<sup>31</sup>

The recently issued 2013 Provision has absorbed recent judiciary practice as well as recent academic research.<sup>32</sup> By distinguishing direct and indirect

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<sup>28</sup> *Id.*, art. 36(2) ("Where a network user commits a tort through the network services, the victim of the tort shall be entitled to notify the network service provider to take such necessary measures as deletion, block or disconnection. If, after being notified, the network service provider fails to take necessary measures in a timely manner, it shall be jointly and severally liable for any additional harm with the network user.").

<sup>29</sup> 2006 Regulation, *supra* note 9, art. 14–17.

<sup>30</sup> 2010 Tort Liability Law, *supra* note 15, art. 36(3) ("Where a network service provider knows that a network user is infringing upon a civil right or interest of another person through its network services, and fails to take necessary measures, it shall be jointly and severally liable for any additional harm with the network user.").

<sup>31</sup> See, e.g., Weixiao Wei, *ISP Copyright Liability in China: Collision of the Knowledge Standard and the New Tort Liability Act*, 33(8) EUR. INTELL. PROP. REV. 507 (2011); see also Qian Tao, *The Knowledge Standard for the Internet Intermediary Liability in China*, 20(1) INT'L J.L. & INFO. TECH. 1 (2011).

<sup>32</sup> For instance, Article 11 of the 2013 Provision, which agrees with Qian Wang's suggestion, avoids creating the vicarious liability that corresponds to the United States' copyright law out of nowhere. It prescribes that

[w]here a network service provider directly gains economic benefits from the work, performance, or audio or video recording provided by a network user, the people's court shall determine that the network service provider has a higher duty of care for the network user's infringement of the right of dissemination on information networks. If a network service provider gains benefits from inserting advertisements into a specific work, performance, or audio or video recording or gains economic benefits otherwise related to the disseminated work, performance, or audio or video recording, it shall be determined that the network service provider directly gains economic benefits as mentioned in the

infringement of network service providers,<sup>33</sup> especially stipulating the abetting and aiding infringement<sup>34</sup> with a specific knowledge standard,<sup>35</sup> the 2013 Provision has provided a consistent framework for evaluating and assessing NSP infringement with regard to the relevant issues over online copyright disputes. The imputing and limiting of online copyright liabilities are embodied and the balancing of interests is reflected. Based on the investigation of cases and consultation from academes and different sectors, the promulgation of the 2013

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preceding paragraph, however, excluding the general advertising and service charges, among others, collected by a network service provider for providing network services.

2013 Provision, art. 13. *Cf.* Wang, *supra* note 19.

<sup>33</sup> Article 3 of the 2013 Provision differentiates two acts of provision: (i) the providing of works and (ii) the providing of network services. This differentiation actually broadens the meaning of “the right of dissemination on information networks.” In this light, the distinction between direct and indirect infringement occurs – the former corresponds the providing of works and the latter corresponds the providing of network services. This is a breakthrough in the understanding of the infringement of dissemination right, which clears the fog in questions as to whether to use “server standard” or any other standards to determine the right of dissemination on information networks, and the legal nature of the act of providing network technology and facility service.

<sup>34</sup> *See id.*, art. 7 (“Where a [NSP] abets or aids any network user in infringing upon the right of dissemination on information networks when providing network services, the people’s court shall hold the network service provider liable for the infringement. Where a [NSP] induces or encourages any network user to infringe upon the right of dissemination on information networks . . . the people’s court shall determine that the [NSP] has abetted the infringement. Where a [NSP] which knows or should have known that a network user is using its network services to infringe upon the right of network dissemination of information fails to take necessary measures . . . the people’s court shall determine that [NSP] has aided in the infringement.”).

<sup>35</sup> *See id.*, art. 9 (“The people's court shall determine whether a [NSP] should have known an infringement based on a clear fact that a network user has infringed upon the right of dissemination on information networks and by taking into account the following factors . . . .”); *see also id.*, arts. 10–14.

Provision will help courts at all levels in China to keep pace with the times and be more scientific and normalized in adjudicating copyright cases in the future.

However, for several reasons, the 2013 Provision does *not* provide total clarity on attribution rules. First, it has been established that fault is a determinative factor in deciding whether the NSP is liable for infringement as an abettor or aider.<sup>36</sup> However, the 2013 Provision defines fault as knowledge, which overlooks other types of intentional fault including inducing or encouraging.<sup>37</sup> Second, the 2013 Provision takes an approach that stresses only the subjective element rather than the objective element. Knowledge (know or should have known)<sup>38</sup> becomes the key deciding factor; the objective factors, such as nature of the services provided and the NSP's capability of information management, are treated as factors to be taken into account in deciding the knowledge.<sup>39</sup> Third, the factors in deciding fault of an NSP are enumerated with examples, which limit judges' discretion.<sup>40</sup> This legislative technique becomes disadvantageous when facing new technologies. Last but not least, the provisions relating to copyright liabilities in various legal instruments have not yet been unified, especially considering that the Copyright Law is currently under the third

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<sup>36</sup> *Id.*, art. 8; *see also id.*, art. 6 (“Where . . . the network service provider is able to prove that it only provides network services and is not at fault, the people’s court shall not determine that the network service provider has committed an infringement.”).

<sup>37</sup> *Id.*, art. 8 (“The fault of a [NSP] means whether the network service provide knows or should have known a network user's infringement of the right of dissemination on information networks”). *But see* A Samuel Oddi, *Contributory Copyright Infringement: The Tort and Technological Tensions*, 64 NOTRE DAME L. REV. 47, 64 (1989) (indicating that fault encompasses different categories such as intent and negligence).

<sup>38</sup> *Id.*, art. 8.

<sup>39</sup> *Id.*, art. 9 (“The people’s court shall determine whether a [NSP] should have known an infringement based on a clear fact that a network user has infringed upon the right of dissemination on information networks and by taking into account the following factors: (1) The [NSP]'s capability of information management, as required according to the nature of services provided, manners of provision of services, and possibility of infringement attributable thereto.”).

<sup>40</sup> *See, e.g., id.*, art. 9 (prescribing that clear facts, combined with certain factors, are required to be taken into account in determining whether the network service providers “should have known” the direct infringement).

revision. Therefore, the effect of application of the 2013 Provision remains to be seen.

A. *Debate on the Tort Basis for NSP Copyright Liability*

Generally speaking, tort infringement acts lead to tort liability. However, under current tort theory, debates among scholars on the tort infringement basis of NSP copyright liability have been getting heated. Some argue for joint infringement,<sup>41</sup> while others argue that NSPs are severally liable.<sup>42</sup> Prior to the promulgation of the 2010 Tort Liability Law, the act of joint infringement was used to define the relationship between the NSP and the network users; for instance, the 2006 Network Interpretation provides that the NSP shall bear joint

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<sup>41</sup>See, e.g., Yang Ming (杨明), “Jianjie Qinquan” Bian: Cong “Baidu, Yahu An” Shuo Kai Qu (“间接侵权”辨: 从“百度、雅虎案”说开去) [Discussion on “Indirect Infringement”: Taking “Baidu & Yahoo” Cases as the Beginning], 10 WANGLUO FALV PINGLUN (网络法律评论) [INT. L. REV.], no.1, 2009, at 11; see also Wu Handong (吴汉东), Qinquan Zeren Fa Shiye Xia De Wangluo Qinquan Zeren Jiexi (侵权责任法视野下的网络侵权责任解析) [Analysis of the Online Infringement Liability from the Perspective of Tort Law], 140 FASHANG YANJIU (法商研究) [STUD. L. & BUS.], no. 6, 2010, at 28.; Wu Handong (吴汉东), Lun Wangluo Fuwu Tigongzhe de Zhuzuoquan Qinquan Zeren (论网络服务提供者的著作权侵权责任) [Tort Liability for Indirect Infringement of Copyright in the Internet According to Article 36 of the Tort Law PRC], ZHONGGUO FAXUE (中国法学)[CHINA LEGAL SCI.], no.2, 2011, at 38.

<sup>42</sup> See, e.g., Lixin Yang(杨立新), *Lun Jinhe Qinquan Xingwei* (论竞合侵权行为) [On Overlapping Torts], QINGHUA FAXUE (清华法学) [TSINGHUA L. REV.], no. 1, 2013, at 119; Lixin Yang (杨立新), *Qinquan Zeren Fa Guiding de Wangluo Qinquan Zeren de Lijie yu Jieshi* (<<侵权责任法>>规定的网络侵权责任的解释) [Comprehension and Interpretation of Internet Infringement Liability Regulated in the Tort Law], 18 GUOJIA JIANCHAGUAN XUEYUAN XUEBAO (国家检察官学院学报) [J. NAT’L PROSECUTORS C.], no. 2, 2010, at 3; see also Xu Wei (徐伟), *Tongzhi Yichu Zhidu de Chongxin Dingxing Jiqi Tixi Xiaoying* (通知移除制度的重新定性及其体系效应) [The Redefinition and Systematic Influence of Notice and Takedown Regime], 35 XIANDAI FAXUE (现代法学) [MOD. L. SCI.], no. 1, 2013, at 58.

liability with the users.<sup>43</sup> The same approach was adopted in Article 23 of the 2006 Regulation.<sup>44</sup> However, the 2010 Tort Liability Law recognizes joint and several liabilities for aiding and abetting torts, without referring to its liability basis.<sup>45</sup> In judicial practice, Chinese courts have been employing the joint infringement theory. For instance, in the case *Zhongkai Culture v. Guangzhou Shulian*<sup>46</sup>, the court applied the 2006 Network Interpretation, stating that the defendant, who did not upload a film for direct downloading, had abetted and assisted the users in committing the infringement and should bear joint infringement liability with direct infringers.<sup>47</sup>

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<sup>43</sup> 2006 Network Interpretation, *supra* note 13, art. 4 (“[W]here an internet service provider participates in any act of another person to infringe copyright through network, or aids and abets, on the internet, others to carry out any act of copyright infringement, the people’s court shall, pursuant to the provision of Article 130 of the General Principles of the Civil law, investigate it and other actors or any other person having directly carried out the infringement, and impose joint liability thereon.”).

<sup>44</sup> 2006 Regulation, *supra* note 9, art. 23 (“[W]here a network service provider that provides searching or linking service to its subscribers, disconnects the link to the infringing works, performances, sound recordings or video recordings upon receipt of the right owner’s notification according to these Regulations, it shall not be liable for damages; where it knows or has reasonable grounds to know that the linked works, performances, sound recordings or video recordings infringe another person’s right, it shall be jointly liable for the infringement.”).

<sup>45</sup> See 2010 Tort Liability Law, *supra* note 15, art. 8 (“where two or more persons jointly commit a tort, causing harm to another person, they shall be liable jointly and severally.”); *Id.*, art. 9 (“[O]ne who abets or assists another person in committing a tort shall be liable jointly and severally with the tortfeasor.”).

<sup>46</sup> Guangdong Zhong Kai Wenhua Fazhan Youxiangongsi Su Guangzhou Shu Lian Ruanjianjishu Youxiangongsi, Shanghai Ka Fu Guanggao Youxiangongsi Guangdong (广东中凯文化发展有限公司诉广州数联软件技术有限公司、上海卡芙广告有限公司) [*Zhongkai Culture Development Ltd. v. Guangzhou Shulian Software Technology Ltd., Shanghai CAV*] (Shanghai No.1 Interm. People’s Ct., Nov. 22, 2007).

<sup>47</sup> *Id.*

Among academics, Professor Ming Yang argues for joint infringement as a basis for NSP liability in China.<sup>48</sup> He points out that unlike the criminal law, joint infringement in civil law tort theory stresses an objective infringement act, rather than the existence of conspiracy or joint intent or knowledge.<sup>49</sup> If the indirect infringement system is used to define NSP liability in the form of assisting infringement, major confusion will occur surrounding the nature of the relationship between a direct and indirect infringer.<sup>50</sup> Based on this observation, he claims that it is unnecessary to import an indirect infringement system in China.<sup>51</sup>

However, the above point of view has been challenged by Wei Xu, whose argument stems from the concept of joint infringement itself.<sup>52</sup> The major disagreement concerns the question of whether the infringements committed by multiple persons without connected intent constitute joint infringement. For a start, he suggests a systematic reading of articles 8 through 12 of the 2010 Tort Liability Law, and finds that the answer to the above question is no.<sup>53</sup> He advises assisting infringement liability rather than joint infringement liability in a situation without connected intent between NSP and its users.<sup>54</sup> Next, he analyzes a dilemma in practice if the NSP is considered as a joint tortfeasor. Under the joint infringement theory, the joint tortfeasor is required to participate in the necessary joint action as a necessary party to the litigation.<sup>55</sup> However, in practice, users who commit direct infringement are highly impossible to locate,

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<sup>48</sup> See Yang Ming, *supra* note 41.

<sup>49</sup> *Id.* at 23.

<sup>50</sup> *Id.*

<sup>51</sup> *Id.* at 28.

<sup>52</sup> Xu Wei (徐伟), *Wangluo Fuwu Tigongzhe Liandai Zeren Zhi Zhiyi* (网络服务提供者

连带责任之质疑) [*Questioning the Joint Liability of Internet Service Providers*], FAXUE (法学) [LEGAL SCI. MONTHLY], no. 5, 2012, at 82.

<sup>53</sup> *Id.* at 83.

<sup>54</sup> *Id.* at 84.

<sup>55</sup> *Id.* at 85.

or the cost is too high to be added as a party to the litigation.<sup>56</sup> In addition, the NSP that bears liability has a right to pursue recovery from direct infringers, but it is difficult and impractical for an NSP to do so.<sup>57</sup> Accordingly, Xu proposes that the NSP shall be severally rather than jointly liable.<sup>58</sup>

Tort law Professor Lixin Yang provides a third opinion.<sup>59</sup> Professor Yang describes a logic gap between the infringement committed by multiple parties and respective liability forms in traditional tort law theory in China.<sup>60</sup> The unresolved question is whether the combination of direct infringement and indirect infringement constitutes joint infringement. He advises that it is not joint infringement but joint and several liabilities based on consideration of public policy.<sup>61</sup> From his point of view, infringement activity leads to corresponding infringement liability. Given that, joint infringement leads to joint and several liability, the independent infringement act leads to proportionate liability, and the third party infringement leads to third party liability. A gap, consequently, is generated concerning the correspondent form of infringement, which leads to unreal joint liability.<sup>62</sup> He proposes a concept of “overlapping infringement,”<sup>63</sup>

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<sup>56</sup> *Id.* at 86.

<sup>57</sup> *Id.*

<sup>58</sup> *Id.*

<sup>59</sup> See Lixin Yang, *On Overlapping Torts*, *supra* note 42, at 9.

<sup>60</sup> *Id.* at 120.

<sup>61</sup> Lixin Yang, *Ruhe Lijie Qinquan Zeren Fa Zhong Wangluo Qinquan Zeren* (如何理解侵权责任法中网络侵权责任) [*How to Understand Online Infringement Liability Under the Tort Liability Law*], JIANCHARIBAO (检察日报) [THE PROCURATORATE DAILY], March 31, 2010. Available at [http://newspaper.jcrb.com/html/2010-03/31/content\\_41945.htm](http://newspaper.jcrb.com/html/2010-03/31/content_41945.htm).

<sup>62</sup> Professor Lixin Yang explains that “unreal joint liability refers to the act conducted by multiple tort-feasors, in violation of the statutory obligations, which results in damage of one victim, or different acts conducted by different tort-feasors, which result in the same tort liability. In each case, any tort-feasor bears full liability for the performance of the others, whose liability are thus eliminated. It also refers to the liability in accordance with the provisions of the special form of torts.” See LIXIN YANG, *TORT LIABILITY LAW* 125 (2d ed, China Law Press 2012).

<sup>63</sup> See Lixin Yang, *On Overlapping Torts*, 1 *TSINGHUA LAW REVIEW* 119, 123 (2013).

constituted by multiple infringement activity, which has direct or indirect causation of the damage. The infringer bears the unreal joint liability. When the concept of overlapping infringement comes into play, the logic gap that has long existed in tort law theory is filled. In this light, the theoretical basis for NSP liability can be initially established.<sup>64</sup>

### B. *Debate on the NSP's Knowledge Standard*

The requisite level of knowledge possessed by the NSP in determining its liability of online copyright infringement committed by its users has also been one of the major controversies in China. The 2000 Network Interpretation raises the “explicit knowledge” requirement in Article 5.<sup>65</sup> The 2006 Regulation sets forth the requisite knowledge requirement for limiting the liability of NSPs that provide services related to information storage and searching or linking. Article 22(3) employs the terms “*knows*” or “*has reasonable ground to know*” for limiting liability of an NSP that provides storage space,<sup>66</sup> while Article 23 uses the phrase “*explicitly knows*” and “*should have known*” for an NSP that provides searching or linking services.<sup>67</sup> Prior to the promulgation of the 2013 Provision,

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<sup>64</sup> *Id.*

<sup>65</sup> See 2000 Network Interpretation, *supra* note 13, art. 5 (“a network service provider that provides content service *explicitly knows* that network users use its network to infringe copyright of others, or after receiving a substantiated warning from copyright owners but fails to take measures such as removing the infringing content to eliminate consequence of the infringement, the People’s Courts shall pursue joint liability of the network service provider for infringement with network users, pursuant to Article 130 of the General Principles of the Civil Code.” (emphasis added)).

<sup>66</sup> 2006 Regulation, *supra* note 9, art. 22 (“[A] [NSP] that provides its subscribers with network storage space for them to make works, performances, sound recordings or video recordings available to the public, and meets the following conditions shall not be liable for damages: . . . it does not know or has no reasonable grounds to know that the works, performances, sound recordings or video recordings provided by its subscribers infringe any other persons’ rights . . .”).

<sup>67</sup> *Id.*, art. 23 (“[W]here a [NSP] that provides searching or linking service to its subscribers, disconnects the link to the infringing works, performances, sound recordings or video recordings upon receipt of the right owner’s notification according to these Regulations, it shall not be liable for damages; where it knows or should have known that the linked works,

it was unclear what “should have known” means. For instance, compare *IFPI v. Baidu*<sup>68</sup> and *IFPI v. Yahoo*.<sup>69</sup> Both cases are very similar in that they concern recording labels suing search engines and linking service providers. Nevertheless, they produced different results. In *IFPI v Baidu*, the IFPI sued Baidu on behalf of seven music companies for providing links to a website that offered free downloading of infringing songs.<sup>70</sup> The Beijing First Intermediate People’s Court ruled in favour of Baidu, holding that the plaintiff failed to notify Baidu of the infringing files, and Baidu had no fault for searching and linking to the other websites because it ‘should not have known’ of the infringing material.<sup>71</sup> The Beijing Higher People’s Court upheld the decision.

However, in a similar case *IFPI v Yahoo*, the defendant Yahoo who provided links to the third websites for free music downloading, was held liable for aiding infringement.<sup>72</sup> It is notable that though the defendants in both cases provided the same service, there were different facts that were essential for the decision. The music labels sent notices to the defendant including the name of the

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performances, sound recordings or video recordings infringe another person’s right, it shall be jointly liable for the infringement.”).

<sup>68</sup> Jinpai Yule Shiye Youxiangongsi Yu Beijing Baidu Wang Xun Keji Youxiangongsi Qinfan Xinxi Wangluo Chuanbo Quan Jiufen Shangsuo An (金牌娱乐事业有限公司(Gold Label Entertainment Limited)与北京百度网讯科技有限公司侵犯信息网络传播权纠纷上诉案) [*IFPI v. Baidu*] (Beijing Higher People’s Ct. Apr. 28, 2007); Jinpai Yule Shiye Youxiangongsi Su Beijing Baidu Wang Xun Keji Youxiangongsi Qinfan Xinxi Wangluo Chuanbo Quan Jiufen An (金牌娱乐事业有限公司诉北京百度网讯科技有限公司侵犯信息网络传播权纠纷案) [*IFPI v. Baidu*] (Beijing No. 1 Interm. People’s Ct. Nov. 17, 2006).

<sup>69</sup> *IFPI v. Alibaba*, the Beijing No. 2 Intermediate People’s Court, No. Erzhongminchuzi 2626/2007; the Beijing Higher People’s Court, No. Gaominzhongzi 1990/2007.

<sup>70</sup> *IFPI v. Baidu* (Beijing No. 1 Interm. People’s Ct. 2006).

<sup>71</sup> *Id.*

<sup>72</sup> *IFPI v. Alibaba*, the Beijing No.2 Intermediate People’s Court, No. Erzhongminchuzi 2626/2007; the Beijing Higher People’s Court, No. Gaominzhongzi 1990/2007.

song, the name of the album and the singer of each infringing file. The court held that the above three pieces of information were enough to locate the copyrighted music. However, Yahoo refused to disconnect the access to the infringing material.<sup>73</sup> Yahoo should have known of the infringement, therefore it constituted aiding infringement.<sup>74</sup>

In another case *Fanya v Baidu*,<sup>75</sup> the right holder also sent notices to the defendant, demanding the defendant to disconnect access to the infringing material. However, these notices were different from the notices sent in *IFPI v Yahoo* that were sufficient for locating the illegal music files. Instead, the notices from Fanya only provided the name of the song, with which alone would be very difficult to locate the copyrighted material enjoyed by the copyright holders.<sup>76</sup>

In order to understand what constitutes “know” or “should have known” for a searching or linking service provider, first, a notice that is sufficient to locate the infringing material is required. A noncompliance notice will not constitute explicit knowledge; but, if it is sufficient to locate the infringing material, the “red flag” test is met.<sup>77</sup> Second, there are different types of service provided by the

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<sup>73</sup> *Id.*

<sup>74</sup> *Id.*

<sup>75</sup> Zhejiang Fan Ya Dianzishangwu Youxiangongsi Su Beijing baidu Wang Xun Keji

Youxiangongsi Deng Qinfan Zhu Zuo Quan Jiufen An (浙江泛亚电子商务有限公司诉北京

百度网讯科技有限公司等侵犯著作权纠纷案) [*Fanya v. Baidu*] (Beijing Higher People’s Ct.

Dec. 19, 2008).

<sup>76</sup> *Fanya v. Baidu* (Beijing Higher People’s Ct. 2008).

<sup>77</sup> The term “red flag,” referring to apparent knowledge, was borrowed from the United States safe harbour knowledge standard. *See* S. Rep. No. 105-190, at 44 (1998) (“ Subsection (c)(1)(A)(ii) can best be described as a “red flag” test. As stated in subsection (1), a service provider need not monitor its service or affirmatively seek facts indicating infringing activity (except to the extent consistent with a standard technical measure complying with subsection (h)), in order to claim this limitation on liability (or, indeed any other limitation provided by the legislation). However, if the service provider becomes aware of a ‘red flag’ from which infringing activity is apparent, it will lose the limitation of liability if it takes no action.”); *see*

searching or linking NSPs. One is the search box, which has no bias towards the content it linked when the key words are being typed in. The other is the list provided by some search engines. By clicking song or singer's names in the list such as 'top 100' songs, users can reach the same result as typing the name in the search box. However, the culpability of the search engine provider under the two situations is different. By providing the list, the search engine providers are supposed to have higher duty of care. When infringing material is apparent like a 'red flag' from a glance of the list, the service provider is required to disconnect it, rather than turning a blind eye to the infringement.<sup>78</sup>

The NSP knowledge standard has also been uncertain since the drafting of Article 36<sup>79</sup> of the 2010 Tort Liability Law.<sup>80</sup> There is no doubt that "know" includes "explicitly know." However, whether it also includes "should have known" or "have reason to know" generates fierce debate. Some legal professionals maintain that "know" includes "should have known" because "many culpable internet service providers might escape liability if their liabilities

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Cao Yang (曹阳), *Zhishichanquan Jianjie Qinquan Zeren de Zhuguan Yao Jian Fenxi* (知识产权间接侵权责任的主观要件分析) [*The State of Mind of Infringers in Rendering Intellectual Property Indirect Infringement Liability: Take ISP As the Main Object*], WANGLUO FALV PINGLUN (网络法律评论) [INT. L. REV.], no. 11, 2012, 24, for relevant discussion in China.

<sup>78</sup> Qian Wang, *On the Determination of Indirect Liability of Information Location Service Providers*, 2 INTELL. PROP. 3 (2009).

<sup>79</sup> 2010 *Tort Liability Law*, *supra* note 15, art. 36(3) ("[W]here a [NSP] knows that a network user is infringing upon a civil right or interest of another person through its network services, and fails to take necessary measures, it shall be jointly and severally liable for any additional harm with the network user.").

<sup>80</sup> Qian Tao, *The Knowledge Standard for the Internet Intermediary Liability in China*, 20 INT. J. L. & INFO. TECH. 1, 1, 2-3 (2011) ("In the preliminary draft and the second draft of the Tort Liability Law, the term used was "actually knew", then the legislators changed it to "knew" in the third draft, and it was "knew or should have known" in the fourth draft, ultimately "knew" is used in the final version.") (emphasis added).

are only based on actual knowledge,”<sup>81</sup> while some disagree because “it would incur a considerable duty of care for website operators.”<sup>82</sup> The third opinion suggests that the knowledge requirement includes “have reason to know” instead of “should have known,” because the latter may increase the level of care for internet service providers, whereas the former is equal to “awareness of facts or circumstances” under the DMCA.<sup>83</sup> Though the two terms both relate to the term “constructive knowledge,” and vaguely to the duty of care under the tort of negligence at common law, they have a slight difference:

The term “had reason to know” has a slight difference with “should have known”. The first centers on the “reason”, while, the second emphasizes the “duty” which could be a legal duty of care under a statute or based on an agreement. The “has reason to know” is more like a factual determination based upon the circumstances and information available to the parties, while, the “should have known” is more like a judicial determination of what is a reasonable level of knowledge given the parties and the circumstances. Hence, the first is a party-specific objectivity, and the second is a community-focused objectivity.<sup>84</sup>

Tao disagrees with all above opinions in interpreting “know” in the 2010 Tort Liability Law and instead proposes the United States’ approach in the DMCA.<sup>85</sup> Since China has enacted no rule preventing the imposition of a monitoring obligation,<sup>86</sup> the first and third approaches would result in

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<sup>81</sup> *Id.* at 3.

<sup>82</sup> *Id.* at 4.

<sup>83</sup> *Id.*

<sup>84</sup> *Id.* at 13.

<sup>85</sup> *Id.* at 14.

<sup>86</sup> The 2013 Provision implies that the NSP has no monitoring obligation to seek out facts and circumstances indicating illegal activities. *See 2013 Provision, supra* note 17, art. 8 (“Where a network service provider fails to conduct proactive examination regarding a network user’s infringement on the right of dissemination on information networks, the people’s court shall not determine on this basis that the network service provider is at fault. Where a network service provider is able to prove that is has taken reasonable and effective technical measures

disproportionate burdens on intermediaries. In addition, Tao argues that the adaptation of the term “reason to know” and “should have known” in Article 22 of the 2006 Regulation is a misunderstanding by legislators<sup>87</sup> and that an interpretation consistent with the DMCA would avoid more confusion and legal uncertainty.<sup>88</sup>

Prior to the promulgation of the 2013 Provision, Tao’s interpretation of “know” in Article 36 of the 2010 Tort Liability Law was of great significance, because a broad interpretation of the knowledge standard would lead to an excessive burden for the NSP. However, since 2013, the status of NSP liability has changed. Indirect copyright liability attribution rules, which employ “know” or “should have known” have been introduced based on the knowledge of an NSP.<sup>89</sup>

Under the rudimentary framework of indirect liability for digital copyright infringement, the knowledge requirement in different legislation needs to be re-examined. Article 36 of the 2010 Tort Liability Law adopts a horizontal approach which is applicable to both intellectual property infringement and other civil claims governing content including copyright, and defamatory and obscene content.<sup>90</sup> It is advisable to interpret this article in a broad way, because it “is not only fatal to the imposition of copyright liability on [NSPs] but also important for other kinds of content-related liability for [NSPs] such as liability for defamatory

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but it is still difficult for it to discover a network user’s infringement . . . the court shall determine that the network service provider is not at fault.”).

<sup>87</sup> Qian Tao, *The Knowledge Standard for the Internet Intermediary Liability in China*, 20(1) INT’L J.L. & INFO. TECH. 1, 14 (2011).

<sup>88</sup> *Id.* at 17.

<sup>89</sup> 2013 Provision, *supra* note 17, art. 8 (“The fault of a network service provider means whether the network service provide [sic] knows or should have known a network user’s infringement of the right of dissemination on information networks.”).

<sup>90</sup> 2010 Tort Liability Law, *supra* note 15, art. 36 (“[a] network user or network service provider who infringes upon the civil right or interest of another person through network shall assume the tort liability.”); *id.* art. 2 (“civil rights and interests” include “the right to life, the right to health, the right to name, the right to reputation, the right to . . . copyright . . . and other personal and property rights and interests.”).

content.”<sup>91</sup> Further, as a liability attribution rule rather than liability exemption rule, the knowledge requirement in Article 36 is obviously broader than that of the safe harbor provisions under the 2006 Regulation. It is therefore concluded that the term “know” in article 36 of the 2010 Tort Liability Law embraces the meaning of “explicitly know” and “should have known” to determine the NSP’s knowledge of copyright infringements committed by the third party.

### C. *Debate on the Nature of Safe Harbors*

There have been passionate and polarized debates on the nature of the Chinese “safe harbor” provisions<sup>92</sup> provided in the 2006 Regulation.<sup>93</sup> A contextual analysis suggests the language used in the 2006 Regulation reflects divergent approaches towards the liability model. For instance, the safe harbors all use the language of liability limitation, such as “shall not be liable for damages”;<sup>94</sup> however, the Regulation provides for liability attribution in the second section: “where [the NSP] knows or has reasonable grounds to know that the linked works, performances, sound recordings or video recordings infringe another person’s right, it shall be jointly liable for the infringement.”<sup>95</sup> Given the ambiguity of what is prescribed in the legislation, both courts and academics suggest clarifying the nature of the provisions.<sup>96</sup> Although the safe harbors have

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<sup>91</sup> Weixiao Wei, *supra* note 31, at 516.

<sup>92</sup> 2006 Regulation, *supra* note 9, art. 20–23.

<sup>93</sup> See, e.g., Wei Xu, *The Redefinition and Systematic Influence of Notice and Takedown Regime*, 1 MOD. L. SCI. 58 (2013); Jiarui Liu, *The Safe Harbor Rules of the Chinese Network Service Providers: a Comment on the Yahoo Case*, 19 INTELL. PROP. 13 (2009); Qian Wang, *Effect of the Safe Harbor Provisions Under the Communication Regulations*, 6 LEGAL SCI. MONTHLY 128 (2010) [hereinafter *Effect of the Safe Harbor Provisions*].

<sup>94</sup> 2006 Regulation, *supra* note 9, art. 20–23.

<sup>95</sup> 2006 Regulation, *supra* note 9, art. 23.

<sup>96</sup> See, e.g., Qian Wang, *Study on Copyright Infringement of Video-Sharing Websites*, 5 FRONTIERS L. IN CHINA 275 (2009); Xue Snow Dong & Krishna Jayakar, *The Baidu Music Settlement: A Turning Point for Copyright Reform in China?*, 3 J. INFO. POL’Y. 77 (2013); Huaiwen He, *Safe Harbor Provisions of Chinese Law: How Clear are Search Engines from Liability?*, 24 COMPUTER L. & SECURITY REP. 454 (2008); Ke Steven Wan, *Internet Service Providers’ Vicarious Liability Versus Regulation of Copyright Infringement in China*, 2 J.L.,

generally been considered by academic circles as liability exemptions, some disagree.<sup>97</sup>

There is general international consensus that the purpose of safe harbors is to be a “limitation of liability” or an “exemption from liability.” For instance, the European Union Directive on Electronic Commerce<sup>98</sup> defines the safe harbors as a “limitation of liability” or as constituting an “exemption from liability.”<sup>99</sup> The same approach is adopted in the United States.<sup>100</sup> In China, the 2010 Guiding Opinion issued by the Beijing Higher People’s Court referred to Articles 20 to 23 of the 2006 Provision as constituting a “liability exemption.”<sup>101</sup> Similarly, the mainstream academic view is that the major purpose of the notice and take down procedure is to exempt NSPs from indirect liability for direct infringement committed by network users; that the nature of the NSP safe harbors is not liability attribution but exemption; and that the safe harbors are not the final establishment of liability but the defenses.<sup>102</sup>

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TECH. & POL’Y 376 (2011); Qian Tao, *Legal Framework of Online Intermediaries’ Liability in China*, 14 INFO. 59 (2012).

<sup>97</sup> See Wei Xu, *supra* note 93.

<sup>98</sup> Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market, 2000 O.J. (L 178) 1 [hereinafter *E-Commerce Directive*].

<sup>99</sup> See *id.* (“In order to benefit from a limitation of liability, the provider of an information society service, consisting of the storage of information, upon obtaining actual knowledge or awareness of illegal activities has to act expeditiously to remove or to disable access to the information concerned . . .”).

<sup>100</sup> See also 17 U.S.C. § 512 (2006) (entitled “Limitations on liability relating to material online”).

<sup>101</sup> The Beijing Higher People’s Court’s Guiding Opinions on Several Issues Relating to Trial of Cases of Network Copyright Dispute, effective May 17, 2010, *translation available at* <http://www.lawinfochina.com/display.aspx?lib=law&id=8388&CGid=> (last visited Sept. 14, 2014).

<sup>102</sup> See academic opinions summed up in part 1(1) of Wei Xu, *The Redefinition and Systematic Influence of Notice and Takedown Regime*, 1 MOD. L SCI. 58 (2013); see also Jiarui Liu, *The Safe Harbor Rules of the Chinese Network Service Providers: a Comment on the Yahoo Case*, 19 INTELL. PROP. 13, 14 (2009).

However, Wei Xu disagrees with the academic consensus.<sup>103</sup> He argues that adopting the theory of liability exemption contradicts the NSP's fault-based liability for third party copyright infringement.<sup>104</sup> He proposes the following inferences, based on the theory of liability exemption. First, infringement liability is established before the notice is received by the NSP, and the NSP is exempted from liability as soon as it deletes the infringing content.<sup>105</sup> Alternatively, infringement liability is not established before the notice is received by the NSP but after, and as soon as the NSP deletes the infringing content, it is exempted from liability.<sup>106</sup> He indicates that the first inference contradicts fault-based liability because before the notice is received, the NSP bears no fault.<sup>107</sup> The second inference, according to Xu, is also incorrect because if receiving the notice means fault, this would contradict Article 36(3) of the 2010 Tort Liability Law,<sup>108</sup> which suggests that fault means knowledge and failing to delete.<sup>109</sup> However, this inference has severe defects. First, the author falsely states that the fault-based liability requires that before the notice is received there has been no fault with the NSP. This statement equates fault with notice, leaving out the possibility of other forms of knowledge of an NSP including an email from a third party, actual knowledge obtained before receiving the notice, or red flag knowledge<sup>110</sup>. Second, the author misunderstands the meaning of fault as knowledge plus failing-to-delete. It has been made clear under Article 8 of the 2013 Provision that fault of the NSP means knowledge of a network user's infringement.<sup>111</sup>

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<sup>103</sup> Wei Xu, *supra* note 93, at 59.

<sup>104</sup> *Id.* at 61–62.

<sup>105</sup> *Id.* at 62.

<sup>106</sup> *Id.*

<sup>107</sup> *Id.*

<sup>108</sup> *2010 Tort Liability Law*, *supra* note 15, art. 36 (“[w]here a network service provider knows that a network user is infringing upon a civil right or interest of another person through its network services, and fails to take necessary measures, it shall be jointly and severally liable for any additional harm with the network user.”).

<sup>109</sup> *See* Wei Xu, *supra* note 93, at 62.

<sup>110</sup> For a definition of “red flag” knowledge, see note 77 *supra*.

<sup>111</sup> *2013 Provision*, *supra* note 17, art. 8(1) (“The people’s court shall determine whether a network service provider is liable for infringement as an abettor or aider according to the fault

Qian Wang, a leading professor in the area of NSP copyright liability, argues that the safe harbor provisions are actually two sides of the same coin—serving as both the attribution and limitation of NSP liability.<sup>112</sup> By analyzing each condition in the safe harbor provisions, he suggests that some liability exemption provisions correspond to direct liability and some correspond to aiding liability.<sup>113</sup> For instance, Article 22(3) provides that the NSP shall not be liable for damages if “it does not know or has no reasonable grounds to know that the works, performances, sound recordings or video recordings provided by its subscribers infringe any other persons’ rights.”<sup>114</sup> This is obviously an expression of liability attribution. Expressing this article another way—as “knows or has reasonable ground to know”—forms the attribution of aiding liability. Prior to the promulgation of the 2013 Provision, this “two sides of the same coin” approach facilitated the understanding of the NSP’s copyright liability for infringement committed by users under circumstances for which there were no relevant laws regarding indirect liability.

Since the 2013 Provision has been issued, Wang’s approach, which has been adopted by China’s courts for years, is no longer compatible. First, not all safe harbor provisions correspond to a form of liability attribution. Distinguishing these provisions becomes a difficult task when applying the safe harbors. Second, problems occur with applying the conditions of each safe harbor: Are the conditions necessary, sufficient or both? An in-depth analysis of United States’ safe harbor provisions below will facilitate an understanding of the changes in China’s safe harbor provisions.

An analysis of laws, cases, and academic debates over recent years in China shows that the absence of systematic indirect copyright liabilities is the root of confusion and chaos in the Chinese copyright regime. The lack of a comprehensive indirect copyright liability scheme not only leaves a degree of

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of the network service provider. The fault of a network service provider means whether the network service provide [sic] knows or should have known a network user’s infringement of the right of dissemination on information networks.”).

<sup>112</sup> *Effect of the Safe Harbor Provisions Under the Communication Regulations*, *supra* note 93.

<sup>113</sup> *Id.* at 136.

<sup>114</sup> *Id.*

uncertainty to the issue of digital copyright infringement, but also creates a loophole in Chinese tort law. Unlike the United States, which has established indirect liability for intellectual property infringement through legislation and the common law, China has been left behind—although a significant body of research has contributed to this area. It is reasonable to speculate that the inconsistency in the copyright regime, even in the tort law regime, has posed a significant threat to the interpretation and application of digital copyright infringement in judicial practice.

## II

### EXPERIENCE FROM THE UNITED STATES

China, as a developing country, has gained some nutrition from the existing body of law in the United States. For instance, China's 2006 Regulation was a result of learning from the United States' DMCA safe harbor provisions. However, due to the different legal system, the attribution rules of indirect copyright liability in the United States have been ignored by China. The United States' indirect copyright liability doctrines were developed through precedent; accordingly, there have been no codified rules on the attribution of indirect liability for China to borrow. Thus China has stepped into a dilemma: on the one hand, the safe harbor rules play important roles in both attribution and exemption of liabilities; on the other hand, the 2010 Tort Liability Law and 2013 Provision also seek to serve as liability attribution rules. Since these rules have not been systematically organized and interpreted, a thorough reading of United States' doctrines is helpful.

#### A. *Fault-Based Liability Attribution Rules Developed from Common Law Cases*

As a pioneer in the development of copyright laws based on the "early, rapid and widespread development of computer-based commerce",<sup>115</sup> the United States occupies a dominant position in the development of indirect copyright liability laws which has impacted many other jurisdictions. Indirect (or

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<sup>115</sup> Thomas Hays, *The Evolution and Decentralization of Secondary Liability for Infringements of Copyright-Protected Works: Part 1*, 28(12) EUR. INTELL. PROP. REV. 617, 617 (2006).

secondary) liability<sup>116</sup> of service providers for online copyright infringement continues to be a highly controversial issue in the United States. Since Congress enacted its first copyright law in 1790<sup>117</sup>, copyright law has been in constant conflict with evolving technological trends because technology reduces the ability of copyright holders to control their property.<sup>118</sup> This significant judicial dilemma led to the development of three indirect liabilities in the United States copyright regime: contributory liability and vicarious liability, which have been applied in a long line of cases, and inducement liability, which developed only in the last ten years.<sup>119</sup>

*1. Is the Sony Rule Still Applicable in a Digital World? The Implied Factors in Contributory Liability*

Contributory infringement in the United States is a common law liability regime. A defendant who engages in “personal conduct that encourages or assists the infringement” may be held liable for contributory infringement.<sup>120</sup> Courts began recognizing claims of contributory liability for infringement in the late nineteenth century, but only on the basis of intentional acts.<sup>121</sup> In one of the earliest cases involving contributory copyright infringement, *Harper v.*

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<sup>116</sup> Unlike in the United Kingdom, where the secondary infringement refers to the unauthorized dealing of infringing copyrighted materials, the term “secondary liability” in the US usually means contributory, vicarious or inducing liabilities. This article adopted “indirect liability” instead of “secondary liability” to avoid the confusion. See BAINBRIDGE, *supra* note 5, at 182-185.

<sup>117</sup> Act of May 31, 1790, ch. 15, 1 Stat. 124 (1790) (repealed 1831).

<sup>118</sup> See Jessica Litman, *Real Copyright Reform*, 96 IOWA L. REV. 1, 3 (2010) (discussing the conflict between copyright regimes and technological evolution).

<sup>119</sup> Allen N. Dixon, *Liability of Users and Third Parties for Copyright Infringements on the Internet: Overview of International Developments*, in PEER-TO-PEER FILE SHARING AND SECONDARY LIABILITY IN COPYRIGHT LAW 12, 15 (Alain Strowel ed., 2009).

<sup>120</sup> *Matthew Bender & Co. v. West Publ'g Co.*, 158 F.3d 693, 706 (2d Cir. 1998).

<sup>121</sup> Mark Bartholomew & Patrick F. McArdle, *Causing Infringement*, 64 VAND. L. REV. 675, 683–84 (2011) (describing the development of contributory liability for intellectual property infringement in the United States).

*Shoppell*,<sup>122</sup> the defendant was held liable as a joint tortfeasor for selling a printing plate, knowing that the purchaser would use it to make infringing copies. Later, in *Kalem Co. v. Harper Bros.*,<sup>123</sup> the owner of a motion picture was held liable for authorizing the infringing activity by selling copies to exhibitors and supplying advertisements for the infringing exhibitions based on his knowledge that the illegal use would constitute an infringement. These early cases reflect the knowledge requirement to impose copyright liability. *Gershwin Publishing Corp. v. Columbia Artists Management*<sup>124</sup> developed a two-prong test for contributory infringement: “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.”<sup>125</sup>

In the 1980s, the Supreme Court again confronted the issue of contributory infringement in *Sony Corp. v. Universal City Studios, Inc. (Betamax)*, which has been considered a conundrum in balancing conflicting interests between copyright holders and technology innovators.<sup>126</sup> In *Sony*, the District Court borrowed the “staple article of commerce” doctrine from patent law,<sup>127</sup>

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<sup>122</sup> *Harper v. Shoppell*, 28 F. 613, 615 (S.D.N.Y. 1886) ([T]he defendant is in no better position than he would be if he had himself printed and published the copyrighted matter . . . he is to be regarded as having sanctioned the appropriation of the plaintiffs’ copyrighted matter . . .”).

<sup>123</sup> *Kalem Co. v. Harper Bros.*, 222 U.S. 55, 62 (1911).

<sup>124</sup> *Gershwin Publ’g Corp. v. Columbia Artists Mgmt.*, 443 F.2d 1159 (2d Cir. 1971).

<sup>125</sup> *Id.* at 1162.

<sup>126</sup> *Sony Corp. v. Universal City Studios, Inc. (Betamax)*, 464 U.S. 417 (1984); see Robert I. Reis, *The Sony Legacy: Secondary Liability Perspectives*, 183 AKRON INTELL. PROP. J. 205 (2009) (discussing the background of Sony).

<sup>127</sup> See 35 U.S.C. § 271 (2006); see also *Sony*, 464 U.S. at 417 n.41 (“The ‘staple article of commerce’ doctrine protects those who manufacture products incorporated into or used with patented inventions . . . . Because a patent holder has the right to control the use of the patented item as well as its manufacture, such protection for the manufacturer of the incorporated product is necessary to prevent patent holders from extending their monopolies by suppressing competition in unpatented components and supplies suitable for use with the patented item. The doctrine of contributory patent infringement has been the subject of attention by the courts and by Congress, and has been codified since 1952, but was never mentioned during the

expressing the concern that commerce might be hampered if a mere constructive knowledge of possible infringement rendered the product distributor liable.<sup>128</sup> After a lengthy review of Constitutional provisions and case law<sup>129</sup>, the Supreme Court also recognized the role that the staple article of commerce doctrine played in balancing the interests of copyright holders and others' freedom of commerce, holding that "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses."<sup>130</sup>

The *Sony* doctrine was tested in the landmark case of *A&M Records, Inc. v. Napster, Inc.* ("*Napster*")<sup>131</sup>, in which the Ninth Circuit refused to apply the *Sony* "staple article of commerce" doctrine to Napster for two reasons: (i) Napster had both the continuous ability to limit copyright infringement in ways that VCR manufacturers did not;<sup>132</sup> and (ii) actual knowledge of direct infringement rendered the *Sony* rule inapplicable.<sup>133</sup> The application of the *Sony* doctrine in

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copyright law revision process as having any relevance to contributory *copyright* infringement." (citation omitted)).

<sup>128</sup> *Sony*, 464 U.S. at 426–27.

<sup>129</sup> *Id.* at 428–34.

<sup>130</sup> *Id.* at 442.

<sup>131</sup> *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001). Plaintiffs alleged both contributory and vicarious copyright infringement because Napster promoted the unauthorized distribution and duplication of copyrighted music. At the trial court level, Napster relied on the *Sony* defense, alleging that its service, like a VCR, was capable of both legal and illegal uses. See *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 912 (N.D. Cal. 2000).

<sup>132</sup> *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001) (noting that Napster "could block access to the system by suppliers of infringing material, and that it failed to remove the material"); see also, Rebecca Giblin-Chen, *Rewinding Sony: An Inducement Theory of Secondary Liability*, 27 EUR. INTELL. PROP. REV. 428, 429 ("Unlike Sony, Napster had a continuing ability to control its users.").

<sup>133</sup> *Napster*, 239 F.3d at 1020 ("We observe that Napster's actual, specific knowledge of direct infringement render's *Sony*'s holding of limited assistance to Napster.") Although contributory infringement is based on actual or constructive knowledge of specific

*Napster* revealed that, in future cases with respect to mass-market means of copying, courts should “inquire into non-infringing uses when the distributor of the device lacks actual knowledge of and control over specific infringements.”<sup>134</sup> In addition, when adjudicating a case involving a dual-purpose product (one capable of substantial non-infringing uses), factors such as actual knowledge of the direct infringement and the ability to control direct infringement should also be taken into account.

*Sony* was further tested in *Aimster*,<sup>135</sup> in which the Seventh Circuit disagreed with the interpretation of the *Sony* Rule by the district court and with *Napster*'s approach in application of the *Sony* Rule on the element of control.<sup>136</sup> Judge Posner reasoned from an economic perspective, recognizing that although control is a factor to be considered in determining contributory infringement,<sup>137</sup> the preliminary injunction the district court granted to the recording industry based on *Aimster*'s ability to control its users could result in the shutting down of the *Aimster* service, contrary to the clear meaning of the *Sony* decision.<sup>138</sup>

The biggest challenge that the *Sony* rule and the doctrine of contributory liability encountered was the *Grokster* case, in which *Grokster* was sued by MGM for distributing free software products that allowed computer users to share copyrighted works through de-centralized peer-to-peer networks.<sup>139</sup> According to *Grokster*, under the *Sony* rule, the software it distributed was capable of substantial non-infringing uses.<sup>140</sup> Additionally, the remaining areas of uncertainty regarding the *Sony* “staple article of commerce” doctrine became the

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infringement cases, the defendant will be contributorily liable even if the product is capable of substantial non-infringing uses. See *Giblin-Chen supra* note 132, at 429.

<sup>134</sup> Ginsburg, *supra* note 4, at 582.

<sup>135</sup> In this case, the recording industry sued the Internet service *Aimster* for facilitating the swapping of digital copies of popular music over the Internet. The district court entered a broad preliminary injunction that “had the effect of shutting down the *Aimster* service.” *In re Aimster Copyright Litigation*, 334 F.3d 643, 645 (7th Cir. 2003).

<sup>136</sup> *Id.* at 649.

<sup>137</sup> *Id.* at 648–49.

<sup>138</sup> *Id.*

<sup>139</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005).

<sup>140</sup> *Id.* at 933.

core of the case. Unlike Napster, which had actual knowledge of specific infringement and the ability to control direct infringement by operating a centralized system<sup>141</sup>, Grokster's decentralized structure disclaimed its ability to obtain actual knowledge and prevent infringements once the product was distributed.<sup>142</sup>

Without the two key elements established in the *Napster* decision, it seemed that Grokster was able to shield itself with the *Sony* defense. However, the Supreme Court disagreed on multiple grounds. Major disputes arose as to the interpretation and application of the *Sony* doctrine. Justice Souter refused to visit *Sony* further, but employed an inducement rule, holding that *Sony* did not apply when clear intent to infringe was demonstrated.<sup>143</sup> Justice Ginsburg argued that the *Sony* rule still applied, but not in this case, which “differ[ed] markedly from *Sony*,”<sup>144</sup> and the Ninth Circuit needed to reconsider the meaning of *Sony*.<sup>145</sup> Justice Breyer insisted on maintaining *Sony*, arguing that neither should it be strictly interpreted, nor should it be modified.<sup>146</sup>

There have been a number of criticisms regarding the *Sony* “staple article of commerce” doctrine. The first is that the transplant of the *Sony* doctrine from patent law is a diversion from general tort law principles.<sup>147</sup> Some argue that the Supreme Court abused its discretion by extending its analysis of contributory and vicarious liability when the finding of fair use did not stop their analysis, which is possibly “out of context with the tradition of the Court not to engage in rule making beyond the case before it.”<sup>148</sup> Furthermore, articulating a standard from the Patent Act was “unfortunate and inapposite” for the readiness of technology

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<sup>141</sup> Rebecca Gilbin-Chen, *Rewinding Sony: an Inducement Theory of Secondary Liability*, 27 EUR. INTELL. PROP. REV. 428, 431 (2005).

<sup>142</sup> Ginsburg, *supra* note 4, at 583.

<sup>143</sup> *Grokster*, 545 U.S. at 915.

<sup>144</sup> *Id.* at 945.

<sup>145</sup> *Id.* at 944.

<sup>146</sup> *Id.* at 957.

<sup>147</sup> See Reis, *supra* note 126, at 206 (pointing out that the adoption of patent law doctrine “obscured the need for transparent means of technology readiness, utility and risk assessment in the determination of present and potential uses of technology”).

<sup>148</sup> *Id.* at 214–15.

assessment.<sup>149</sup> It was observed that two major problems arose with the application of the “staple article of commerce” equation in the digital world. First, there were no objective standards for the construction of the doctrine that would “prevent an inference of intent to result in infringement by the end user”.<sup>150</sup> Second, safe harbors provided the same function.<sup>151</sup> Accordingly, the objective of the “staple article of commerce” doctrine was misread. The purpose of the doctrine was for the protection of technology, and for ensuring that lawful use of a patent is not excluded, rather than “to create an inference of intent to infringe”.<sup>152</sup>

The second criticism concerns the vague meanings of “capable of” and “substantial”. There has been debate as to whether “capable of” simply means current use of technology or also includes potential uses.<sup>153</sup> After all, “only the most unimaginative manufacturer would be unable to demonstrate that an image-duplicating product is ‘capable’ of substantial non-infringing uses.”<sup>154</sup> It is also evident, as some suggested, that eBay, Amazon, or Google and the multiple of other Internet and Information technologies be categorized as staples of commerce.<sup>155</sup> As for the meaning of “substantial”, it is arguable whether a minority non-infringing use would nonetheless be “substantial”.<sup>156</sup> Like

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<sup>149</sup> *Id.* at 215 (“[T]he analogy to the Staple Article of Commerce provision in the Patent Act was unfortunate and inapposite to copyright and may be a factor that retarded the development of technology readiness assessments and other analytical processes that hold the promise of objectivity and transparency in the evaluation of use and intent inferences in new technologies.”).

<sup>150</sup> *Id.*

<sup>151</sup> *Id.* Any article which satisfies the doctrine would enjoy “the safe harbor for any infringement that later occurred, whether intentional or not.”

<sup>152</sup> *Id.* at 219.

<sup>153</sup> See e.g., Ginsburg, *supra* note 4, at 581; Craig A. Grossman, *From Sony to Grokster, the Failure of the Copyright Doctrines of Contributory Infringement and Vicarious Liability to Resolve the War Between Content and Destructive Technologies*, 53 BUFF. L. REV. 141, 173 (2005).

<sup>154</sup> *Sony*, 464 U.S. at 498.

<sup>155</sup> Reis, *supra* note 126, at 244.

<sup>156</sup> Ginsburg, *supra* note 4, at 581.

*Grokster* suggested, if 10% of non-infringing uses in *Sony* were regarded as “substantial”, how about the 9% non-infringing uses in *Grokster*?<sup>157</sup> The questions such as how to identify the doctrine, what constitutes non-infringing use, and the time frame of measurement, are left open, which create fears of uncertain futures for innovators of new technologies.<sup>158</sup> Therefore, one may argue that a mature technology analysis is needed in order to conduct inquiries regarding the assessment of new technologies. Put another way, the problems raised by technology are better solved by technology itself.

The third and the most important criticism is whether the *Sony* rule remains applicable in the digital world at all. Copyright law, the Court wrote, must “strike a balance between a copyright holder’s legitimate demand for effective . . . protection, and the rights of others to freely engage in substantially unrelated areas of commerce.”<sup>159</sup> That is why it was observed that “copyright law is important, but at some point copyright incentives must take a backseat to other societal interests, including an interest in promoting the development of new technologies and an interest in experimenting with new business opportunities and market structures.”<sup>160</sup> The driving concern in *Sony* was “a fear that indirect liability would have given copyright holders control over what was then a new and still-developing technology”.<sup>161</sup> That concern is why the *Sony* rule has played an important role in balancing the interest between copyright holders and technology innovators.<sup>162</sup> However, *Grokster* was substantially different from *Sony* in that the latter was used for individual non-commercial copying and the former was an unlimited copying tool without any restriction, which made mass-production possible. This difference demonstrates that the *Sony* rule, which was produced in the traditional dissemination world, is not suitable in the digital world anymore. More importantly, the vague and undefined wording in the *Sony* rule

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<sup>157</sup> See *Grokster*, 545 U.S. at 933.

<sup>158</sup> Reis, *supra* note 126, at 220–21.

<sup>159</sup> *Sony*, 464 U.S. at 432.

<sup>160</sup> William Landes & Douglas Lichtman, *Indirect Liability for Copyright Infringement: Napster and Beyond*, 17 J. ECON. PERSPECTIVES 113, 118 (2003).

<sup>161</sup> *Id.*

<sup>162</sup> Reis, *supra* note 126, at 205 (“*Sony* seeded the ongoing conundrum of balancing protected intellectual property rights with the potential of technologies that enhance the use of intellectual content.”).

has triggered divergence in its interpretation. This was apparent in *Grokster*, where the Court had to apply inducing infringement in order to escape the difficulty of applying the *Sony* rule.<sup>163</sup>

Creating a *Sony* rule might only be a temporary solution concerning the protection of a new technology. When challenged by new cases such as *Grokster*, it is time to consider whether the *Sony* rule is still applicable, and if not, what the alternatives are. Since the *Grokster* case, “ ‘inducement’ and ‘substantial non-infringing use’ will become legal conclusions, separating the *Sony* (good technology) sheep from the *Grokster* (evil entrepreneur) goats.”<sup>164</sup> While Robert I. Reis argued that “*Sony* left us with doctrine and dicta that obscured the need for rigorous methods of evaluation and assessment of new technologies that ensure reasonable standards and transparency”,<sup>165</sup> the interpretation of the *Sony* role has been evolving through cases, especially those with respect to new technologies.

Since copyright holders started to target intermediaries such as ISPs as a shifting strategy under the digital environment, the scope of contributory copyright liability has been expanding with the development of technology with fear that technology would “unjustly enrich secondary actors at the expense of originators and destroy the latter’s creative incentives”.<sup>166</sup> The key factors to determine contributory liability are the defendant’s knowledge of direct infringement conducted by the third person and the material contribution to the infringement.<sup>167</sup> These two criteria have changed over time and continue to evolve, yet still remain “confusingly opaque” and not “suitably apportioned”,<sup>168</sup> especially under the challenge of P2P file sharing cases.<sup>169</sup>

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<sup>163</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005).

<sup>164</sup> Jane C. Ginsburg & Sam Ricketson, *Inducers and Authorizers: a Comparison of the US Supreme Court’s Grokster Decision and the Australian Federal Court’s KaZaa Ruling*, 11 MEDIA & ARTS L. REV. 1, 7 (2006).

<sup>165</sup> Reis, *supra* note 126, at 208.

<sup>166</sup> Bartholomew, *supra* note 121, at 684.

<sup>167</sup> *Id.* at 683.

<sup>168</sup> *Id.*

<sup>169</sup> Hays, *supra* note 115, at 618.

In order to determine the culpability of intermediaries, Dixon proposes a common set of elements to be considered by courts, including the relationship of the third party with the user, the extent of the third party's involvement, knowledge of infringing activities, intention of the third party, extent of infringement and lawful activities, financial or other benefit of third party, ability to prevent or deter infringement, due care of third party and cost-benefit analysis.<sup>170</sup> Through presenting these elements and analyzing factors in different cases,<sup>171</sup> Dixon points out that "no one factor itself will impute liability, but the strong presence of two or more accumulated elements ties a third party more closely to the infringement in ways that courts may find sufficient to impose liability on the third party."<sup>172</sup>

The above elements were not expressly stressed by United States courts but have been taken into account in many occasions. For example, though the relationship between the direct infringer and the third party was not considered as an essential element of contributory liability in any United States court, it was brought about several times. In *Sony*, the district court noted that "Sony had no direct involvement with any Betamax purchasers who recorded copyrighted works off the air."<sup>173</sup> In the dissenting opinion of the Supreme Court, Justice Blackmun argued that "the District Court reasoned that Sony had no direct involvement with individual Betamax users, did not participate in any off-the-air copying, and did not know that such copying was an infringement of the Studios' copyright", however, the Court stated that the contributory liability "may be imposed even when the defendant has no formal control over the infringer."<sup>174</sup> In *Napster*, the court emphasized Napster's ongoing relationship with its customers.<sup>175</sup> At any time, Napster could have refused service to users who were violating copyright law. VCR manufacturers, by contrast, had no such power; their relationship with any customer ended at the moment of sale.

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<sup>170</sup> See Dixon, *supra* note 119, at 37–39.

<sup>171</sup> *Id.* at 39.

<sup>172</sup> *Id.* at 39–40.

<sup>173</sup> *Sony*, 464 U.S. at 426.

<sup>174</sup> *Id.* at 487.

<sup>175</sup> *Napster*, 239 F.3d at 1023.

The element of control has not been officially recognized as a constituting element in deciding indirect copyright liability cases. However, it has functioned as an important nexus between primary and secondary infringers. The element of control is justified not only theoretically, based on fault, as a duty of care exists on the indirect infringer who has the ability to control, but also practically, based on the consideration for cost-efficient litigation.<sup>176</sup> In practice, courts have considered the factor of control not only in contributory infringement cases, through “the knowledgeable giving or withholding of a material contribution necessary to carrying out the infringing activity”, but also in vicarious liability cases, exercised “directly through the supervisory powers of the secondary over the subordinate primary”.<sup>177</sup>

From the above analysis, it can be seen that the key factors analyzed in different liability forms should be interpreted under the specific circumstances. Other factors, such as relationship between direct and indirect infringers or due care of third party, are all invited into consideration.

## 2. *The Expansion of Vicarious Liability in Copyright Law: Why It Does Not Apply in China?*

Vicarious liability was developed out of the doctrine of *respondeat superior*, which provides that employers can be held strictly liable in general tort law for torts committed by their employees in the course of their employment.<sup>178</sup> The traditional formula states that:

When the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials –even in the absence of actual knowledge that the copyright monopoly is being impaired–the purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of that exploitation.<sup>179</sup>

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<sup>176</sup> Hays, *supra* note 115, at 619.

<sup>177</sup> *Id.*

<sup>178</sup> Matt Jackson, One Step Forward, *Two Steps Back: a Historical Analysis of Copyright Liability*, 20 CARDOZO ARTS & ENT. L.J. 367, 392 (2002).

<sup>179</sup> Shapiro, *Bernstein & Co. v. HL Green Co.*, 316 F. 2d 304, 307 (2d Cir. 1963).

As a form of risk allocation,<sup>180</sup> the rationale for this form of liability is the incentive theory, which suggests that the employer is in a position to supervise and control the employee.<sup>181</sup> This liability was first extended<sup>182</sup> beyond an employer/employee relationship to cover the “dance hall” cases,<sup>183</sup> in which an independent contractor was found liable because the general contractor was in a better position to supervise and knew the identity of the subcontractor.<sup>184</sup> *Gershwin* extended the formula of vicarious liability in copyright case, in which a defendant “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities”.<sup>185</sup>

In *Napster*, the district court determined that Napster had the right and ability to supervise its users’ conduct, because the evidence showed that Napster had the ability to block infringers’ access, retained the right to control access to its system, and had the ability to locate infringing material listed on its search indices as well as the right to terminate users’ access to the system.<sup>186</sup> This approach was challenged by *Aimster*, in which a cost-benefit analysis was conducted to prove that the meaning of control should not include the means to exclude the technology from the market.<sup>187</sup> Similarly, *Grokster* stated that one “infringes vicariously by profiting from direct infringement while declining to

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<sup>180</sup> See *Polygram Int’l Publ’g, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1325–26 (D. Mass. 1994) (citing *Napster*, 239 F. 3d. 1004, 1022 (9th Cir. 2001)).

<sup>181</sup> Jackson, *supra* note 178, at 392 (“One rationale for vicarious liability (and deep pockets in general) is that a judgment-proof defendant does not feel the incentive created by the imposition of liability, whereas the employer can induce the employee to be careful. Furthermore, the employer is in a position to supervise and control the actions of the employee. It is seen as the employer’s responsibility to make sure that the employee acts properly in pursuing the company’s interests.”).

<sup>182</sup> See *Napster*, 239 F. 3d. 1004, 1022 (9th Cir. 2001) (citing *Fonovisa, Inc., v. Cherry Auction, Inc.*, 76 F. 3d 262 (D.C. Cir. 2001)).

<sup>183</sup> *Dreamland Ball Room v. Shapiro, Bernstein & Co.*, 36 F. 2d 354 (7th Cir. 1929).

<sup>184</sup> Jackson, *supra* note 178, at 393.

<sup>185</sup> *Gershwin Publ’g Corp. v. Columbia Artists Mgmt.*, 443 F.2d 1159 (2d Cir. 1971) (citing *Napster*, 239 F. 3d. 1004, 1022 (9th Cir. 2001)).

<sup>186</sup> *Id.* at 1023–24.

<sup>187</sup> *In re Aimster Copyright Litigation*, 334 F.3d 643, 645 (7th Cir. 2003).

exercise a right to stop or limit it.”<sup>188</sup> *Grokster* further explained the “control” element of the vicarious liability test as the defendant’s “right and ability to supervise the direct infringer.”<sup>189</sup> Thus, under *Grokster*, a defendant exercises control over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so.<sup>190</sup> In analyzing *Perfect 10*, the Circuit Court held the evidence did not support Google’s right and ability to limit the direct infringement of third-party websites.<sup>191</sup> Google’s ability to control was even weaker than Napster, which could terminate its users’ accounts and block their access to the Napster system.<sup>192</sup> On the element of direct financial interest, both the district court and the appellate court agreed that Napster had a direct financial interest in the infringing activity based on the finding that by attracting more users through the availability of protected works on its system, “Napster’s future revenue is directly dependent upon ‘increases in user base.’”<sup>193</sup>

The tort law doctrine of vicarious liability, once applied in indirect copyright infringement cases, has expanded, with a broad interpretation of “control” and “financial benefit.” This liability approach would easily disturb many service providers that have certain ability to control their users activities and gain revenue based on advertisement or other business models.

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<sup>188</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005).

<sup>189</sup> *Id.* at 930 n.9.

<sup>190</sup> *See Perfect 10, Inc. v. Google, Inc.*, 508 F.3d 1146, 1173 (9th Cir. 2007).

<sup>191</sup> *Id.* (“Perfect 10 has not shown that Google has contracts with third-party websites that empower Google to stop or limit them from reproducing, displaying, and distributing infringing copies of Perfect 10’s images on the Internet.”).

<sup>192</sup> *Id.* at 1174. Practically speaking, Google could not stop any of the third party websites from infringing Perfect 10’s copyrights because the infringing conduct took place on the third-party websites. The district court found that Google lacked the practical ability to police the third-party websites’ infringing conduct. While Napster had the ability to identify and police infringing conduct by searching its index for song titles, Google could not implement measures, as Perfect 10 suggested, to prevent its web crawler from indexing infringing websites and to block access to infringing images, because they were “imprecision and over breadth,” and not “workable”.

<sup>193</sup> *Napster*, 239 F.3d 1004, 1023 (9th Cir. 2001).

For China, vicarious liability does not apply for two reasons. First, there has been no basis or precedent in copyright law for vicarious liability, which is strictly restrained in the tort law regime of employer/employee relationship. Second, current development of vicarious liability in the United States shows that the interpretation of the constituting elements have not reached a stable status, which, if being transplanted to China's copyright law, could easily become a problem.

### 3. *Inducement Liability: What could be Learned for China?*

After the shutting down of Napster, Grokster made an architectural modification from Napster's centralized file sharing function to a decentralized model, in order to not only avert actual knowledge, but also eliminate its ability to control. By dissatisfying both the knowledge and control elements, Grokster attempted to defeat both contributory and vicarious liability claims.<sup>194</sup> However, the Supreme Court borrowed an "inducement" theory of liability from patent law and held that:

One who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, going beyond mere distribution with knowledge of third-party action, is liable for the resulting acts of infringement by third parties using the device, regardless of the device's lawful uses.<sup>195</sup>

What conduct may be sufficient to render a defendant liable for inducement? The Supreme Court pointed out that the *Sony* rule limits imputing culpable intent rather than ignoring evidence of intent.<sup>196</sup> Thus, if evidence shows statements or actions directed to promoting infringement, the *Sony* rule will not preclude liability.<sup>197</sup> *Grokster* and *Sony* had different bases of liability for distributing a product open to alternative uses. *Grokster* emphasized the

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<sup>194</sup> See Bryan H. Choi, *The Grokster Dead-End*, 19 HARV. J.L. & TECH. 393, 396 (2006).

<sup>195</sup> *Grokster*, 545 U.S. at 936–37.

<sup>196</sup> *Id.* at 934.

<sup>197</sup> *Id.* at 935.

illegal objective from concrete evidence, while *Sony* stressed prohibiting the imputation of fault.<sup>198</sup>

The classic case of direct evidence of unlawful purpose occurs when one induces commission of infringement by another, as by advertising. Under common law, one who “not only expected but invoked infringing use by advertisement” is liable for infringement “on principles recognized in every part of the law.”<sup>199</sup> According to the court, mental element or conduct alone is insufficient for a finding of indirect liability; an analysis must be based on all relevant factors.<sup>200</sup> Here, the summary judgment record was replete with other evidence that Grokster and StreamCast, unlike the manufacturer and distributor in *Sony*, acted with a purpose to cause copyright violations by illegal use of the software.<sup>201</sup> The Court looked to factors to determine inducement including “advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations.”<sup>202</sup> To this end, the court declared that the respondents’ “unlawful objective is unmistakable.”<sup>203</sup>

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<sup>198</sup> *Id.* at 941 (“If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was.”).

<sup>199</sup> *Id.* at 935–36 (“The rule on inducement of infringement as developed in the early cases is no different today. Evidence of active steps taken to encourage direct infringement, such as advertising an infringing use or instructing how to engage in an infringing use, shows an affirmative intent that the product be used to infringe, and overcomes the law’s reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.”).

<sup>200</sup> *Id.* at 937 (holding that “mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.”).

<sup>201</sup> *Id.* at 938.

<sup>202</sup> *See id.* at 937–38.

<sup>203</sup> *Id.*

Through importing the inducement rule from patent law, however, the Court failed to make further clarification on how far this rule should be stretched for future P2P illegal file sharing cases, especially on the question of “whether an inducer must have an intent to induce the acts that constitute infringement or an intent to induce infringement.”<sup>204</sup> Given the statutory structure in the patent law, a narrower standard was proposed, which required that the “inducer have an intent to induce infringement, not merely intent to induce acts that constitute infringement.”<sup>205</sup> This was a pro-competitive standard that encouraged newcomers to enter the market if they obtain a good faith belief in fair competition.<sup>206</sup> This approach solved the spiny *Grokster* case, and more importantly, cleared the path for the future application of indirect copyright liability rules on other P2P file sharing cases.

China’s current legislation on online copyright infringement has been focusing on fault of a service provider, which was interpreted as actual or constructive knowledge.<sup>207</sup> However, this interpretation overlooked the culpable conduct of an abetting infringer. In its United States counterpart, the culpable conduct of an inducer is the purposeful, culpable expression and conduct, demonstrated by subjective and objective evidence. The ignorance of abetting infringement evidence in China’s legislation will cause trouble in deciding P2P file sharing cases when the P2P service providers have no knowledge and no control over the direct infringement. If elements of inducement infringement are to be imported to China, the service providers will not only avoid presenting

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<sup>204</sup> Timothy R Holbrook, *The Intent Element of Induced Infringement*, 22 SANTA CLARA COMPUTER & HIGH TECHNOLOGY LAW JOURNAL 399, 404 (2006).

<sup>205</sup> *Id.* at 400; see also Sverker K Hogberg, *The Search for Intent-Based Doctrines of Secondary Liability in Copyright Law*, 106 COLUM. L. REV. 909, 958 (2006) (supporting narrowly circumscribing the reach of inducement liability by the court and advocating to abandon the expansion of the intent inquiry in other two forms of indirect copyright liability).

<sup>206</sup> Holbrook, *supra* note 204, at 408, 411.

<sup>207</sup> *2013 Provision*, *supra* note 17, art. 8 (“[T]he people’s court shall determine whether a network service provider is liable for infringement as an abettor or aider according to the fault of the network service provider. The fault of a network service provider means whether the network service provider knows or should have known a network user’s infringement of the right of dissemination on information networks.”).

unlawful objectives, but also take precautions and pay attention to the due care obligation such as implementing filter technologies.

### B. *Strict Interpretation of DMCA Safe Harbors*

Designed as a balance between protecting the rights of copyright holders and promoting technology development, DMCA safe harbors have played a significant role in U.S. copyright law.<sup>208</sup> For technology developers, efficiency of internet services is assured and the variety and quality of the services continues to improve.<sup>209</sup> For copyright owners, an efficient remedy is provided without incurring substantial litigation fees.<sup>210</sup> There has been a significant amount of scholarly literature and judiciary opinions on the interpretation of the DMCA safe harbor rules, especially on the meaning of the knowledge and control requirements.<sup>211</sup> However, recent developments in American copyright litigation

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<sup>208</sup> With the object of adapting to the new technologies at the turn of the century and satisfying America's commitment to WIPO, the Digital Millennium Copyright Act was enacted by the United States Congress in 1998 to "implement the World Intellectual Property Organization Copyright Treaty", and to "update domestic copyright law for the digital age". The DMCA is divided into five titles, among which Title II provides the Online Copyright Infringement Liability Limitation Act ("OCILLA") in adding a new § 512 to the Copyright Act, which creates a series of safe harbors by placing limitations on liabilities for copyright infringement by Online Service Providers ("OSPs"). Digital Millennium Copyright Act, 17 U.S.C. § 512 (2013).

<sup>209</sup> S. Rep. No. 105-190, at 8 ("without clarification of their liability, service providers may hesitate to make the necessary investment in the expansion of the speed and capacity of the Internet . . . By protecting service providers, the DMCA ensures that the efficiency of the Internet will continue to improve and that the variety and quality of services on the Internet will continue to expand.").

<sup>210</sup> Amir Hassanabadi, *Viacom v. YouTube – All Eyes Blind: the Limits of the DMCA in a Web 2.0 World*, 26 BERKELEY TECH. L.J. 405, 412 (2011).

<sup>211</sup> See, e.g., Mark A Lemley, *Rationalizing Internet Safe Harbors*, 6 J. TELECOMM. & HIGH TECH. L. 101 (2007); Edward Lee, *Decoding the DMCA Safe Harbors*, 32 COLUM. J.L. & ARTS 233, 238 (2009); Peter Leonard, *Safe Harbors in Choppy Waters – Building a Sensible Approach to Liability of Internet Intermediaries in Australia*, 3 J. INT'L MEDIA & ENT. L. 221 (2010-2011); R. Anthony Reese, *The Relationship Between the ISP Safe Harbors and the*

make it highly doubtful that the current interpretation is sufficiently clear. For one thing, Circuit Courts demonstrate split judiciary opinions on the content of knowledge, the specificity of the knowledge requirement, the qualifications of actual and red flag knowledge, the willful blindness doctrine, and the relationship between the knowledge requirement and the common law contributory infringement doctrine.<sup>212</sup> Similar questions arise when courts deal with the interpretation of the control requirement, e.g., whether item specific knowledge is required, whether the control requirement codifies vicarious liability, and what “something more” means in the application.

These uncertainties have caused major confusion in litigations, which threatened to undermine the purpose of the DMCA safe harbors. In practice, after years of their application in litigations, the safe harbors have been under severe criticism as “a confusing and illogical patchwork” which “makes no sense;”<sup>213</sup> as very old;<sup>214</sup> and as baring deficiencies in vague and ambiguous language, which reflect the political compromise.<sup>215</sup> It is crucial to clear up the uncertainties in order to encourage both the protection of copyright and the development of new technologies.

### *1. Clarifying the Knowledge Requirement Under § 512(c) and (d) of DMCA: Actual or Apparent Knowledge of Specific Infringement*

Section 512(c)(1)(A) and section 512(d)(1) of the DMCA are similar, both providing that a service provider who stores “information residing on systems or

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*Ordinary Rules of Copyright Liability*, 32(4) COLUM. J.L. & ARTS 426 (2009); Hassanabadi, *supra* note 210.

<sup>212</sup> The Ninth Circuit in *UMG* and the Second Circuit in *Viacom* took different positions in interpreting whether to import a specific knowledge requirement into the control and benefit provision. *Compare* *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 667 F.3d 1022, 1041 (9th Cir. 2011), *with* *Viacom International, Inc. v YouTube, Inc.*, 676 F.3d 19, 25 (2d Cir. 2012).

<sup>213</sup> Lemley, *supra* note 211, at 102.

<sup>214</sup> Lee, *supra* note 211, at 233.

<sup>215</sup> “A safe harbor generally was the outcome of a political compromise effected after heavy lobbying between rights holders or others and the internet industry. Sometimes the drafting deficiency reflects a political compromise that is reflected in vague or open language.” Leonard, *supra* note 211, at 235.

networks at direction of users” or provides “information location tools” shall not be liable for monetary relief, if the service provider “does not have actual knowledge that the material or an activity using the material on the system or network is infringing”; and “in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent”; or “upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity”.<sup>216</sup> “Knowledge” may refer either to knowledge of the activity itself or knowledge that the activity constitutes infringement. The latter argument is supported by an analysis of the statutory language, legislative history and case interpretation.<sup>217</sup> First, from the plain reading of the legislative language, it is evident that relevant provisions clearly require that the provider knows not only of the existence of the infringing material or activity, but also that it is infringing.<sup>218</sup> Second, with regard to the red flag test,<sup>219</sup> the committee reports reflecting legislative history made clear that “the red flag must signal to the provider not just that the activity is occurring, but that the activity is infringing”.<sup>220</sup> In other words, knowledge depends on whether the facts and circumstances make apparent the infringing nature of the user’s activity.<sup>221</sup> Case law has strengthened the above arguments. For instance, the Ninth Circuit in

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<sup>216</sup> 17 U.S.C. §§ 512(c)(1)(A), 512(d)(1).

<sup>217</sup> Reese, *supra* note 211, at 433–36.

<sup>218</sup> 17 U.S.C. § 512(c)(1)(A)(i) (prescribing that a service provider “does not have actual knowledge that the material or an activity using the material on the system or network is infringing”); *see also* 17 U.S.C. § 512(d)(1)(A) (prescribing the same standard).

<sup>219</sup> S. Rep. No. 105-190, at 44 (“Subsection (c)(1)(A)(ii) can best be described as a “red flag” test.”).

<sup>220</sup> Mere knowledge of the activity’s existence is not enough, the infringing nature of the activity must be known to the service provider. H.R. Rep. No. 105-551, pt. 2, at 57–58 (1998) (“Absent such “red flags” . . . , a directory provider would not be . . . aware merely because it saw one or more well known photographs of a celebrity at a site devoted to that person. The provider could not be expected, during the course of its brief cataloguing visit, to determine whether the photograph was still protected by copyright or was in the public domain; if the photograph was still protected by copyright, whether the use was licensed; and if the use was not licensed, whether it was permitted under the fair use doctrine.”).

<sup>221</sup> Reese, *supra* note 211, at 434.

*Perfect 10, Inc. v. CCBill LLC* rejected the copyright owner's allegation that the defendants must have been aware of apparent infringing activity because of the obvious nature of the domain names such as "illegal.net" and "stolencelebritypics.com".<sup>222</sup> According to the court, the infringing nature could not be certain because the burden of determining whether photographs were illegal could not be placed on the service provider.<sup>223</sup> Thus, the relevant question was not "whether the defendants knew about the photographs, but whether they knew of the photos' infringing nature".<sup>224</sup> Another example is *Corbis Corp. v. Amazon.com*,<sup>225</sup> in which the court concluded that although Corbis sent Amazon notices, they did not constitute red flags, because Corbis was silent regarding the content of the complained listings, which meant Amazon had no clue of the infringing nature of those sales.<sup>226</sup> In this light, the court thus articulated the statutory "awareness" standard as more demanding than the common law "should have known" standard.<sup>227</sup>

The second concern of the knowledge requirement of safe harbors is whether general or specific knowledge is required. This issue was dealt with in the lengthy *Viacom v. YouTube* case.<sup>228</sup> The court reached its finding from

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<sup>222</sup> *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102 (9th Cir. 2007).

<sup>223</sup> *Id.* at 1114.

<sup>224</sup> Reese, *supra* note 211, at 435.

<sup>225</sup> *Corbis Corp. v. Amazon.com*, 351 F. Supp. 2d 1090 (W.D. Wash. 2004).

<sup>226</sup> *Id.* at 1108 ("In determining whether a service provider is 'aware of facts or circumstances from which infringing activity was apparent,' . . . the question is not 'what a reasonable person would have deduced given all of the circumstances.' . . . Instead, the question is 'whether the service provider deliberately proceeded in the face of blatant factors of which it was aware.' . . . As articulated by Congress, apparent knowledge requires evidence that a service provider 'turned a blind eye to red flags of obvious infringement.'").

<sup>227</sup> Reese, *supra* note 211, at 436.

<sup>228</sup> *Viacom Int'l, Inc. v. YouTube, Inc.*, 540 F. Supp. 2d 461 (S.D.N.Y. 2008) [hereinafter *Viacom I*]; *Viacom Int'l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010) [hereinafter *Viacom II*]; *Viacom Int'l, Inc. v. YouTube, Inc.*, 676 F.3d 19 (2d Cir. 2012) [hereinafter *Viacom III*]; *Viacom Int'l, Inc. v. YouTube, Inc.*, 940 F. Supp. 2d 110 (S.D.N.Y. 2013) [hereinafter *Viacom IV*]. YouTube, owned by Google, is a video-sharing website that allows users to upload videos free of charge. In 2008, Viacom, a copyright holder of many video files that had been uploaded to YouTube, sued YouTube for both direct and indirect

contextual analysis, structural analysis, legislative intent analysis, and case law analysis. First, the court read from the context of the statute.<sup>229</sup> In practice, service providers must expeditiously remove or disable access to the infringing material only if they can locate the material, which requires specific knowledge of the infringement.<sup>230</sup> Second, the structure and operation of the statute require the “specific knowledge” construction of the safe harbors. As pointed out by Judge Fisher in *UMG Recordings, Inc. v. Shelter Capital Partners, LLC*<sup>231</sup>, considerations of requiring specific knowledge of particular infringing activity were reflected in Congress’s decision to enact a notice and takedown protocol, and in the “exclusionary rule” that prohibited consideration of substantially deficient §512(c)(3)(A) notices which encourage the copyright holders to clearly identify specific infringing material<sup>232</sup>, rather than putting the monitoring obligation on service providers. This leads to the second consideration: the requirement of general knowledge would impose an obligation of policing infringement on service providers, which contradicts §512(m) of DMCA.<sup>233</sup> The view that requiring expeditious removal in the absence of specific knowledge or awareness would be “to mandate an amorphous obligation” and cannot be reconciled with the language of the statute.<sup>234</sup> Third, the legislative intent reflected in the Committee Reports also requires specificity of the knowledge.

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copyright infringement, alleging that YouTube had actual knowledge of ongoing infringement and had received a financial benefit from the infringement in the form of advertising revenue from the resulting web traffic. Viacom also alleged that YouTube’s infringing activity was outside the scope of safe harbor provision of DMCA. *See Viacom II*, 718 F.Supp.2d at 526.

<sup>229</sup> *Viacom III*, 676 F.3d at 30.

<sup>230</sup> *Id.* at 30 (stating that “under §512 (c)(1)(A), knowledge or awareness alone does not disqualify the service provider; rather, the provider that gains knowledge or awareness of infringing activity retains safe-harbor protection if it ‘acts expeditiously to remove, or disable access to, the material.’” (citing 17 U.S.C. §512 (c)(1)(A)(iii))).

<sup>231</sup> *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 718 F.3d 1006 (9th Cir. 2013) [hereinafter *UMG III*].

<sup>232</sup> *Id.* at 1022.

<sup>233</sup> 17 U.S.C. § 512(m) (“[N]othing in this section shall be construed to condition the applicability of subsections (a) through (d) on . . . a service provider monitoring its service or affirmatively seeking facts indicating infringing activity.”).

<sup>234</sup> *Viacom III*, 676 F.3d at 31.

Both the Senate and House Reports noted that the Online Copyright Infringement Liability Limitation Act (OCILLA) was intended to provide “strong incentives for service providers and copyright owners to cooperate to detect and deal with copyright infringements.”<sup>235</sup> Copyright holders are better able to efficiently identify infringing copies than service providers “who cannot readily ascertain what material is copyrighted and what is not.”<sup>236</sup> The Reports also cleared the cloud in the construction of the actual and red flag knowledge by indicating that their difference is not between specific and general knowledge, but between a subjective and objective standard.<sup>237</sup> Case law also comports with the specific knowledge requirement. For instance, in *UMG Recordings, Inc. v. Veoh Networks, Inc.*<sup>238</sup>, the district court concluded that “CCBill teaches that if investigation of ‘facts and circumstances’ is required to identify material as infringing, then those facts and circumstances are not ‘red flags’.”<sup>239</sup> The Court of Appeals reached the same conclusion by noting that “we do not place the burden of determining whether materials are actually illegal on a service provider.”<sup>240</sup> While the Ninth Circuit opinion in *UMG III* superseded *UMG II*, the argument regarding the specificity of knowledge remains the same: general knowledge is insufficient to meet both the actual and red flag knowledge requirement under §512 (c)(1)(A).<sup>241</sup>

There have been two different approaches in interpreting the DMCA knowledge standard. One is the parallel or co-extensive approach that codifies the contributory infringement knowledge standard; the other is the independent approach that is different from, and more stringent than, the contributory

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<sup>235</sup> See S. Rep. No. 105-190, at 20; H.R. Rep. No. 105-551, pt. 2, at 49.

<sup>236</sup> *UMG III*, 718 F.3d at 1022.

<sup>237</sup> *Id.* at 1025 (“[T]he actual knowledge provision turns on whether the provider actually or “subjectively” knew of specific infringement, while the red flag provision turns on whether the provider was subjectively aware of facts that would have made the specific infringement “obviously” obvious to a reasonable person.”).

<sup>238</sup> *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 665 F. Supp. 2d 1099 (C.D. Cal. 2009) [hereinafter *UMG II*].

<sup>239</sup> *Id.* at 1108.

<sup>240</sup> *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 667 F.3d 1022, 1038 (9th Cir. 2011).

<sup>241</sup> *Id.* at 1022–23.

infringement knowledge requirement. The copyright holder in litigation usually argues for the first approach, which sets up a lower standard of DMCA knowledge, under which the service provider will probably lose the benefits of the DMCA safe harbors. The service provider, on the contrary, argues for the latter approach, because a higher standard helps it become immune from contributory liability. In order to decide which approach should be applied, extensive consideration, including structural analysis of the legislation, the purpose of the legislators, and economic analysis is recommended, if possible.

It was argued that the safe harbors and the common law contributory liability principle differ in their treatment of knowledge that comes by way of notice from a copyright owner. Contributory infringement recognizes notice as necessary knowledge for imposing secondary liability. However, safe harbor provisions provide a notice-and-takedown system that imposes more stringent requirements and differ from contributory infringement in operational detail. The form of notice decides whether the obligation of removing is triggered; thus, a noncompliant notice cannot create actual knowledge, according to the requirements of section 512. However, the common law contributory liability principle recognizes a noncompliant notice as sufficient to meet the knowledge requirement.<sup>242</sup>

Regarding the “red flags” theory of liability, beyond the actual knowledge such as notice received from the copyright holder, under what circumstances must an ISP remove potentially infringing material in order to invoke the DMCA safe harbor? Under contributory liability, a defendant could be liable if he “knew or had reason to know of another’s direct infringement and materially contributed to it.”<sup>243</sup> However, under the DMCA safe harbor, possession of the knowledge will attract liability only if the ISP did not act “expeditiously to remove, or disable access to, the material.”<sup>244</sup> Is the level of knowledge between “should know” in contributory liability and “awareness” under the safe harbor equivalent? In order

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<sup>242</sup> Reese, *supra* note 211, at 437–38.

<sup>243</sup> Lee, *supra* note 211, at 252.

<sup>244</sup> 17 U.S.C. §§ 512(c)(1)(C), 512 (d)(3).

to determine the answer, Edward Lee conducted an analysis of DMCA text, structure, legislative history and case law.<sup>245</sup>

First, from the plain language of the legislation, infringing activity must be “apparent”, which means it is “plain, clear, or obvious.”<sup>246</sup> This is a high standard of knowledge. Second, the structure of the DMCA safe harbors also supports adopting a high standard of awareness of “obvious” or “blatant” infringement, because a low standard would invite constant litigation against Internet companies and turn ISPs into censors, which Congress has expressly avoided.<sup>247</sup> Third, legislative history shows in the explanation by the Committee Report that the red flags are apparent from even a brief and casual viewing, with an important policy reason that the Congress “did not want to saddle Internet sites with the impossible burden of trying to differentiate what constitutes copyright infringement in the myriad of situations on the Internet.”<sup>248</sup> Fourth, all cases concerning the ISP safe harbors have applied a high standard of particularized knowledge, consistent with the above interpretation.<sup>249</sup>

From the analysis above, section 512(c) and (d) of DMCA do not codify the common law principle of contributory liability for copyright infringement, because first, the knowledge requirement is different between statutory and common law principle in that the former requires not only knowledge itself but also knowledge of the infringing nature of the activity. Second, the common law and the statute treat notice differently in that the latter requires compliance in form. Third, the level of knowledge requirement is different between the common law contributory liability and the statute’s safe harbor provisions. Therefore, in interpreting the knowledge requirement in the DMCA safe harbors, an independent and narrow approach, rather than a paralleled and broad approach, is adopted.

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<sup>245</sup> Lee, *supra* note 211, at 252–58.

<sup>246</sup> *Id.* at 253.

<sup>247</sup> *Id.*

<sup>248</sup> *Id.* at 256.

<sup>249</sup> *Id.*

## 2. “Control” and “Benefit” Under § 512(c) and (d) of DMCA

The §512 safe harbor provides that an eligible service provider must “not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.”<sup>250</sup> What does “right and ability to control” exactly mean? Three questions arise as to the concept of control under the safe harbor provisions. First, is “item-specific” knowledge of infringement required in its interpretation of the “right and ability to control” infringing activity under 17 U.S.C. §512(c)(1)(B)? Second, does the control element in safe harbors codify the common law vicarious liability? Third, if not, what more does control exactly mean?

As to the first question, in *Viacom*, the district court concluded that “the ‘right and ability to control’ the activity requires knowledge of it, which must be item-specific.”<sup>251</sup> In any event, the provider must know of the particular case before he can control it. If infringing material with sufficient particularity is identified as “red flags”, it must be taken down.”<sup>252</sup> However, on appeal, the court held that two competing constructions of the “right and ability to control” infringing activity were both fatally flawed.<sup>253</sup>

The first construction that “the provider must know of the particular case before he can control it” was adopted by the district court in favor of the defendants.<sup>254</sup> The Ninth Circuit in *UMG* took a similar position that “until the service provider becomes aware of specific unauthorized material, it cannot exercise its “power or authority” over the specific infringing item”.<sup>255</sup> But the Second Circuit in *Viacom* held that the district court “erred by importing a specific knowledge requirement into the control and benefit provision,” and the case was remanded for further fact finding.<sup>256</sup> They disagreed on the aspect of

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<sup>250</sup> 17 U.S.C. § 512 (c)(1)(B).

<sup>251</sup> *Viacom II*, 718 F. Supp. 2d at 527.

<sup>252</sup> *Id.*

<sup>253</sup> *Viacom III*, 676 F.3d at 36.

<sup>254</sup> *Id.* at 30.

<sup>255</sup> *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 667 F.3d 1022, 1041 (9<sup>th</sup> Cir. 2011) (citing *Viacom International, Inc. v. YouTube, Inc.*, 676 F.3d 19, 25 (2d Cir. 2012)).

<sup>256</sup> *Viacom III*, 676 F.3d at 36.

literal interpretation of the statute and concluded that “importing a specific knowledge requirement into §512(c)(1)(B) renders the control provision duplicative of § 512(c)(1)(A).”<sup>257</sup> According to §512(c)(1)(A), a service provider that has specific knowledge of infringing material and fails to effect expeditious removal would be excluded from the safe harbor protection, and therefore the existence of §512(c)(1)(B) would be superfluous.

The second construction of the “right and ability to control” was that it codifies the common law doctrine of vicarious copyright liability, evidenced by the House Report relating to a preliminary version of the DMCA:

The “right and ability to control” language . . . codifies the second element of vicarious liability . . . Subparagraph (B) is intended to preserve existing case law that examines all relevant aspects of the relationship between the primary and secondary infringer.<sup>258</sup>

However, this codification reference was omitted from the committee reports describing the final legislation. Before the district court on remand gave its decision in *Viacom v. YouTube*, the Ninth Circuit issued a decision on the same issue in *UMG III*, following the *Viacom* opinion by the Second Circuit, holding that there were several reasons for a stricter interpretation of the “right and ability to control” than vicarious liability, in light of the DMCA’s language, structure, purpose and legislative history. First, the term “vicarious liability” is mentioned nowhere in §512(c), and the language used in common law standard “is loose and has varied”.<sup>259</sup> Second, considering the structure of §512(c), if the ability to control is being read as the ability to remove or block access, “the prerequisite to §512(c) protection under §512(c)(1)(A)(iii) and (C), would at the same time be a disqualifier under §512(c)(1)(B) where the ‘financial benefit’ condition is met”, which means that a catch-22 is created by Congress.<sup>260</sup> Applying this interpretation would “defeat the purpose of the DMCA and render the statute internally inconsistent.”<sup>261</sup> Third, according to the legislative history, though it

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<sup>257</sup> *Id.*

<sup>258</sup> H.R. Rep. No. 105-551, pt. 1, at 26 (citing *Viacom International, Inc. v. YouTube, Inc.*, 676 F.3d 19, 26 (2d Cir. 2012)).

<sup>259</sup> *UMG III*, 718 F.3d at 1027.

<sup>260</sup> *Id.* at 1029.

<sup>261</sup> *Id.* at 1027 n.17.

was not suggested to codify the element of control as vicarious infringement, this suggestion was omitted from later reports.<sup>262</sup> Fourth, Congress explicitly stated that “the DMCA was intended to protect qualifying service providers from liability for all monetary relief for direct, *vicarious* and contributory infringement.”<sup>263</sup> In addition, it was clear that “the Committee decided to leave current law in its evolving state and, instead, to create a series of ‘safe harbors,’ for certain common activities of service providers.”<sup>264</sup> Furthermore, if Congress had intended the control element be coextensive with vicarious liability law, “the statute could have accomplished that result in a more direct manner.”<sup>265</sup>

According to above analysis, the “right and ability to control” infringing activity under §512(c)(1)(B) “requires something more than the ability to remove or block access to materials posted on a service providers [website].”<sup>266</sup> Courts tended to interpret the phrase “right and ability to control” as “exerting substantial influence on the activities of users, without necessarily—or even frequently—acquiring knowledge of specific infringing activity.”<sup>267</sup> Therefore, the case was remanded to the district court to consider whether YouTube had the right and ability to control the infringing activity and received a financial benefit directly attributable to that activity.<sup>268</sup>

Since the Ninth Circuit held that the “right and ability of control” does not codify the common law vicarious liability and requires “something more” than “just ordinary power over what appears on the provider’s website,”<sup>269</sup> what constitutes “something more?” In *UMG III*, the Court addressed “high levels of control” and “purposeful conduct” as two standards of “substantial influence” that the service provider must exert on the activity of users.<sup>270</sup> In this case, the evidence presented was not enough to create the issue equivalent to the activities

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<sup>262</sup> *Id.* at 1028.

<sup>263</sup> H.R. Rep. No. 105-551, pt. 2, at 54; S. Rep. No. 105-190, at 44–45.

<sup>264</sup> S. Rep. No. 105-190, at 19.

<sup>265</sup> *UMG III*, 718 F.3d at 1029.

<sup>266</sup> *Viacom III*, 676 F.3d at 38.

<sup>267</sup> *Id.* at 38.

<sup>268</sup> *Id.*

<sup>269</sup> *Viacom IV*, 940 F. Supp. 2d at 111.

<sup>270</sup> *UMG III*, 718 F.3d at 1030.

found to constitute substantial influence. Accordingly, the element of “right and ability to control” was not applied to Veoh Networks, which met all of the §512(c) requirements.

In *Viacom IV*, the plaintiffs claimed that “something more” was established by both YouTube’s willingness and ultimate editorial judgment and control over infringing content. This was shown by *YouTube*’s decisions “to remove some but not all infringing material, by its efforts to organize and facilitate search of the videos appearing on the site, and by its enforcement of rules prohibiting, e.g., pornographic content.”<sup>271</sup> The court took a very strict approach in interpreting the evidence that alleged YouTube’s influence or participation in the infringing activity occurring on its site. The court found that “something more” required by the “right and ability to control” must only be fulfilled when the defendant exercises substantial participation or ultimate editorial judgment over the infringing activity.<sup>272</sup> Evidence provided by the plaintiffs demonstrated neither participation in, nor coercion of, user infringement activity. Therefore, YouTube did not have the right and ability to control infringing activity within the context of §512(c)(1)(B).

As discussed, the question arises in *Viacom v. YouTube* as to whether the safe harbor provision in DMCA codifies the common law principle of vicarious liability for copyright infringement. The court’s answer was no, and some commentators agree.<sup>273</sup> The resemblance of factors such as “right and ability to control” and “direct financial interest/benefit” between vicarious liability and safe harbors leads to a loophole theory that the DMCA safe harbors provide no immunity from vicarious liability at all, because safe harbors and vicarious liability share the exact same standard.<sup>274</sup> Mark Lemley indicates that the language of DMCA safe harbors suggests that it provides a safe harbor under section 512(c) only against claims of direct and contributory infringement, rather

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<sup>271</sup> *Viacom IV*, 940 F. Supp. 2d at 119.

<sup>272</sup> *See id.* at 121.

<sup>273</sup> *See Lee, supra* note 211; Reese, *supra* note 211.

<sup>274</sup> Lee, *supra* note 211, at 238. “[B]asically, the DMCA provides no safe harbor for vicarious infringement because it codifies both elements of vicarious liability.” *Costar Group Inc., v. Loop Net, Inc.*, 164 F. Supp. 2d 688, 704 (D. Md. 2001), *aff’d* at 373 F.3d 544 (4th Cir. 2004).

than vicarious liability. However, the legislative history suggests the opposite. Thus, a digital hole is created.<sup>275</sup> However, Edward Lee provided the interpretation that the DMCA safe harbors provide partial immunity from some, but not all vicarious infringement claims. He explained that “the term “receive a financial benefit directly attributable to the infringing activity” requires a closer causal connection between the infringing activity and the ISP’s actual receipt of a financial benefit. It must be “directly attributable” to the infringing activity, which is a higher level of proof and causation than required under the common law”.<sup>276</sup>

### III

#### ESTABLISHING INDIRECT LIABILITY SYSTEM FOR DIGITAL COPYRIGHT INFRINGEMENT IN CHINA

Current Chinese tort law has a logic gap that had existed long before the promulgation of the 2010 Tort Liability Law. Unfortunately, the new legislation has not yet recognized the concept of indirect liability, nor has it developed an independent basis for indirect infringement. Therefore, the tort law needs to be amended, adding an “overlapping tort” as one of the liability forms and theoretical bases for indirect liability.

Constructing indirect liability forms and standards for online copyright infringement involves three steps. The first step is to establish a general rule for indirect copyright liability. This rule requires three key components: direct infringement as a prerequisite, because indirect infringement does not exist without direct infringement; a subjective fault including intent or knowledge; and enablement, that the indirect infringer provides means for direct infringement. The second step constructs two types of indirect liability. Contributory liability is mainly designed for ISPs that provide services such as hosting and information locating, while inducement liability can solve many problems with the issue of P2P infringement, especially for ISPs that provide decentralized software. The third step requires strict interpretation and application of safe harbor provisions. These liability limitation rules should not unduly impede legitimate digital communications, nor should they unreasonably influence the Internet, which has

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<sup>275</sup> Lemley, *supra* note 211, at 104 n.23.

<sup>276</sup> Lee, *supra* note 211.

been an effective communications platform, commercial channel and educational tool.

Specifically speaking, it is proposed that China's legal framework for indirect copyright infringement consists of relevant articles in the 2010 Copyright Law, the 2010 Tort Liability Law and the 2013 Provision as liability attribution, and related rules in the 2006 Regulation work as copyright liability limitation. However, considering the ambiguities in current laws, I make the following recommendations.

To begin with, the 2010 Copyright Law shall explicitly recognize indirect copyright liability. Unlike the United States, which has developed indirect copyright liability in case laws, judicial decisions in China have no binding effects.<sup>277</sup> In this light, it is essential for legislators to codify this theory and put it into the statute, as long as the theory matures in tort law as well.

Next, China has transplanted the United States safe harbor provisions, which have served as both attribution and exemption of liabilities, owing to the misunderstanding of safe harbor provisions. This article suggests a strict interpretation of safe harbors, rather than considering safe harbors as a codification of common law principles, based on analysis of legislative history, legislators intent and context reading. Investigating into the nature, role and true meaning of the DMCA safe harbors resolves the confusion that exists in China's legislation, such as the nature of safe harbor provisions, contradictable knowledge standards, and contested control and benefit requirements. I therefore propose a revision of current Chinese safe harbor provisions. The second paragraph of

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<sup>277</sup> Influenced by Continental European legal systems since the Qing dynasty, China has adopted the civil law tradition and sources of law are written. Unlike common law jurisdictions such as the United States or England, there is no strict precedential concept of case law in China. In theory, each case ruling stands as its own decision and will not bind the decisions of another court. However, in practice, the judges of lower people's courts often attempt to follow the interpretations of laws issued by the Supreme People's Court, which—as a common practice—issues judicial interpretations, opinions, or replies which are ultimately followed by the lower courts. *See* Donald C. Clarke, *The Chinese Legal System* (July 4, 2005), <http://docs.law.gwu.edu/facweb/dclarke/public/ChineseLegalSystem.html>; *see also* RONALD C. BROWN, UNDERSTANDING CHINESE COURTS AND LEGAL PROCESS: LAW WITH CHINESE CHARACTERISTICS 82 (Kluwer Law International 1997).

article 23<sup>278</sup> should be removed for two reasons: first, it is an expression of liability attribution rather than liability limitation. Since the 2006 Regulation shall serve as a safe harbor for NSPs, there is no need for the paragraph to exist. Second, it has been proved that NSPs assume independent liability based on the overlapping tort theory rather than joint liability. The existence of this article will create confusion in the future application of law. The other proposition for the modification of the 2006 Regulation is that the article 22(4)<sup>279</sup> should be removed. As demonstrated previously, vicarious liability lacks root in Chinese copyright law system, and the stipulation on financial benefit as one limitation to the liability renders a higher copyright liability for NSPs than that in the United States. This is disproportionate for NSPs in China.

Lastly, concern has been raised towards the culpability of NSPs, especially the inconsistency of the knowledge standard. It is vital for both courts and scholars to reach the consensus as to the interpretation and application of the knowledge requirement such as “know”, “should have known” and “have reasonable ground to know.” Great achievement has been made in United States on the theory of knowledge, such as the content of knowledge, the generality of knowledge and the meaning of “red flag” knowledge. China can benefit from the United States experience. In addition, China’s laws have been partially emphasizing the mental element of the defendant, but have overlooked the objective aspects such as culpable conduct.

## CONCLUSION

Ever-improving technological advances, especially the development of the Internet and digital technology, have provided impetuses as well as challenges for the application of traditional copyright law principles, which have been tested within the digital environment to see whether the balance between copyright and

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<sup>278</sup> 2006 Regulation, *supra* note 9. Paragraph 2 of Article 23 of the 2006 Regulation stipulates that “where it knows or should have known that the linked works, performances, sound recordings or video recordings infringe another person’s right, it shall be jointly liable for the infringement.”

<sup>279</sup> *Id.*, art. 22(4) (providing that a network service provider will not be liable for damages if ‘it does not seek financial benefits directly from the works, performances, sound recordings or video recordings provided by its subscribers’).

commerce has been interrupted and whether changes are needed. The indirect copyright liability regime becomes the crux of the contradiction between copyright law and technology by imposing liability on intermediaries who do not commit copyright infringement directly but are held liable for infringement committed by others, based on efficiency and moral grounds. Within the digital environment, ISPs are facing potential liability for the acts of subscribers who are using their services to access, upload or download information. However, a lack of certainty of ISP liability in current digital legislation will inevitably decrease ISPs' incentives for utilizing new technology and participating in e-commerce. Consequently, this may have a negative impact on the progress of science and on economic development in China.

China has been importing the United States' safe harbor models into its own legislation, which, however, has caused confusion from two aspects. First, China and the United States have different legal systems, which makes the transplant inapplicable in certain ways. Second, unlike the United States' safe harbor rules that supplement the attribution of indirect liability principles, such as contributory and vicarious infringements developed in case law, China has not fully developed its own attribution of liability principles, just like water without a source and a tree without roots.

This study finds that in the United States, judicial practice of applying the doctrine of contributory infringement liability has abrogated the *Sony* rule by applying relevant factors, which have displaced the "substantial non-infringing uses" standard. Additionally, courts have been considering all relevant factors—including the relationship, control, means, knowledge, due care and inevitability of infringement, allowing for a wide spectrum of evaluation that work in a correlative pattern. Further, this study argues for a strict interpretation which considers integrity, clarity and uniformity as guiding principles for the efficient application of safe harbors. With a deep understanding of the United States' approach in constructing the indirect copyright liability doctrines and safe harbors, a suitable approach for China could be found.

In conclusion, this article proposes to establish a tort law-oriented, culpable conduct-based indirect copyright liability system, with modified safe harbor provisions, in China. In this way, a justified and compatible indirect liability system can be optimized with equilibrium among relevant parties.

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COPYRIGHT LAW AND ITS PARODY DEFENSE:  
MULTIPLE LEGAL PERSPECTIVES

BY AMY LAI\*

*In the United States, whether a disputed work qualifies as a parody is critical, if not determinative, to the success of a fair use defense in copyright lawsuits. How can different schools of legal thought contribute to copyright law and its fair use doctrine, particularly its contentious parody exception? By drawing upon different legal theories, this article argues that courts, in determining whether new creative works that build upon existing works constitute fair use, should focus heavily on the possible harm that the new works would bring to owners, and the copyright system of financial incentives as compared to their potential social benefits.*

*Part I will offer an overview of the American copyright regime by discussing the Copyright Act of 1976 and the Supreme Court's application of the fair use doctrine, especially its definition of parody and its dichotomization of parody and satire. Because Lockean natural rights informed the Framers' understanding of intellectual property law, and courts have a long history of using natural law justifications in intellectual property cases, Part II will examine the nature of copyright through the lenses of natural law theories to discover the inherent conflict between copyright and free speech as a basic liberty. This will pave the way for Part III, which, by drawing upon relational feminism as well as other feminist theories, will substitute the idea of the "relational author" for the isolated, individuated, and proprietary author on which the current copyright regime is premised. By arguing that authors are social creatures who write from*

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*within vast networks of pre-existing texts, it will call for the recognition and embrace of creative transformations of these pre-existing works as original expressions of authorship.*

*Part IV will turn to the potential of law and economics in reforming the copyright regime so that it can fully accommodate the “relational author” and his/her right to free speech. Although intuitive cost-benefit analysis, rather than efficiency principles, has facilitated judicial decision-making in fair use claims, these methods both reinforce a narrow definition of parody that privileges owners’ rights over the social benefits of transformative works. Courts, therefore, should shift their focus from the parody/satire dichotomy to the likelihood that the new works would pose harm to owners and the copyright system versus their social benefits. Although the current copyright law is flawed, Part V will adopt legal realist perspectives to explore how courts have turned copyright law “in the books” to copyright law “in action,” and how legal realism enables courts to utilize a flawed law to better accommodate the rights of the public. This Part will then offer new insights into the Salinger holdings and examine how the dispute between Beastie Boys and GoldieBlox would and should have been adjudicated if it had gone to court. The article concludes that the purpose of deconstructing the parody/satire dichotomy is to help courts stimulate creativity and, ultimately, to serve justice.*

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### INTRODUCTION: THREE COPYRIGHT DISPUTES

In 2001, Alice Randall published *The Wind Done Gone*, an alternative account of Margaret Mitchell’s classic novel *Gone with the Wind* (1936).<sup>1</sup> While Mitchell’s novel focuses on the life of a wealthy Southern woman who lives through the American Civil War and the Reconstruction Era, Randall’s novel recreates the story from the viewpoint of the woman’s slave girl.<sup>2</sup> Mitchell’s estate sued Randall and her publishing company for copyright infringement. After the United States District Court for the Northern District of Georgia blocked the publication of *The Wind Done Gone*, defendants appealed the preliminary

<sup>1</sup> See, e.g., Indira Karamcheti, *Re: Wind*, 18 WOMEN’S REV. BOOKS 22 (2001) (reviewing Randall’s novel).

<sup>2</sup> See, e.g., *id.*

injunction. The United States Court of Appeals for the Eleventh Circuit vacated the injunction barring publication of the book, holding that Randall's new work was a parody seeking to rebut the "romantic, idealized portrait of the antebellum South" in Mitchell's original novel.<sup>3</sup> The case ended with a settlement one year later, with Randall's publishing company agreeing to make an unspecified donation to Morehouse College.<sup>4</sup>

The Eleventh Circuit declared what seemed to be a victory for parodists. Yet, due to the failure of the parody doctrine as well as the pitfalls of the parody/satire distinction, this encouraging precedent failed to redeem Swedish American author Fredrik Colting, who published under his pseudonym, John David California, what he sarcastically called an "unauthorized sequel" to Jerome David Salinger's *The Catcher in the Rye* (1951), almost sixty years after this American classic was first published.<sup>5</sup> Entitled *60 Years Later: Coming through the Rye*, Colting's work portrays both how Salinger's teenaged protagonist finally changes his uncompromising worldview as an old man, and also critiques Salinger's equally uncompromising, but persistent control over his own novel and protagonist.<sup>6</sup> The U.S. District Court for the Southern District of New York ruled in favor of Salinger on his claims of copyright infringement, holding that Colting's novel was a satire that targeted Salinger and society at large, but did not sufficiently critique the original work.<sup>7</sup> Because it neither fit the definition of parody nor was transformative enough, the court held it was not fair use.<sup>8</sup> In April 2010 – three months after Salinger's death – the Second Circuit upheld the

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<sup>3</sup> SunTrust Bank v. Houghton Mifflin Co., 268 F.3d 1257, 1270, 1279–80 (11th Cir. 2001).

<sup>4</sup> E.g., David D. Kirkpatrick, *Mitchell Estate Settles Gone With the Wind Suit*, N.Y. TIMES, May 10, 2002, at C6, available at <http://www.nytimes.com/2002/05/10/business/mitchell-estate-settles-gone-with-the-wind-suit.html>? (describing details of the lawsuit and its eventual settlement).

<sup>5</sup> JOHN DAVID CALIFORNIA, *60 YEARS LATER: COMING THROUGH THE RYE* (2009); see also Amy Lai, *The Death of the Author: Reconceptualizing 60 Years Later: Coming through the Rye as Metafiction in Salinger v. Colting*, 15 INTELL. PROP. L. BULL. 19 (2010) (providing a detailed analysis of this lawsuit by taking a very different—though not contradictory—approach from the one in this article).

<sup>6</sup> E.g., Lai *supra* note 5, at 20 n.8 (giving as an example the fact that Salinger prohibited any attempt to make his novel into a movie).

<sup>7</sup> Salinger v. Colting, 641 F. Supp. 2d 250, 258-59, 261 (S.D.N.Y. 2009).

<sup>8</sup> *Id.* at 262.

injunction granted by the lower court.<sup>9</sup> In 2011, Colting settled the case by agreeing not to publish or distribute his book in the U.S. or Canada until the original novel enters the public domain.<sup>10</sup>

One wonders to what extent Salinger's victory influenced GoldieBlox's decision to settle with Beastie Boys over their copyright dispute in 2014. A startup company that creates innovative toys for girls, GoldieBlox made a commercial by reworking hip-hop band Beastie Boys' 1987 song "Girls" with new lyrics conveying a girl-power message.<sup>11</sup> It filed a pre-emptive lawsuit against Beastie Boys to claim fair use of the "Girls" track; Beastie Boys sued GoldieBlox in return by claiming copyright infringement.<sup>12</sup> While commentators were still debating whether the song was a parody or satire, GoldieBlox unexpectedly settled with Beastie Boys by pulling the song from the video, posting a public apology on its website, and agreeing to donate a portion of its revenue to science education charities selected by the band.<sup>13</sup>

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In the United States, whether a disputed work qualifies as a parody is critical, if not determinative, to the success of a fair use defense in copyright lawsuits. This question is ultimately tied to the idea of authorship and the right associated with it. Because authors who are copyright owners have rights in their works, using their works without their permission presumptively infringes upon this right, unless one can offer a defense to the claim of copyright infringement. Yet, distinguishing between legitimate and illegitimate forms of copying poses a challenge. Equally challenging are attempts to define parody and satire. How can different schools of legal thought contribute to copyright law and its fair use

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<sup>9</sup> *Salinger v. Colting*, 607 F.3d 68, 83-84 (2d Cir. 2010).

<sup>10</sup> *E.g.*, Andrew Albanese, *J.D. Salinger Estate, Swedish Author Settle Copyright Suit*, PUBLISHER WKLY. (Jan. 11, 2011), <http://www.publishersweekly.com/pw/by-topic/industrynews/publisher-news/article/45738-j-d-salinger-estate-swedish-author-settle-copyright-suit.html> (describing the settlement terms ending the dispute).

<sup>11</sup> *E.g.*, Jon Blistein, *Beastie Boys Settle Lawsuit Over 'Girls' Toy Commercial*, ROLLING STONE (Mar. 18, 2014), <http://www.rollingstone.com/music/news/beastie-boys-settle-lawsuit-over-girls-toy-commercial-20140318> (providing the background of the lawsuit and the settlement terms).

<sup>12</sup> *E.g.*, *id.*

<sup>13</sup> *E.g.*, *id.*

doctrine, particularly its contentious parody exception? By drawing upon different legal theories, this article argues that courts, in determining whether new creative works that build upon existing works constitute fair use, should refrain from forcing these expressions into arbitrary categories of parody or satire. Courts should instead focus more heavily on the possible harm that the new works would bring to owners, and the copyright system of financial incentives as compared to their potential social benefits.

Part I of this article will offer an overview of the American copyright regime by discussing the Copyright Act of 1976 and the Supreme Court's application of the fair use doctrine, especially its definition of parody and its dichotomization of parody and satire. Because Lockean natural rights informed the Framers' understanding of intellectual property law, and courts have a long history of using natural law justifications in intellectual property cases, Part II will begin by examining the nature of copyright through the lenses of natural law theories. Using John Locke's theory of property and John Rawls' "justice as fairness" model, this Part will discover the inherent conflict between copyright and free speech as a basic liberty. The reminder that copyright is not an absolute right, and the caution against expanding authors' rights at the expense of the public, will pave the way for a re-evaluation of authorship in Part III. Drawing upon relational feminism as well as other feminist theories, Part III will substitute the idea of the "relational author" for the isolated, individuated, and proprietary author on which the current copyright regime is premised. Because authors are social creatures who write from within vast networks of pre-existing texts, creative transformations of these pre-existing works should be recognized and embraced as original expressions of authorship.

Part IV will turn to the potential of law and economics in reforming the copyright regime so that it can fully accommodate the "relational author" and his/her right to free speech. It will explain how intuitive cost-benefit analysis, rather than efficiency principles, has facilitated judicial decision-making in fair use claims. This Part will then illuminate the common mistake of these two methods, which is to reinforce a narrow definition of parody that privileges owners' rights over the social benefits of transformative works. Courts, therefore, should shift their focus from the parody/satire dichotomy to the likelihood that the new works would pose harm to owners and the copyright system versus their social benefits. Although the

current copyright law is flawed, Part V will adopt legal realist perspectives to explore how courts have turned copyright law “in the books” to copyright law “in action,” and how legal realism enables courts to utilize a flawed law to better accommodate the rights of the public. After offering new insights into the *Salinger* holdings, this Part will examine how the dispute between Beastie Boys and GoldieBlox would and should have been adjudicated if it had gone to court. The article concludes that the purpose of deconstructing the parody/satire dichotomy is to help courts stimulate creativity and, ultimately, to serve justice.

## I

### COPYRIGHT LAW: THE PROBLEMATIC PARODY/SATIRE DICHOTOMY

The U.S. Constitution grants Congress the authority to “promote the Progress of Science and useful Arts, by securing for limited Times to Authors ... the exclusive Right to their [works.]”<sup>14</sup> Under Section 102 of the Copyright Act, copyright protection extends to “original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”<sup>15</sup> The several exclusive rights to copyright holders, as defined in Section 106, include the rights “to reproduce the copyrighted work[,]” to prepare derivative works of the original, and to distribute its copies to the public by various means.<sup>16</sup> These rights, which are subject to a time limit, generally expire seventy years after the author's death.<sup>17</sup>

#### *A. Fair Use, Parody, and Satire*

Section 107 of the Copyright Act imposes limitations on section 106, providing that the “fair use” of a copyrighted work does not constitute infringement.<sup>18</sup> While fair use explicitly applies to such uses as criticism, news reporting, teaching or research, the fair use defense is by no means limited to these areas.<sup>19</sup> A four-factor test determines whether a particular use is fair: “(1) the purpose and character of

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<sup>14</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>15</sup> Copyright Act, 17 U.S.C. § 102(a) (2006).

<sup>16</sup> *Id.* § 106.

<sup>17</sup> *Id.* § 302(a).

<sup>18</sup> *Id.* § 107.

<sup>19</sup> *Id.*

the use, including whether” it is for commercial or nonprofit educational purposes; “(2) the nature of the copyrighted work; (3) the amount and substantiality of the portion” of the original work used; and (4) the effect of the use upon the original’s market or potential market.<sup>20</sup> The Supreme Court addressed parody for the first time in *Campbell v. Acuff-Rose Music, Inc.* Following the Sixth Circuit’s definition of parody as “the art of creating a new literary, musical, or other artistic work that both mimics and renders ludicrous the style and thought of an original[,]”<sup>21</sup> the Court held that a commercial parody may be fair use.<sup>22</sup> The inquiry concerning fair use generally turns on factor one of the fair use test, examining “whether the new work merely supersede[s]” the original, or whether and to what extent it is “transformative” by altering the original with “new expression, meaning, or message[.]”<sup>23</sup> The more transformative the work is, less will be the impact of other factors, “like commercialism, that may weigh against a finding of fair use.”<sup>24</sup> In contrast, a satire, which makes broad comments on society, “can stand on its own two feet and so requires justification for the very act of borrowing.”<sup>25</sup> Hence, it is more difficult for a defendant to prove fair use in a satirical work.<sup>26</sup>

Throughout the years, courts continue to use the parody/satire distinction. However, *Blanch v. Koons* is an example of a recent case where a federal court deemphasized this distinction.<sup>27</sup> While affirming that artist Jeff Koons’ incorporation of a copyrighted photograph into a collage painting was fair use, the Second Circuit minimized the parodic justification for granting fair use.<sup>28</sup> The disputed painting “Niagara,” which was commissioned by Deutsche Bank and the Guggenheim Museum, depicted four pairs of women’s feet superimposed upon images of “confections ... with a grassy field and Niagara Falls in the background,” borrowing one set of legs from the published work of the plaintiff, a professional photographer.<sup>29</sup> Koons explained that he aimed to use popular images

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<sup>20</sup> *Id.*

<sup>21</sup> *Acuff-Rose Music, Inc. v. Campbell*, 972 F.2d 1429, 1441 n.4 (6th Cir. 1992).

<sup>22</sup> *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

<sup>23</sup> *Id.* at 579.

<sup>24</sup> *Id.*

<sup>25</sup> *Id.* at 581.

<sup>26</sup> *Id.* at 580 n.14.

<sup>27</sup> *Blanch v. Koons*, 467 F.3d 244 (2d Cir. 2006).

<sup>28</sup> *Id.*

<sup>29</sup> *Id.* at 247.

as “commentary on the social and aesthetic consequences of mass media.”<sup>30</sup> The Court, analyzing the transformative nature of Koons’s work, held that the collage painting passed the transformative test “almost perfectly” by changing the original copyrighted picture’s “colors, the background against which it is portrayed, the medium, the size of the objects pictured, [and] the objects’ details[.]”<sup>31</sup> More “crucially,” the painting had an “entirely different purpose and meaning—as part of a massive painting commissioned for exhibition in a German art-gallery space.”<sup>32</sup> While addressing the distinction between parody and satire as laid down by *Campbell*, the Second Circuit minimized the parodic justification for granting fair use to Koons, stating that “[t]he question is whether Koons had a genuine creative rationale for borrowing Blanch’s image, rather than using it merely ‘to get attention or to avoid the drudgery in working up something fresh.’”<sup>33</sup> Nevertheless, by relying upon the same wordings that the *Campbell* Court employed to describe satire (“to get attention or to avoid the drudgery in working up something fresh”), and emphasizing that such uses would not be fair, the Second Circuit maintained the parody/satire distinction.<sup>34</sup>

### B. Rethinking “Parodies”

The Supreme Court’s working definition of parody corresponds roughly to its understanding within popular conception.<sup>35</sup> However, scholars have not agreed on what works fall into the parody classification due to its antiquity and the range of practices to which it alludes, let alone its national and cultural usages.<sup>36</sup> In fact, the first reference to “parodia,” found in Aristotle’s *Poetics*, defines it as a “narrative poem ... treating a light, satirical, or mocking-heroic subject.”<sup>37</sup> Scholars have also noted how parody and satire often intersect.<sup>38</sup> These scholars warn against any attempt to dichotomize parody and satire. Moreover, while some conceptions of parody insist that the work critiques the original (“target parodies”),

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<sup>30</sup> *Id.* at 253.

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> *Id.* at 255 (citation omitted).

<sup>34</sup> See *Campbell*, 510 U.S. at 580–81.

<sup>35</sup> See, e.g., Graham Reynolds, *Necessarily Critical? The Adoption of a Parody Defence to Copyright Infringement in Canada*, 33 MANITOBA L. J. 243, 245 (2009).

<sup>36</sup> E.g., *id.* at 246.

<sup>37</sup> E.g., *id.*

<sup>38</sup> E.g., PAUL SIMPSON, ON THE DISCOURSE OF SATIRE: TOWARDS A STYLISTIC MODEL OF SATIRICAL HUMOUR 219 (2003).

other conceptions permit it to critique something other than the work itself (“weapon parodies”).<sup>39</sup> These different conceptions cast the Court’s definition in further doubt.

Although copyright law aims to advance the public good by encouraging creativity and disseminating knowledge, the Court’s narrow definition of parody and its determination that satire is not protected to the same degree as parody, have arguably served to expand owners’ rights to the detriment of creative citizens. For example, it would be fair to say that Colting’s use of Salinger’s novel to critique the protagonist’s worldview and Salinger’s control over his own work is not something that Salinger would likely have done, and Colting’s new work cannot be said to supersede any potential sequel written by Salinger. Why, then, should the District Court and the Second Circuit rely upon a narrow definition of parody to determine that such use was not fair? The questions concerning what uses are fair, and how the fair use doctrine should be applied, hinge upon the very natures of copyright and authorship. It is helpful, therefore, to begin by examining copyright from natural law perspectives.

## II

### NATURAL LAW THEORIES: THE COPYRIGHT-LIBERTY CONFLICT

Natural law theories, whether derived from observations of nature, divine inspiration, or human reason, hold that there are universal principles of justice with which all individuals have a moral responsibility to comply.<sup>40</sup> In the secular natural law tradition, laws derived their validity from their promotion of natural rights, inherent and inalienable, enjoyed by all citizens.<sup>41</sup> English philosopher John Locke, for instance, contended that individuals are born “free, equal, and independent” in a “state of nature,” and that the government must protect their natural rights to life, liberty, and possessions.<sup>42</sup> Not only did the idea of natural rights as natural law inspire the American and French revolutions,<sup>43</sup> but Lockean natural rights also informed the Framers’ understanding of intellectual property law.<sup>44</sup>

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<sup>39</sup> *E.g.*, Reynolds, *supra* note 35, at 245.

<sup>40</sup> ROBERT L HAYMAN, JR., NANCY LEVIT & RICHARD DELGADO, *JURISPRUDENCE CLASSICAL AND CONTEMPORARY: FROM NATURAL LAW TO POSTMODERNISM* 1–2 (2d ed. 2002).

<sup>41</sup> *Id.* at 7.

<sup>42</sup> *Id.* at 5.

<sup>43</sup> *Id.* at 5–6.

<sup>44</sup> *E.g.*, Benjamin G. Damstedt, *Limiting Locke: A Natural Law Justification for the Fair Use Doctrine*, 112 *YALE L. J.* 1179, 1179 (2003).

*A. Locke, Property, and Copyright*

Locke was the most famous proponent of the natural law theory of property. Assuming that people possess their bodies and have a natural right of property in them, Locke reasoned that they also possess the labor of their bodies.<sup>45</sup> Hence, people claim rightful ownership in the fruits of their labor, regardless of whether their creative activities lead to any economic gain.<sup>46</sup> However, there is one important condition for the right to ownership: the fruits of labor must be capable of permanent and individual possession, meaning that they are not temporary usages, or something shared by all people, like the air or sunlight.<sup>47</sup>

Although Locke did not mention intellectual property, scholars have noted that the modern American copyright regime evolved from Lockean thinking.<sup>48</sup> This is most obvious in the copyright doctrine of “originality” and its “idea/expression” dichotomy. Just as Locke regarded property as the necessary moral consequence of one’s creative labor, copyright law, by granting protection to all “original works of authorship,” also protects works of the most accidental or humble origin, and works for which there are no economic incentives for their creation.<sup>49</sup> Just as the natural law tradition limits the right of ownership to fruits that can be permanently and individually possessed, the idea/expression dichotomy restricts the reach of copyright law to expressions that are sufficiently concrete, while specifically excluding more abstract and incorporeal ideas from the concept of property.<sup>50</sup> One good example confirming the deep influences by natural law theory upon the idea/expression dichotomy is the judicial precedent that Judge Learned Hand relied on in *Nichols v. Universal Pictures Corp.* Explaining that copyright protection cannot be extended to the characteristics of stock characters in a story, Judge Hand cited to *Holmes v. Hurst*, in which the Supreme Court stated: “[t]he right thus secured by the copyright act is not a right to the use of certain words, because they are the common property of the human race, and are as little susceptible of private appropriation as air or sunlight.”<sup>51</sup>

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<sup>45</sup> JOHN LOCKE, *The Second Treatise of Civil Government* § 27, in TWO TREATISES OF GOVERNMENT (1698) (P. Laslett ed. 1970); e.g., Alfred C. Yen, *Restoring the Natural Law: Copyright as Labor and Possession*, 51 OHIO St. L. J. 517, 523 (1990).

<sup>46</sup> *Id.*

<sup>47</sup> *Id.*

<sup>48</sup> E.g., Yen, *supra* note 45, at 536–37.

<sup>49</sup> *Id.*

<sup>50</sup> *Id.* at 538–39.

<sup>51</sup> *Id.*; *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 121 (2d Cir. 1930), *cert. denied*, 292 U.S. 902 (1931), which cited to *Holmes v. Hurst*, 174 U.S. 82, 86 (1898).

Although the modern intellectual property doctrine has been utilitarian in focus, attempting to disavow its association with natural law justifications leads many to question the ability of courts to adjudicate copyright claims without consulting natural law principles.<sup>52</sup> Yet Locke's natural law theory of property, logical as it might seem, raises doubts when applied to less tangible goods. Given Locke's belief in the natural right to liberty, one cannot help asking whether such a liberty would entitle people to use others' fruits of labor without their permission, so long as such uses will not likely harm the owners or the public. This question is significant because copyright, and intellectual property in general, can protect the ownership of goods that are less tangible and can be enjoyed simultaneously by an indefinite number of people. Indeed, intellectual property can easily come into conflict with basic notions of liberty because the right in less tangible goods can restrict a wider range of actions, such as creating copies of copyrighted works for further distribution among peers and friends, and even actions taking place in the privacy of one's own home. Further, as these goods are often informative, restricting the right to enjoy them may simultaneously limit free speech. The potential conflict between intellectual property and basic liberty, therefore, is a reminder that authors' rights are not absolute.

### *B. Rawls, Basic Liberty, and Creativity*

American natural law theorist John Rawls' idea of "justice as fairness" offers more insight into the above conflict. Here, Rawls imagines a hypothetical situation – the "original position"—in which free and rational people choose behind a "veil of ignorance," without knowing their place in society or natural assets and abilities.<sup>53</sup> Their choices lead to two principles of justice: first, each person would have an equal right to basic liberty; second, although social and economic inequalities exist, the distribution of wealth and income must be to everyone's advantage, and positions of authority and offices of command must be accessible to all.<sup>54</sup> Basic liberties enjoyed by all citizens include political liberty, freedom of speech and assembly, freedom of the person, along with the right to hold (private) property and freedom from arbitrary arrest and seizure.<sup>55</sup> While the second principle – the "difference principle" – does not ask society to even out

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<sup>52</sup> John Tehranian, for instance, goes so far as to argue that the fair use doctrine, far from protecting the public common, has played a key role in the triumph of a natural law vision of copyright that privileges the authors' inherent property interests over the utilitarian goal of progress in the arts. John Tehranian, *Et Tu, Fair Use? The Triumph of Natural Law Copyright*, 38 U.C. DAVIS L. REV. 465, 466 (2005).

<sup>53</sup> JOHN RAWLS, A THEORY OF JUSTICE 118 (1999).

<sup>54</sup> *Id.* at 266.

<sup>55</sup> *Id.*

resources among citizens, it does demand that those who have been socially or economically favored gain from their good fortune only on terms that improve the situations of the less favored.<sup>56</sup> The privileged, by improving the lives of the less privileged, thereby contribute to the public good.

Would those in Rawls' "original position" have chosen copyright as a basic right? On the one hand, those behind the "veil of ignorance" may imagine that benefits derived from creative endeavors would fall quite disproportionately, if not exclusively, upon those who work in creative professions. Thus, even though they will consider the right to create a basic liberty, they may be far less inclined to consider copyright that "basic" as a right. On the other hand, people in this hypothetical position may reason that even granting copyright to a limited group of creative professionals would stimulate creativity and contribute to a better society.<sup>57</sup> Moreover, because the "difference principle" does not require society to even out resources among privileged and less privileged citizens, the fact that copyright may initially benefit a small group of creative professionals would not make society unjust or unfair, so long as these professionals exercise their creativity to benefit citizens not as talented or privileged as they are.

Rawls, nonetheless, would have cautioned against an infinite expansion of copyright. While emphasizing the right to hold (private) property, he does not specifically refer to the ownership of intangible goods and therefore does not specify any special conditions that should exist for such ownerships. Moreover, Rawls' prioritization of personal freedom and free speech as basic liberties implies that such liberties would entitle citizens to appropriate intangible creations by others for speech purposes, so long as such uses do not harm the owners or society. In addition, because the "difference principle" requires that privileged citizens contribute to the greater good, creative professionals, while reaping benefits from their creative endeavors, should allow other people to appropriate their works for productive purposes. Endlessly expanding copyright to the detriment of the public, such as by raising the "fair use" standard and by creating narrow, unrealistic definitions of parody, must go against the Rawlsian principles and the public good.

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<sup>56</sup> *Id.*

<sup>57</sup> ROBERT P. MERGES, JUSTIFYING INTELLECTUAL PROPERTY 110–12 (2012).

### III FEMINIST LEGAL THEORIES: “RELATIONAL AUTHOR” AND TRANSFORMATIVE WORKS

Having explored copyright from natural law perspectives, this article now turns to feminist legal theories and their implications for fair use. The two focuses are seemingly unrelated, as copyright law governs the right to intangible properties, while feminist legal criticism addresses the gendered aspects of legal systems. Yet, copyright law’s theoretical framework is premised upon certain assumptions about the self. If some feminist legal theorists posit a different and more realistic conceptualization of the self, then this could inspire lawmakers to re-think what authorship is and accordingly reform the copyright regime.

#### *A. Relational Feminism and Authorship*

Copyright scholar Carys Craig offers interesting perspectives on the idea of authorship by bringing these two seemingly unrelated fields together. As Craig explains, at the core of copyright law are concepts of individualism, private rights, property, ownership, and exclusion.<sup>58</sup> Even though copyright attaches to the most mundane of works without any concern for their quality or creativity, the romantic idea of an individuated and independent author entitles “authors-as-originators” to rightful ownerships of their “original, stable, and propertizable” intellectual labors.<sup>59</sup> This idea of authorship has persisted over the years, despite Roland Barthes’ pronouncement of the “death of the author” in 1968, which demystified authorship by declaring all new expressions as reproductions of old ones.<sup>60</sup> Yet, the idea of the author as the sole origin of her labor is not merely outdated. It has perpetuated simplistic “dichotomies of creation/reproduction, author/user, laborer/free-rider,” glorifying authors while stigmatizing those who copy substantially from authors as “infringers.”<sup>61</sup> Craig thus criticizes the copyright regime for failing to recognize the communal and communicative nature of cultural expressions and to fulfill its original goal in fostering creativity among citizens.<sup>62</sup>

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<sup>58</sup> Carys J. Craig, *Reconstructing the Author-Self: Some Feminist Lessons for Copyright Law*, 15 J. GENDER, SOC. POL’Y & L. 207, 208 (2007).

<sup>59</sup> *Id.* at 208, 213–15; see THE CONSTRUCTION OF AUTHORSHIP: TEXTUAL APPROPRIATION IN LAW AND LITERATURE (Martha Woodmansee & Peter Jaszi ed., 1994) (a collection of works by legal scholars and post structural literary critics calling into question the validity of the traditional romantic concept of authorship).

<sup>60</sup> *Id.* at 216–17.

<sup>61</sup> *Id.* at 233.

<sup>62</sup> *Id.* at 250.

Craig contends that copyright theory should get inspiration from feminist scholarship to re-imagine the author/self and the nature of copyright itself.<sup>63</sup> Drawing upon relational feminism, she fashions the concept of the “relational author,” who is never isolated but “always-already situated within, and constituted by” her communities.<sup>64</sup> Entering a cultural conversation that has been going on long before she appeared and will continue long after she leaves, this “relational author” necessarily works from within a network of social relations and discourses through the processes of “reinterpretation, recombination, and . . . transformation,” both to connect with others and to establish her own identity.<sup>65</sup> Because authorship is participatory and dialogic, the normative copyright regime should focus less on the rights of authors as owners, and more on ways to structure relations amongst authors and between authors and the public, so as to foster creativity among citizens.<sup>66</sup> In addition, because authors can in fact generate meaning only by using the texts, discourses, and experiences that they have encountered, copyright law should recognize the transformation of pre-existing texts as an important component of original authorship.<sup>67</sup>

Craig borrows heavily from relational feminist Jennifer Nedelsky in her thesis concerning on the relational author. Fellow relational feminist Robin West adds further depth to Craig’s concepts. West’s argument differs slightly from Nedelsky’s analysis of autonomy-via-relationships in that it explores the fundamental “contradiction” in women’s subjective life.<sup>68</sup> Reconciling the views of cultural feminists and radical feminists, West points out that women value intimacy and nurturance, yet crave privacy and fear intrusion.<sup>69</sup> However, the legal system, which privileges autonomy, neglects women’s needs that arise out of their appreciation for nurturance.<sup>70</sup> Moreover, its male-centric version of autonomy fails to adequately protect women from intrusion.<sup>71</sup> West’s call for a reconstruction of the “masculine jurisprudence” can be analogized to a call for a reconstruction of the copyright regime.<sup>72</sup> A copyright regime that upholds a narrow vision of creativity resembles a “masculine” legal system that neglects traditionally feminine values in favor of an “autonomy” that fails to accommodate the full spectrum of

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<sup>63</sup> *Id.* at 252–253, 262–263.

<sup>64</sup> Craig, *supra* note 58, at 261–63.

<sup>65</sup> *Id.* at 263, 265.

<sup>66</sup> *Id.* at 263–64.

<sup>67</sup> *Id.* at 265–66.

<sup>68</sup> See Robin West, *Jurisprudence and Gender*, 55 U. CHI. L. REV. 1, 15, 55 (1988).

<sup>69</sup> *Id.*

<sup>70</sup> *Id.* at 58–59.

<sup>71</sup> *Id.* at 58–61.

<sup>72</sup> See *id.* at 68–70.

experiences of all citizens. All the while, the “relational author,” like the silenced and objectified woman of West’s “masculine jurisprudence,” remains unrecognized and mistreated. Both the outdated copyright regime and the “masculine” legal system therefore require reform.

*B. “Connection,” Other Feminists’ Support, and Implications*

While Craig’s “relational author” theory is based upon relational feminism, some other schools of feminism arguably lend support to this idea. West argues that, because women’s “subjective, phenomenological and existential state” is grounded in their “potential for physical, material connection to human life,” this shared conception of women’s experience draws together feminists whose views otherwise differ markedly.<sup>73</sup> Radical feminists regard such a “connection” as intrusive, while cultural feminists wholeheartedly embrace it. One should note that liberal feminists,<sup>74</sup> unlike their radical counterparts, do value this “connection” and seek to accommodate it. As the rest of this subsection will explain, liberal feminists impliedly support the idea of the “relational author,” rather than unquestionably accepting the “autonomy” privileged by the legal system.

In view of Craig’s emphasis on human relations and West’s idea of “connection”—which derives substantially from motherhood and childrearing—the likelihood that liberal feminism supports the idea of the “relational author” is apparent in Wendy W. Williams’ advocacy of an “equal treatment model” for pregnancy and work place discrimination issues.<sup>75</sup> People who support “special treatment” for women believe that an “equal treatment model” precludes recognition of pregnancy’s uniqueness. Williams, in contrast, contends that the “equal treatment” model redefines pregnancy as a basic need that the legal system must accommodate.<sup>76</sup> In other words, though liberal feminists do not embrace childbearing and rearing as cultural feminists do, they believe that the system should accommodate traditionally female duties by recasting them as responsibilities that penetrate the “core of the workplace” and thus, that should be

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<sup>73</sup> *Id.* at 14.

<sup>74</sup> Liberal feminists aim to reform the legal system to achieve greater gender equality, in contrast to radical feminists who, regarding the oppression women face as the most fundamental kind of social oppression, aim for more revolutionary changes to eliminate gender categories. *See, e.g.,* West, *supra* note 68, at 13; *see also* CATHARINE A. MACKINNON, *TOWARD A FEMINIST THEORY OF THE STATE* (1989).

<sup>75</sup> *See* Wendy Williams, *Equality's Riddle: Pregnancy and the Equal Treatment Special Treatment Debate*, 13 N.Y.U. REV. L. & SOC. CHANGE 325, 326–28 (1985).

<sup>76</sup> *Id.* at 351–52.

shared by all citizens.<sup>77</sup> In both Williams' view and the liberal feminist perspective, the legal system – and a normative copyright regime – should value both human connections and autonomy. By virtue of such, liberal feminism then supports Craig's notion of the nature of authorship.

In seeking to substitute the “relational author” for the isolated and individuated author, Craig seeks not to disparage the merit of authorship itself, but rather to more accurately describe the creative process that copyright law is meant to encourage.<sup>78</sup> She is correct that the copyright regime should embrace creative transformations of pre-existing texts as examples of original authorship.<sup>79</sup> Indeed, not only parody imitates older works, but satire, a great literary genre in the Anglo-American tradition, has often – or “always” – borrowed from art and from life.<sup>80</sup> Craig nonetheless does not explain further where the new boundary should lie between lawful and unlawful borrowings.

#### IV

#### LAW AND ECONOMICS: FLAWED MODELS AND NEW DIRECTIONS

While seemingly bearing no relation to feminist legal theories, law and economics provide strong rationales for justifying a more inclusive fair use application, by urging courts to rethink current case law definitions of parody and satire, to tip the balance in favor of transformative works, and to better accommodate the “relational author” and transformative works produced by such authors. Copyright ownership is, among other things, an economic matter. When dealing with copyright disputes, judges have often relied upon their intuitive cost-benefit reasoning to determine whether granting an author's fair use claim will foster more creativity. In contrast, the utility of two commonly adopted economic models, Pareto efficiency and wealth maximization (derived from the Kaldor-Hicks efficiency principle)<sup>81</sup>, have often been doubted. This section argues that, while economic theories have flaws, what is known as intuitive reasoning also fails to adequately balance the rights of owners and the public. By identifying their common mistake in reinforcing the Supreme Court's narrow parody definition, this section suggests how courts should re-interpret and re-apply copyright law to fully accommodate Craig's “relational author” and his/her transformative works.

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<sup>77</sup> *See id.* at 353.

<sup>78</sup> Craig, *supra* note 58, at 208–09.

<sup>79</sup> *See id.* at 265–66.

<sup>80</sup> *E.g.*, CHARLES A. KNIGHT, *THE LITERATURE OF SATIRE* 32 (2007).

<sup>81</sup> HAYMAN, LEVIT & DELGADO, *supra* note 40, at 304. Richard Posner proposed the wealth-maximization model by adopting the Kaldor-Hicks efficiency criterion.

*A. Intuitive Cost-Benefit Analysis vs Efficiency Principles*

Copyright scholar Alfred Yen explains the process in which courts, generally lacking empirical evidence, engage in intuitive cost-benefit reasoning to apply the fair use doctrine. According to cost-benefit reasoning, in order to qualify as a parody, the new work must contain some criticism of the original work and must not function as a substitute for it.<sup>82</sup> The first requirement ensures that the fair use treatment reaps a positive benefit for the public, while the second requirement lessens the harm posed by the fair use doctrine to the financial incentives of production.<sup>83</sup> Convinced that granting the fair use claim will foster rather than hinder creativity, courts would then allow the parodist to freely borrow materials “reasonably necessary to conjure up the original.”<sup>84</sup> It is believed that such a cost-benefit analysis has yielded efficient results.<sup>85</sup>

Yen contends that intuitive reasoning is not translatable into efficiency models, namely Pareto efficiency and Kaldor-Hicks efficiency, neither of which help to adjudicate fair use disputes.<sup>86</sup> A fundamental proposition of modern economics is that rational and self-interested individuals in a free market will pursue mutually beneficial transactions until they reach a Pareto efficient state of affairs, in which no individual will gain without harming others’ welfare.<sup>87</sup> Courts thus simply need to enforce the status quo in fair use claims to avoid presumptively undesirable interference with the market, and consider a fair use defense only when they identify imperfect market conditions.<sup>88</sup> Shifting to the Kaldor-Hicks efficiency principle, courts would declare that certain use is “fair” if the gains by society through fair use outweigh any losses imposed upon authors, so that “winners,” meaning parodists and whoever benefits from the parody, could fully compensate “losers,” or authors, in dollar terms.<sup>89</sup> However, Yen cites to empirical evidence to

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<sup>82</sup> Alfred C. Yen, *When Authors Won’t Sell: Parody, Fair Use, and Efficiency in Copyright Law*, 62 U. COLO. L. REV. 79, 87 (1991).

<sup>83</sup> *Id.* at 88–89.

<sup>84</sup> *Id.* at 94.

<sup>85</sup> *Id.* at 84.

<sup>86</sup> *Id.* at 94–98, 103–06.

<sup>87</sup> *Id.* at 94–95; see also Guido Calabresi, *The Pointlessness of Pareto: Carrying Coase Further*, 100 YALE L.J. 1211, 1216 (1991) (arguing that strict Pareto “superior changes,” or those which make no one worse off and at least one person better off, are of no general use as a normative guide to social and legal policy: “For if strict or fanatical Pareto is the criterion, why wouldn’t any change that belonged in the set have already been made? . . . [I]f Pareto optimality means a place where no improvement can be made without ex ante creating the possibility that there will be some losers, then we are always there.”).

<sup>88</sup> Yen, *supra* note 82, at 96–98.

<sup>89</sup> *Id.* at 103–04.

argue that authors very likely prefer good reputation and freedom from the emotional stress caused by parodies to any amount of monetary compensation.<sup>90</sup> Due to problems with compensation, parody as fair use cannot be justified by efficiency principles.<sup>91</sup>

*B. Wealth Maximization and Its Flawed Assumptions*

Interestingly, Richard Posner's economic analysis of fair use, based upon his wealth-maximization model, differs from Yen's by assuming that copyright owners would be willing to accept monetary compensations from parodists for all their losses, including harmed reputations and emotional damages. He contends that courts should consider parody as fair use because it must quote extensively from the original to be recognizable as such, and authors who fear ridicule of their works will not permit parodists to use them without paying high fees.<sup>92</sup> Should the law require prospective parodists to seek prior permission from copyright owners, the costs of transaction would reduce incentives to produce this valuable art form.<sup>93</sup> Likewise, forcing parodists to later compensate owners for losses incurred would discourage their original production.<sup>94</sup> By making a different assumption about owners' willingness to accept monetary compensations, Posner thus apparently eliminates the biggest flaw in the economic model.

Even if Posner's assumption about compensation is correct, his economic analysis of fair use is nonetheless rendered inadequate by insistence upon a narrow definition of parody based on a flawed rationale. He carefully distinguishes between a parody that uses a copyrighted work as a "weapon" to criticize a third-party, and one that uses the copyrighted work itself as a "target."<sup>95</sup> Posner assumes that owners would not mind licensing those works that borrow their originals as "weapons" aimed at something else, and so no parody defense should be invoked in the absence of a license.<sup>96</sup> Although owners tend to disapprove of parodies that target their works, the likelihood that these parodies provide useful commentaries justifies their coerced transfer when owners refuse to grant licenses.<sup>97</sup> Therefore, Posner agrees with the Supreme Court's reasoning, that the fair use doctrine should

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<sup>90</sup> *Id.* at 105.

<sup>91</sup> *Id.* at 105–06.

<sup>92</sup> Richard Posner, *Intellectual Property: The Law and Economics Approach*, 19 J. ECON. PERSP. 57, 63 (2005).

<sup>93</sup> *Id.*

<sup>94</sup> *Id.*

<sup>95</sup> Richard Posner, *When Is Parody Fair Use?*, 21 J. LEGAL STUD. 67, 71 (1992).

<sup>96</sup> *Id.* at 72.

<sup>97</sup> *Id.* at 72–73.

provide a defense to infringement only if the new work targets the original and does not substitute it – two criteria that define a true parody.<sup>98</sup>

Posner's narrow definition of parody and his rationale behind it are based upon a flawed assumption about copyright owners that they would only prohibit derivative works that directly criticize their original works and therefore would find no reason to prohibit other works. Although they should have less reason to prohibit the public from borrowing their works as "weapons" against third-parties, they may refuse to grant licenses for other reasons. One reason would be the fear that their works will not be shielded from criticism. After all, artistic or literary works have multilayered meanings open to different interpretations, and works that intend to make broad criticisms of society – what the Supreme Court regarded as pure "satires" – may end up criticizing the originals, at least from readers' perspectives. Take seventeenth-century English poet John Milton's *Paradise Lost* as an example: while *Paradise Lost* is generally regarded as a social satire, some readers have interpreted it also as a parody of the Christian Bible due to its extensive appropriations of Biblical stories. That new works, despite targeting third-parties, may end up criticizing the originals puts Posner's narrow definition of parody in doubt. One cannot help but ask: should courts consider as fair use works that inadvertently criticize the originals and works that do so in very subtle manners? If the answer is indeterminate, then parody needs to be redefined, and the clear boundary between parody and satire no longer holds. Further, owners who do agree to let borrowers use their works may charge exorbitant fees, which then discourage the appropriation of existing works for social criticism. Hence, it will not be in society's interest to insist that writers obtain prior approval from copyright owners before appropriating their works for broad social criticisms.

### C. Fair-Use Test and Its New Emphases

While popular economic models are flawed, intuitive cost-benefit analysis that courts have relied upon to resolve fair use claims has also fallen short of its purpose. Certainly, the threshold criterion that the new work must not supersede the original is reasonable, for it minimizes any harm posed by the fair use doctrine to the financial incentives for creative productions. Yet, the other threshold criterion that the new work must target the original was not necessary, because it has no bearing at all on the social benefits of the works. It is this flawed intuitive reasoning that led courts to dichotomize parody and satire.

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<sup>98</sup> See *Campbell*, 510 U.S. 569, 580–81 (1994).

Intuitive cost-benefit reasoning and economic analysis thus converge at their common mistake of narrowly defining parody and of treating parody and satire as disparate literary forms. This convergence points to better ways to interpret copyright law that can fully accommodate Craig's "relational author." As Craig suggests, the copyright regime should recognize creative transformations of pre-existing texts as original works.<sup>99</sup> Courts, rather than trying to fit allegedly infringing works into categories like parody or "satire," should focus more heavily on factor four of the fair-use test: whether the new works undermine current or potential markets for their copyrighted originals. Here, one should return to Salinger's claims against Colting. Despite the holdings of both Courts (the District Court and the Second Circuit), Colting's new work is arguably a parody according to the law, because it critiques Salinger's original novel, his protagonist, and Salinger himself. Yet, a far more important question should have been the harm that Colting's work would pose to Salinger and the copyright's system of financial incentives, versus the potential benefits that it would offer the public. Nevertheless, both Courts should have easily found that Colting's work did not supersede Salinger's original and, moreover, would very unlikely undermine a potential market for a real sequel of Salinger's work. Moreover, because its use of Salinger's novel to critique the protagonist's worldview and Salinger's control over his own work is not something that Salinger would likely have done, it would very unlikely undermine a potential market for a real sequel by Salinger. The question of whether it is parody or satire thus becomes far less significant.

## V

### LEGAL REALISM: COPYRIGHT LAW IN ACTION

The public, nonetheless, is stuck with the Supreme Court's narrow definition of "parody," at least for the present. Hence, this section adopts legal realist perspectives not only to shed light on how courts decided wrongly on fair use claims, but also to offer suggestions on how they may reach better, or more just, decisions on similar disputes. Contending that law is not a system of rules but rather a multidisciplinary project, legal realists are skeptical about the usefulness of formal rules, abstracted from the real world, in predicting what problem-solvers would do and prescribing what they should do.<sup>100</sup> When judicial decision-making is subject to an array of extralegal factors, is uncertainty all that remains? What could have motivated the Courts to rule in favor of Salinger instead of Colting? Imagine Beastie Boys' lawsuit against GoldieBlox had gone forward – how would/should the Court rule?

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<sup>99</sup> Craig, *supra* note 58, at 263–65.

<sup>100</sup> HAYMAN, LEVIT & DELGADO, *supra* note 40, at 157.

A. *Salinger's Victory and Literary Experts' Opinion*

Legal realist Jerome Frank offers an inspiring perspective on judicial decision-making. Quoting Justice Holmes, Frank contends that law does not consist of rules and principles, but is better characterized as “specific decisions in concrete cases.”<sup>101</sup> To illuminate that there is not much correspondence between “artificial, rule-worded, published opinions” and “undisclosed,” “real” reasons for these opinions, he cites as an example, *In re Hang Kie*, which involved the first victory of a zoning ordinance in California.<sup>102</sup> Although, as Frank argues, racial prejudice against Chinese laundry owners was the true basis of the holding, the opinion states “in due form, rules which are syllogistically linked to facts so as seemingly to compel the decision.”<sup>103</sup> Later on, these same published reasons were used by other judges to sustain zoning ordinances that were not motivated by prejudice against Asians.<sup>104</sup> Frank concludes that, because judges are “humans” and have different abilities, temperaments, and even moral standards, the relation between the exactness of legal rules and its predictability of future decision can only remain uncertain.<sup>105</sup>

The tendency for conventionally popular litigants to win in fair use disputes makes one wonder if Salinger’s victory was, in large part, due to his legendary status in the American literary scene, as compared to his unestablished and no-name opponent.<sup>106</sup> As explained already, despite the Supreme Court’s rather restrictive definition of parody, Colting’s critique of Salinger’s novel and the author himself – similar to how Randall’s *The Wind Done Gone* critiques Mitchell’s *Gone with the Wind* – may well have qualified as parody and fair use according to the law. Thus, the holding that it is a “satire,” not “parody,” compels a “rule-skeptic” perspective. The Court, in its “rule-worded” opinion, held that Colting’s new work, rather than critiquing the original, targeted Salinger’s alleged “iron-clad control” over his work and so was not a parody.<sup>107</sup> In similarly rule-laden language, the Court held that Colting’s work was not “transformative” enough to pass the fair use test, because the amount and substantiality of the original work borrowed was more than necessary to criticize Salinger and his

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<sup>101</sup> Jerome Frank, *Are Judges Human? Part One: The Effect on Legal Thinking of the Assumption that Judges Behave Like Human Beings*, 80 U. PA. L. REV. 17, 18 (1931).

<sup>102</sup> *Id.* at 37.

<sup>103</sup> *Id.*

<sup>104</sup> *Id.*

<sup>105</sup> *Id.* at 42, 48.

<sup>106</sup> See Andrew Giden & Timothy Greene, *Fair Use for the Rich and Fabulous?* 80 U. CHI. L. REV. DIALOGUE 88 (2013).

<sup>107</sup> See *Salinger v. Colting*, 641 F. Supp. 2d 250, 261 (S.D.N.Y. 2009).

character.<sup>108</sup> In doing so, the Court ignored the fact that Colting's novel did not copy the original's language beyond the use of certain catchphrase and that only four characters from the original reappeared in his new work, which has a host of other characters.<sup>109</sup> If Salinger's fame really played a significant role in the outcome,<sup>110</sup> then the published opinions do not correspond to, but only camouflage the real reasons for his victory.

Given law's multidisciplinary nature, the District Court should have given more weight to relevant extralegal factors available. Because this case involves literature, for example, it could have weighed heavily the advice of literary experts Martha Woodmansee, an English Professor, and Robert Spoo, a lawyer with a PhD degree in English Literature. When asked to assist Colting's attorneys in assessing the extent to which his work had made "creative and transformative" use of the original, both declared that it was a critical commentary on Salinger's novel similar to conventional scholarly articles.<sup>111</sup> Similarly, the Second Circuit should have heeded these experts' advice, considered the lack of evidence that the publication of Colting's work – merely a critical commentary – would do any harm to Salinger, and reversed the injunction against its publication. While plaintiff's fame and status might have been difficult to dismiss, openness to expert advice and awareness that any harm done to plaintiff would be minimal would have persuaded the Courts to hold for defendant.

### *B. Imagining Beastie Boys v. GoldieBlox*

The literary experts' advice, overlooked by the *Salinger* Courts, nevertheless points to a positive direction in judicial decision-making. The uncertainty within formal legal rules can become beneficial in cases where courts must interpret and apply flawed laws. On the one hand, what Frank calls "human" judges may not recognize a flawed law or a badly decided precedent. On the other hand, given law's multidisciplinary nature, judges whom Frank describes as "strong" and "honest" may choose to interpret and apply bad laws, or flawed legal concepts, by drawing upon multidisciplinary resources and with creativity and flexibility so as to arrive at just holdings.<sup>112</sup> Hence, the fact that the law does not dictate judicial

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<sup>108</sup> See *id.* at 261–62.

<sup>109</sup> See CALIFORNIA, *supra* note 5 at 18, 89-97, 249-72; 125-33. See also Lai, *supra* note 4 at 25-30.

<sup>110</sup> See Giden & Greene, *supra* note 105 at 42, 48.

<sup>111</sup> Decl. of Martha Woodmansee at 3, *Salinger*, 641 F. Supp. 2d 250 (No. 09 Civ. 05095); Decl. of Robert Spoo at 5–7, *Salinger*, 641 F. Supp. 2d 250 (No. 09 Civ. 05095).

<sup>112</sup> See Frank, *supra* note 100, at 35, 42. .

decision-making offers certain leeway for capable judges to steer towards just decisions as they turn “law-in-the-books” to “law-in-action.”<sup>113</sup>

If the dispute between GoldieBlox and the Beastie Boys had gone forward, how would or should the Court rule? GoldieBlox’s commercial featured three little girls assembling a huge Rube Goldberg machine out of a disparate collection of toys and household items, while singing to the tune of the Beastie Boys’ 1987 track “Girls,” changing the lyrics to say, “Don’t underestimate girls.”<sup>114</sup> The company argued that this video is a parody aimed to “make fun of the Beastie Boys song, and to further the company's goal to break down gender stereotypes and to encourage young girls to engage in activities that challenge their intellect, particularly in the fields of science, technology, engineering and math.”<sup>115</sup> Because the Supreme Court in *Campbell* held that a commercial parody may qualify as fair use, GoldieBlox’s appropriation of the Beastie Boys’ sexist song to convey a strong feminist message should indeed be “fair” according to the law.<sup>116</sup> Yet, a number of extralegal factors might well come into play. If popular litigants have a tendency to win in such disputes, the Beastie Boys would benefit from its contribution to American popular music, with seven platinum albums and three Grammy Awards and admission into the Rock and Roll Hall of Fame.<sup>117</sup> Moreover, the Beastie Boys explained in an open letter to GoldieBlox that they made a conscious decision to respect the wishes of Adam Yauch, their late member who died in 2012, not to permit their music and/or name to be used in commercials.<sup>118</sup> This letter, which had no bearing at all on whether the video’s use of the old song would pass the fair-use test would nonetheless cast GoldieBlox, a relatively new startup company, in a negative light.

The “fame” factor aside, the Court might find that GoldieBlox’s strong commercial motivation in using the Beastie Boys’ track to promote its toy products outweighed its purported comment on the original. Yet, the Court could, and

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<sup>113</sup> Originating from Roscoe Pound’s 1910 essay, the “law in the books” vs. “law in action” has been evoked many times. One example is Sanford Levinson & J. M. Balkin, *Law, Music, and Other Performing Arts*, 139 U. PA. L. REV. 1597 (1991).

<sup>114</sup> E.g., Eriq Gardner, *Beastie Boys, 'Girls' Viral Video in Copyright Infringement Fight*, HOLLYWOOD REP. (Nov. 22, 2013, 2:22 P.M), <http://www.hollywoodreporter.com/thr-esq/beastie-boys-girls-viral-video-659308>.

<sup>115</sup> *Id.*

<sup>116</sup> *See Campbell*, 510 U.S. 569.

<sup>117</sup> *Obituary: Adam 'MCA' Yauch*, BBC NEWS (May 4, 2012), <http://www.bbc.com/news/world-us-canada-17959743>.

<sup>118</sup> Goldie Blox, *Our Letter to the Beastie Boys*, GOLDIE’S FIELD NOTES (Nov. 27, 2013), <http://blog.goldieblox.com/2013/11/our-letter-to-the-beastie-boys/>.

should, take a far broader view of parody and apply the fair use test by focusing on the economic harm that GoldieBlox would pose to the Beastie Boys and the financial incentives of the copyright regime. Certainly, GoldieBlox's commercial aimed more at selling products rather than at presenting its parody as an artwork. However, the Supreme Court's definition and examples of parody, though making no mention at all of parodies that are set in commercials, do not expressly exclude them from fair use.<sup>119</sup> Moreover, the Court should find that parodies are mostly commercial. With this conclusion, the Court should focus more heavily on the likelihood that GoldieBlox's commercial would supersede the Beastie Boys' work. Because the new song, with its girl-power lyrics, would very unlikely supersede the band's original and harm their current or future market,<sup>120</sup> it should qualify as fair use. A "strong" and "honest" judge would find it unjust to deny GoldieBlox's fair use claim and to hold for the Beastie Boys instead, because of their fame, their late member's wish, or both.

#### CONCLUSION: TWO LITERARY CONCEPTS AND ONE LOGOS

This article has argued that to balance copyright with basic liberty and to accommodate the "relational author," courts should determine whether a work is fair use, not with reference to the dual parody/satire categories, but by looking at its possible harm to the copyright owner and society. This new approach, which subverts the Court's ruling and blurs the parody/satire boundary, is reminiscent of the deconstructive strategies that many disparage as nihilist and useless. Thus, this article draws to a close by bringing in Jack Balkin's inspiring view on deconstruction and tradition. Balkin contends that to respect tradition is to "betray," "submerge," or even "extinguish" other existing and competing traditions, and the enshrinement of one respectable tradition means the submergence of its "less respectable opposite."<sup>121</sup> In the same vein, it would be fair to say that courts, by upholding one narrow, traditional conception of parody, betray other broader, equally valid definitions of parody. Further, they marginalize the long-standing tradition of satire by rendering it less respectable and excluding it from legal protection. If, as Balkin argues, to deconstruct is a form of logocentric practice with a "logos," or rationale behind it,<sup>122</sup> then there is nothing nihilistic in deconstructing parody and to redeem satire from submersion – because doing so

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<sup>119</sup> See *Campbell*, 510 U.S. 569.

<sup>120</sup> Concerning whether the video's use of the song would harm Beastie Boys' future market for licensing the song for use in commercials, users who do not make fair use of the song, such as by parodying it in some ways, would still need to obtain licenses from the band.

<sup>121</sup> J.M. Balkin, *Tradition, Betrayal, and the Politics of Deconstruction*, 11 CARDOZO L. REV. 1613, 1620, 1623, 1630 (1990).

<sup>122</sup> *Id.* at 1627, 1636.

would facilitate better applications of the fair use doctrine, encourage more creativity, and enable just rulings by courts. Justice then becomes the “logos.”

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THE CURRENT STATE OF PRE-1972 SOUND  
RECORDINGS: RECENT FEDERAL COURT DECISIONS IN  
CALIFORNIA AND NEW YORK AGAINST SIRIUS XM  
HAVE BROADER IMPLICATIONS THAN JUST WHETHER  
SATELLITE AND INTERNET RADIO STATIONS MUST  
PAY FOR PRE-1972 SOUND RECORDINGS

STEVE GORDON\* AND ANJANA PURI†

*Federal copyright law applies to sound recordings, but only to those fixed, i.e., produced, on or after February 15, 1972. Recordings produced prior to that date are subject to protection under the laws of the individual states until 2067. A recent spate of lawsuits has raised the issue of whether Sirius XM and Pandora's digital radio services have the right to play pre-1972 sound recordings without permission from the owners of those records. Since federal law does not protect public performance rights in pre-1972 sound recordings, Sirius and Pandora take the position they do not need permission to publicly perform them. Recently, Flo & Eddie, a company which owns recordings by the rock band called the "Turtles," has won two major federal district court decisions resulting in the*

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*finding that state law protects public performance rights in pre-1972 sound recordings. This article evaluates whether these cases were correctly decided. Further, this article asserts that the decision of the California District Court is intellectually dishonest in its interpretation of the legislative history of the statute, which served as a basis in its decision to protect public performance rights in pre-1972 sound recordings.*

*The article also discusses the cataclysmic potential impact that these cases may have on the current landscape of music licensing in New York and California and throughout the United States. If affirmed on appeal these cases could (i) give rise to class action lawsuits against any physical venues, as well as broadcasters, that now play pre-1972 recordings without permission, and (ii) be used as leverage in finally making terrestrial radio stations, which have never had pay to play obligations, pay to play all sound recordings, whenever they were produced.*

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## INTRODUCTION

Federal copyright law applies to sound recordings, but only to those fixed, i.e., produced, on or after February 15, 1972.<sup>1</sup> Recordings produced prior to that date are subject to protection under the laws of the individual states until 2067.<sup>2</sup> A recent spate of lawsuits has raised the issue of whether Sirius XM’s satellite service and Pandora’s satellite service have the right to play sound recordings produced prior to February 15, 1972, without permission from, and without paying, the owners of the

<sup>1</sup> Sound Recordings Act, Pub. L. No. 140, 85 Stat. 39 (1971).

<sup>2</sup> 17 U.S.C § 301(c).

copyrights in those recordings or the artists performing on them. Pandora and Sirius XM currently are not paying SoundExchange for pre-1972 recordings.<sup>3</sup> Both companies contend that since federal law, which recognizes public performance rights for digital performances of sound recordings, does not apply to pre-1972 recordings, they do not need permission from the owners of the copyrights in such sound recordings or the artists who performed them.<sup>4</sup>

Pre-1972 recordings include some of the most iconic records of all time, including records featuring such artists as Billie Holiday, Frank Sinatra, Elvis Presley, Miles Davis, The Beatles, the Rolling Stones, the great artists of the Motown era such as the Supremes and Temptations, and countless others. Pre-1972 recordings account for about 5 percent of plays on Pandora and 15 percent at Sirius XM,<sup>5</sup> which highlights the importance of the issue for both companies. In 2013

SoundExchange paid out \$590 million to artists and owners of sound recording copyrights (usually record companies).<sup>6</sup> Of that amount, Pandora paid approximately \$300 million<sup>7</sup> and Sirius paid approximately \$200 million.<sup>8</sup>

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<sup>3</sup> Sound Exchange is the non-profit collection agency set up to receive royalties from non-interactive digital radio services, including Sirius XM and Pandora, and to redistribute such royalties to sound recording owners and artists.

<sup>4</sup> This issue does not come up for interactive services such as Spotify or Rhapsody. As discussed later in this article, Pandora and Sirius are non-interactive and qualify for a compulsory license under the Digital Millennium Copyright Act. But Spotify and Rhapsody do not. They must therefore secure licenses from the owners the sound recordings, which are usually record companies. If Spotify and Rhapsody refused to pay for any pre-1972 recordings, the labels could deny permission to use any of their recordings.

<sup>5</sup> Glenn Peoples, *SoundExchange Launches Campaign for Royalties on Pre-1972 Recordings*, BILLBOARD (May 29, 2014), <http://www.billboard.com/biz/articles/news/legal-and-management/6099428/soundexchange-launches-campaign-for-royalties-on-pre>.

<sup>6</sup> Sound Exchange collected total royalties in the amount of \$656 million dollars in 2013 with operating administrative costs of 4.5%. *SoundExchange Draft Annual Report for 2013 Provided Pursuant to 37 C.F.R. § 370.5(c)*, SOUNDEXCHANGE, 4 (Mar. 2013), <http://www.soundexchange.com/wp-content/uploads/2014/03/2013-Fiscal-Report-PRE-AUDIT.pdf>.

<sup>7</sup> Angus MacDonald, *Pandora Is Now Over 50% SoundExchange's Royalty Collections; Implications for Webcasting IV*, RAIN NEWS (Apr. 10, 2014), <http://rainnews.com/pandora-is-now-over-50-soundexchanges-royalty-collections-implications-for-webcasting-iv/>.

<sup>8</sup> The amount contributed by Sirius to SoundExchange is based on the fact that gross income for Sirius in 2013 was \$2.15 billion, of which Sirius was required to pay 9% to SoundExchange. See *Sirius XM Holdings Inc. Annual Financials*, MARKETWATCH, <http://www.marketwatch.com/investing/stock/siri/financials> (last visited Jan. 25, 2015) (providing Sirius' gross revenue from 2009 to 2013); Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services, 78 Fed. Reg. 23,054 (Apr. 17, 2013) (to be codified at 37

As of December 2014, there are six lawsuits questioning Sirius XM and Pandora's position that they do not have to pay for pre-1972 recordings. Of these six cases, there have been three decisions, all of them against Sirius XM. In September 2014 a California federal court found that Sirius' policy violated a 1982 California statute specifically designed to protect pre-1972 recordings.<sup>9</sup> In November of the same year, Sirius XM suffered another major defeat in New York when the Southern District found that although New York had no statute protecting sound recordings, the state's common law required Sirius to secure permission to play pre-1972 recordings.<sup>10</sup> The same court wrote another decision rejecting a motion to reconsider its original opinion.<sup>11</sup> Although these federal trial court decisions clearly implicate whether or not Sirius and Pandora have to pay for pre-1972 recordings, the decisions have even broader implications for the music industry as a whole. In fact, if the decisions are upheld, this could lead to massive additional litigation in California and/or New York against broadcasters, and physical venues such as nightclubs, that currently pay nothing for playing recorded music, and ultimately lead to passage of federal legislation that would for the first time require terrestrial radios throughout the United States to pay to play recorded music. To understand those implications, it is necessary to provide some history of the music business with respect to public performance rights.

## I

### BRIEF HISTORY OF COPYRIGHT AND PUBLIC PERFORMANCE RIGHTS FOR RECORDED MUSIC

In 1897, the federal copyright law was amended to protect public performance rights in musical compositions.<sup>12</sup> This meant that venues such as bars, taverns, honky-tonks and nightclubs<sup>13</sup> at which songs were publicly performed had to acquire licenses to perform them. Sound recordings did not exist at the time. In 1914, a group of prominent writers (including Irving Berlin, Jerome Kern and John Philip Souza),

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C.F.R. pt. 382) (determining the rates and royalty payments Sirius must make to SoundExchange from 2013 to 2017).

<sup>9</sup> *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. 2:13-CV-05693, 2014 WL 4725382 (C.D. Cal. Sept. 22, 2014).

<sup>10</sup> *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. 13 Civ. 5784 (CM), 2014 WL 6670201 (S.D.N.Y. Nov. 14, 2014).

<sup>11</sup> *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. 13 Civ. 5784 (CM), 2014 WL 6670201 (S.D.N.Y. Dec. 12, 2014).

<sup>12</sup> *Circular 1a: A Brief History Introduction*, UNITED STATES COPYRIGHT OFFICE, <http://copyright.gov:8081/circs/circ1a.html> (last visited Jan. 28, 2015).

<sup>13</sup> Landmarks Preservation Commission, *Webster Hall and Annex*, THE GREENWICH VILLAGE SOCIETY FOR HISTORIC PRESERVATION (Mar. 18, 2008), <http://www.nyc.gov/html/lpc/downloads/pdf/reports/websterhall.pdf>.

and their music publishers, came together to form the American Society of Composers, Authors and Publishers (ASCAP) to collect royalties from venues that played their songs for the public. Monies generated by the public performance of songs received a major boost when commercial radio emerged in the 1920s. ASCAP started offering a blanket license to radio stations for the right to play any musical composition in its repertoire. ASCAP collects the licensing fees and then distributes them back to its songwriter and publisher members. However, in 1939 ASCAP announced a substantial increase in its blanket license fees for radio. This prompted the National Association of Broadcasters (NAB) to create a new public rights organization (PRO). They called it Broadcast Music, Inc. (BMI). It was designed to provide a lower-cost alternative to ASCAP. As such, BMI created competition in the field of performing rights by providing an alternative source of licensing for all music users. Later, another PRO emerged in the U.S. to collect public performance royalties on behalf of contemporary classical composers, SESAC (which originally stood for Society of European Stage Authors and Composers).

From the 1930s through the 1950s, the record business emerged as a significant part of the U.S. entertainment industry. The myriad of mostly small independent labels composing the record business, such as Sun Records (Elvis Presley), Atlantic (Ray Charles), Stax (Otis Redding) and Mercury (Sarah Vaughan), were led by entrepreneurs who constantly tried to get local radio stations to play their records. Often they would actually offer cash and other forms of “consideration,” a practice known as “payola,” to DJs or station managers to play their tracks. Following hearings exposing these practices in the late 1950s, Congress made it illegal for any radio station to receive consideration for broadcasting particular records unless it disclosed that fact along with the identity of the person furnishing such consideration.<sup>14</sup> Despite the law against payola, as recently as 2005 the record companies have been caught trying to bribe radio stations to play their records.<sup>15</sup> Former New York State Attorney General Eliot Spitzer prosecuted payola-related crimes in New York and settled out of court with Sony BMG Music Entertainment in July 2005, Warner Music Group in November 2005, and Universal Music Group in May 2006. The three majors agreed to pay \$10 million, \$5 million and \$12 million respectively in fines. Spitzer’s office found that the companies had used a broad array of illegal “pay for play” tactics to secure airplay for its music, including bribing

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<sup>14</sup> 47 U.S.C. § 317 (1960). Some historians believe that the payola laws were actually a racist reaction to labels that were encouraging radio stations to play “race” music by such African American artists as Chuck Berry, Little Richard and James Brown.

<sup>15</sup> Jeff Leeds, *Universal Music Settles Big Payola Case*, N.Y. TIMES, (May 12, 2006), <http://www.nytimes.com/2006/05/12/business/12payola.html>.

programmers with laptop computers, luxury hotel stays and even free tickets to Yankee games.<sup>16</sup>

Nonetheless, for decades record companies have requested that Congress create a performance right for sound recordings in order to make radio stations *pay them*.<sup>17</sup> The legislative history of the 1976 Act shows that even ten years before the Act was passed the recording industry was trying to establish a public performance right in sound recordings. In the Register's Report on the new Act submitted to Congress in May 1965, the Register of Copyrights, L. Quincy Mumford, recognized that many in the recording business wanted Congress to establish a public performance right for sound recordings:

Representatives of record companies have argued that there are no valid reasons in principle for placing sound recordings in a different category from all other works, and the American Federation of Musicians has recently adopted a formal position opposing the . . . bill because it would deny performers "a modicum of economic incentive and participation in the vast profits derived from the public performance of records."<sup>18</sup>

But he regarded this issue as so "explosively controversial," due to broadcasters' fierce opposition to the grant of such right, that the chances of passing the new Copyright Act would be seriously impaired if it included any proposal for a public performance right for sound recordings. He wrote in relevant part:

"We are convinced that, under the situation now existing in the United States, the recognition of a right of public performance in sound recordings would make the general revision bill so controversial that the chances of its passage would be seriously impaired."<sup>19</sup>

In fact, the broadcaster's lobbying group, the NAB has been successful throughout the years at thwarting public performance rights for sound recordings. Although the NAB has consistently argued that broadcasters should not have to pay to play sound recordings because by playing them they promote record sales thereby benefitting both labels and artists, the political reality is that all members of Congress have radio stations in their district, and all members of Congress seek the goodwill of many of those radio stations, especially when they run for re-election. The recording industry, which is largely based in New York City, Los Angeles and

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<sup>16</sup> *Id.*

<sup>17</sup> H. COMM. ON THE JUDICIARY, 89TH CONG., SUPPLEMENTARY REG.'S REP. ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW (Comm. Print 1965).

<sup>18</sup> *Id.* at 51.

<sup>19</sup> *Id.*

Nashville, has always had far less clout. These political realities have resulted in the United States being one of the only countries in the world where radio stations do not pay for the performance of musical recordings.

But subsequent to 1999, when income from recorded music started to plummet, the recording industry, led by the major labels, has been lobbying even more diligently to change the federal copyright law to make radio pay them for playing their records. The latest incarnation of this effort was the introduction in September 2013 of the Free Market Royalty.<sup>20</sup> Like the earlier failed Performing Rights Act of 2007 and the Performance Rights Act of 2009,<sup>21</sup> this Act would require AM/FM broadcasters to pay performers and copyright owners. As hard as the record industry has tried, however, the broadcasting community, led by the NAB, has pushed back by lobbying effectively against a general right of public performance in sound recordings.<sup>22</sup>

In 1971, Congress passed the Sound Recording Act, which amended § 102 of the Copyright Act to add “sound recordings” to the list of works of authorship that receive protection. However, sound recording copyright owners were still not given the full bundle of rights usually associated with copyrights.<sup>23</sup> While reproduction, adaptation and distribution rights were now protected, the right of performance was not, thereby allowing broadcasters to continue to pay nothing to the labels. This served as a compromise between the recording industry, which wanted to create uniform federal protection against physical piracy rather than continue to fight against it in each state, and the broadcast community, which did not feel that it should have to pay the labels for playing their records when doing so already benefitted the recording industry by promoting record sales.<sup>24</sup>

In 1976 Congress overhauled the old 1909 Copyright Act to conform to international standards, including changing the term of protection from a 28-year term with a renewal term of another 28 years, to 50 years after the death of a creator or 70 years for corporate works.<sup>25</sup> Once again, however, the broadcast community

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<sup>20</sup> Free Market Royalty Act, H.R. 3219, 113th Cong. (2013).

<sup>21</sup> Performing Rights Act, H.R. 4789, 111th Cong. (2007); Performing Rights Act, H.R. 848, 111th Cong. (2009).

<sup>22</sup> However, as discussed below, the record companies were successful in persuading Congress in 1995 to create an exclusive public performance right for *digital* transmissions of sound recordings.

<sup>23</sup> Sound Recording Act of 1971, Pub. L. No. 92-140, 85 Stat. 391 (1971).

<sup>24</sup> H. COMM. ON THE JUDICIARY, *supra* note 18, at 51-52.

<sup>25</sup> These periods were later extended 20 years each.

was able to persuade Congress to specifically carve-out public performance rights for sound recordings.

The 1976 Act included another provision that the recording industry did not favor: a right for authors to terminate grants of copyright after 35 years.<sup>26</sup> The reasoning behind this right of termination was that young creators often sell or assign their copyrights for little or no money at the beginning of their careers. Congress felt that they or their families should have the right to recapture those copyrights after a certain period of time. Had this provision applied to recordings made before the implementation of the Act on January 1, 1978, any record older than 35 years would be subject to possible termination by artists, the “authors” of such sound recordings. Therefore, instead of asking Congress to apply the new Copyright Act to records made before 1972, the industry urged that those records continue to be protected exclusively by state law. Consequently, the Act specifically provided that pre-1972 sound recordings would remain subject to state statutes or copyright common law.<sup>27</sup>

Even though the recording industry has thus far been unsuccessful in trying to obtain public performance rights under federal law, in 1995 it did manage to obtain exclusive *digital* public performance rights. The Digital Performance Right in Sound Recordings Act (DPRA)<sup>28</sup> granted owners of a copyright in sound recordings an exclusive right “to perform the copyrighted work publicly by means of a digital audio transmission.”<sup>29</sup> The DPRA was enacted because the recording industry was able to persuade Congress that digital technology would threaten its business by allowing people to make perfect copies from digital transmission, thus displacing record sales. The Act received no significant opposition because it had no impact on normal broadcasters and at the time there very little digital transmission of music.<sup>30</sup>

In the next several years, the Internet started to take off and new services such as AOL and Yahoo! were successful in getting a compulsory license through

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<sup>26</sup> 17 U.S.C. § 304(c) (2002).

<sup>27</sup> 17 U.S.C. § 301(c) (1998): “With respect to sound recordings fixed before February 15, 1972, any rights or remedies under the common law or statutes of any State shall not be annulled or limited by this title until February 15, 2067. The preemptive provisions of subsection (a) shall apply to any such rights and remedies pertaining to any cause of action arising from undertakings commenced on and after February 15, 2067. Notwithstanding the provisions of section 303, no sound recording fixed before February 15, 1972, shall be subject to copyright under this title before, on, or after February 15, 2067.”

<sup>28</sup> 17 U.S.C. § 106(6) (2002).

<sup>29</sup> *Id.*

<sup>30</sup> The only significant player in digital transmission of music was a little company based in Horshal Pennsylvania called Music Choice.

Congress as part of the Digital Millennium Copyright Act (DMCA) of 1998.<sup>31</sup> This meant that certain digital streaming services could use any recording without permission, provided that they qualified for licenses. The two major qualifications, codified in Section 114 of the Copyright Act, were that the services were non-interactive, that is, listeners cannot select particular songs, and that they paid the required royalty rate. Both Sirius XM and Pandora operate under that regime today. They pay royalties to SoundExchange, a not-for-profit that collects monies from statutorily covered services and redistributes that money to record companies and artists on a 50-50 basis. Yet both Sirius XM and Pandora take the position that they are not legally required to pay for pre-1972 recordings, because neither the DPRA nor DMCA apply to such recordings.

## II THE CURRENT PRE-1972 CASES

As noted above, as of the submission of this article there are six cases questioning Sirius XM or Pandora's position that they do not have to ask for permission or pay for pre-1972 recordings. Four of the six lawsuits were brought by Flo & Eddie Inc., a corporation created in 1971 that is owned and exclusively controlled by Howard Kaylan and Mark Volman, two of the founding members of the music group "The Turtles."<sup>32</sup> Flo & Eddie Inc. started three lawsuits against Sirius XM in California, New York and Florida, and filed another one against Pandora in California. We discuss the recent decisions in favor of Flo & Eddie in California and New York below. Additionally, the recording industry—lead by Capitol, a wholly owned label of Universal Music—is suing Sirius XM in

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<sup>31</sup> Provisions relevant to public performance rights for digital transmission of sound recordings codified at codified at 17 U.S.C. §114(d)-(j) (2010).

<sup>32</sup> Although of Flo & Eddie's suits are structured as class actions potentially representing any owners of pre-78 copyright owners although to date, class action status has not been certified in any of these cases. If the class is certified in any particular case, any other pre-1972 copyright owner will be able to opt-in to the class and will be entitled to their pro-rated share of damages in that particular case. The potential total damages would be based on Sirius and Pandora's plays of all pre-1972 sound recordings.

California<sup>33</sup> and Pandora in New York.<sup>34</sup> All of these suits raise the issue of whether digital music services must ask permission to play pre-1972 recordings.<sup>35</sup>

The issue presented in these six cases is immensely important because it has implications that go far beyond just whether Pandora and Sirius XM should be paying for pre-1972 records. As we discuss in more detail in **Possible Consequences of the Decisions if Upheld on Appeal**, if owners of pre-1972 sound recordings are found to have exclusive public performance rights, this would implicate many other businesses which play sound recordings publicly, including not only terrestrial radio, broadcast TV and cable, but also any other physical place that plays recorded music such as bars, restaurants, nightclubs, arenas, stadiums, amusement parks, department stores and malls. Indeed, if decisions favoring the plaintiffs in these cases are upheld on appeal, they may not only change the landscape of music licensing in the states in which they are decided, but could also form the basis for changing U.S. copyright law to finally protect public performance rights for all sound recordings.

#### *A. Judge Gutierrez's Decision*

Flo & Eddie Inc. won a decisive victory against Sirius in federal trial court in California<sup>36</sup> on September 22, 2014, when Judge Paul Gutierrez granted Flo & Eddie's motion for summary judgment. Judge Gutierrez declared:

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<sup>33</sup> Capitol Records, LLC v. Sirius XM Radio Inc., No. BC-520981 (Cal. Supp. Ct., Sept. 11, 2013). The plaintiffs included Capitol Records LLC, Sony Music Entertainment, UMG Recordings Inc. and Warner Music Group Corp. as well as ABKCO Music & Records Inc.

<sup>34</sup> Capitol Records, LLC v. Pandora Media, Inc., No. 651195/2014 (Sup. Ct. N.Y. filed Apr. 17, 2014). This lawsuit included the same plaintiffs as the case against Sirius.

<sup>35</sup> SoundExchange has also brought a separate suit against Sirius XM, but the issue in that case is not whether Sirius XM should have to pay to play pre-1972 Sound Recordings. The royalties that Sirius XM must pay under the statutory license are set periodically in regulations prescribed by the federal Copyright Royalty Board ("CRB"). Under those regulations Sirius must pay SoundExchange a percentage of "Gross Revenues." SoundExchange claims that starting in 2007 Sirius underpaid for the statutory license by devising its own definition of Gross Revenues – a definition that substantially reduced its royalty payments to SoundExchange. *See* Complaint, SoundExchange Inc v. Sirius XM Radio Inc., No. 1:13-cv-01290 (D.D.C. Aug. 26, 2003), available at <http://www.soundexchange.com/wp-content/uploads/2013/08/SoundExchange-Sues-SiriusXM-Complaint.pdf>.

<sup>36</sup> Flo & Eddie, Inc. v. Sirius XM Radio, Inc., No. 2:13-CV-05693, 2014 WL 4725382 (C.D. Cal. Sept. 22, 2014).

The Court finds that copyright ownership of a sound recording under § 980(a)(2) includes the exclusive right to publicly perform that recording. *See* Cal. Civ. Code § 980(a)(2). Accordingly, the Court GRANTS summary judgment on copyright infringement in violation of § 980(a)(2) in favor of Flo & Eddie.<sup>37</sup>

As discussed in detail below, Judge Gutierrez’s decision was based on his reading of legislative intent underlying § 980(a)(2) of the California Civil Code. That section, which was enacted in 1982, reads as follows:

The author of an original work of authorship consisting of a sound recording initially fixed prior to February 15, 1972, has an exclusive ownership therein until February 15, 2047, as against all persons except one who independently makes or duplicates another sound recording that does not directly or indirectly recapture the actual sounds fixed in such prior recording, but consists entirely of an independent fixation of other sounds, even though such sounds imitate or simulate the sounds contained in the prior sound recording.<sup>38</sup>

The court reasoned the language of the statute itself was “the most reliable indicator of legislative intent.”<sup>39</sup> The court focused on the words “exclusive ownership” in a sound recording “as against all persons” and found that the plain meaning of these words was to give all rights in sound recordings to their owners to the exclusion of others. The court observed that there was nothing in the statutory language to suggest that the legislature intended to exclude any right or use of the sound recording from the concept of ‘exclusive ownership.’ He inferred from this that “the legislature did not intend to further limit ownership rights, otherwise it would have indicated that intent explicitly.” Judge Gutierrez concluded, “copyright ownership of a sound recording under § 980(a)(2) includes the exclusive right to publicly perform that recording.”<sup>40</sup>

It is clear that, if upheld, this decision would mean that both Pandora and Sirius XM would have to seek permission and pay for pre-1972 recordings in California. However, would nightclubs, bars and restaurants, as well as radio and

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<sup>37</sup> *Id.* at 9.

<sup>38</sup> CAL. CIV. CODE § 980(a)(2) (West 2007).

<sup>39</sup> *Flo & Eddie, Inc.*, 2014 WL 4725382 at \*5 (quoting *Esberg v. Union Oil Co.*, 28 Cal. 4th 262, 268 (2002) (citing *People v. Lawrence*, 24 Cal. 4th 219, 230 (2000))).

<sup>40</sup> Gutierrez buttressed his conclusion by pointing out that the legislature specifically excluded cover recordings (*i.e.*, “independent fixation of other sounds” that imitate the original recording) from the bundle of exclusive rights enjoyed by owners of sound recordings. He reasoned if they intended to exclude public performance rights, they would have made that an additional exclusion.

TV stations have to seek permission to play and pay performance royalties for pre-1972 records in that state? On its face, yes. Gutierrez's interpretation of California law would make the exclusive right of public performance in sound recordings apply to any public performance of a pre-1972 recording, whether on a digital service or otherwise, including performances in terrestrial radio or television broadcasts, nightclubs, restaurants, bars and any other public places. In other words, they would all have to seek permission from the copyright owner of each pre-1972 recording—usually the record company.<sup>41</sup> The owners of such recordings could then charge any amount they wished, or deny permission altogether.

On October 6th, 2014, Sirius XM announced that it would appeal Judge Gutierrez's ruling. In the meantime, all the other lawsuits against it and Pandora are ongoing.

### *1. Criticism of Gutierrez's Decision*

It is questionable whether Judge Gutierrez's decision will be upheld on appeal. By his own analysis he was supposed "to ascertain the intent of the drafters so as to effectuate the purpose of the law."<sup>42</sup> However, Judge Gutierrez basically ignored the intent made manifest in the legislative history. Instead, as discussed above, he relied on the statutory language itself, on the basis that it "is generally the most reliable indicator of legislative intent."<sup>43</sup> His decision rejected Sirius' reliance on legislative history, noting that:

Sirius XM's attempts to insert ambiguity into the textual language fail because Sirius XM relies on information outside the statutory language to find that ambiguity in the first place. *See Opp.* ¶ 7:5-19, 16:20-17:4; *see People v. Hagedorn*, 127 Cal. App. 4th 734, 743 (2005) ("Courts generally resort to legislative history to resolve ambiguities, not to create them"). *Regardless, the legislative history of § 980(a)(2) is consistent with the Court's textual reading of the statute.*<sup>44</sup>

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<sup>41</sup> Most artists who enter into recording agreements with record companies do not retain the copyright in their sound recordings. Generally, recording agreements contain a "work for hire" clause under which the record label becomes the sole owner of the copyrights in each recording produced under the agreement.

<sup>42</sup> *Flo & Eddie, Inc.*, 2014 WL 4725382 at \*4 (quoting from *Esberg v. Union Oil Co.*, 28 Cal. 4th 262, 268 (2002) (citing *Preston v. State Bd. of Equalization*, 25 Cal. 4th 197, 213 (2001))).

<sup>43</sup> *Id.* at \*4 (quoting *Esberg*, 28 Cal. 4th at 268) (citing *People v. Lawrence*, 24 Cal. 4th 219, 230 (2000)).

<sup>44</sup> *Id.* at \*6 (emphasis added).

First he lays out in his opinion Sirius' interpretation of the legislative history, which does in fact support its position, and then completely ignores both Sirius' interpretation and the legislative history itself.

Sirius argued that the 1982 revision of the California Civil Code was motivated by the preemption provisions of Section 301(c) of the Copyright Act, which, as of its implementation 1978, had made much of the former version § 980 obsolete. The revision was needed to clarify what state-level protections remained. The former version of § 980 was very broad and did not distinguish between different types of copyrightable property:

The author or proprietor of any composition in letters or art has an exclusive ownership in the representation or expression thereof as against all persons except one who originally and independently creates the same or a similar composition.<sup>45</sup>

This broad protection was necessary to protect unpublished works since the federal law did not offer such works *any* protection. But after the implementation of the new Copyright Act, federal law for the first time became available for unpublished works. So, according to Sirius, the California legislature rewrote its sweeping provision to narrow it to the areas of the law that it still had the authority to regulate. Therefore, it replaced the above subsection with subsection (a)(1), pertaining to works “not fixed in any tangible medium of expression” such as live theatre and concerts, and subsection (a)(2), pertaining to pre-72 sound recordings. This narrowing of state-regulated subject matter tracked the federal Copyright Act's preemption provisions.<sup>46</sup> Accordingly, Sirius argued, the California legislature did not expand or limit ownership rights in sound recordings by its 1982 amendment. Rather, it excluded works of authorship in other mediums of expression from the law because it no longer had authority to regulate copyrights of those works.

Sirius' position is correct. The documents comprising the legislative history are replete with discussions that the bill was simply trying to conform California law

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<sup>45</sup> CAL. CIV. CODE § 980 (1942) (current version at CAL. CIV. CODE § 980 (West 2007)).

<sup>46</sup> See 17 U.S.C. § 301(a) (1998): “On and after January 1, 1978, 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 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.”

to the pre-emption provisions of the federal law.<sup>47</sup> In fact, the Patent, Trademark, and Copyright Section of the California Bar, in endorsing the then new legislation, specifically found this to be the exclusive purpose of § 980(a).<sup>48</sup>

But instead of seriously considering Sirius' argument, which he summarizes in one paragraph in his opinion,<sup>49</sup> Judge Gutierrez fails to even address it. Instead, he makes another argument based on statutory construction:

As the California legislature clearly considered the Federal Copyright Act when drafting its 1982 amendment, § 980(a)(2)'s *similarities to and differences from the federal law can further reveal the legislature's intent regarding sound recording rights*.<sup>50</sup>

Instead of actually looking at the legislative history, as Sirius did, Gutierrez embarks on a comparison of the actual language of the Act and its revision in an attempt to support his conclusion that California intended to protect public performance rights in sound recordings. He points out that the language in § 980(a)(2) that excludes from protection “one who independently makes or duplicates another sound recording” is almost identical to the wording in Section 114(b) of the Copyright Act.<sup>51</sup> Gutierrez then observes that Section 114 “contains other expressly stated limitations,” specifically, “[t]he exclusive rights of the owner of copyright in a sound recording ... do not include any right of performance[.]”<sup>52</sup> He concludes that since the California legislature did not include this other limitation in § 980, it intended to protect public performance rights. This seems to the authors to be a huge stretch.

As discussed above, for decades the recording industry has tried to achieve a public performance right in sound recordings, and for decades the broadcast

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<sup>47</sup> According to the legislative history the purpose of that amendment was only to “*maintain rights and remedies*” in sound recordings. *See* ASSEMB. COMM. ON JUDICIARY, 1981-1982 REG. SESS., REP. ON AB 3483 (Katz), at 1-2 (Ca. 1982) (emphasis added). The purpose of the amendment was also to make “*technical and minor policy changes in the State copyright laws in order to conform with Federal Law.*” *See* CAL. DEPT. OF FIN., 1981-1982 REG. SESS., ENROLLED BILL REP. ON AB 3483 (1982) (emphasis added).

<sup>48</sup> Letter from Exec. Comm. of the Patent, Trademark and Copyright Section, of the State of California, to Members, Board of Governor, of the State of California (October 27, 1981) (on file with authors).

<sup>49</sup> *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. CV 13-5693 PSG, 2014 WL 4725382 at \*6 (C.D. Cal. Sept. 22, 2014).

<sup>50</sup> *Id.* at \*7 (emphasis added).

<sup>51</sup> *Id.* at \*4.

<sup>52</sup> *Id.* at \*7 (citing 17 U.S.C. § 114(a) (2010)).

community has been able to prevent this from happening. If the state legislature wanted to establish a public performance right for sound recordings, and thereby overturn many years of music industry practice and make broadcasters, bars, restaurants, nightclubs as well as other places that play records pay record companies for the first time in California history, as well as the history of the United States, it seems inconceivable that there would be no mention of the right of public performance in the legislative history or the law.

Moreover, if Judge Gutierrez had honestly analyzed the legislative history, he would have to deal with this elephant in the room: the legislation passed without opposition.<sup>53</sup> It seems obvious to the authors that no one thought that the intent was to create a right that would stand music licensing on its head in California. If the statute clearly stated that pre-72 recordings had a right of public performance, it is unbelievable that almost every radio network, TV station, restaurant chain, hotel, motel and bar or their trade associations would not have loudly protested. Therefore, it seems almost irrational to impute the intent that Gutierrez found in the statute.

In sum, the legislative history makes it clear that the 1982 revision of § 980(a) was only about conforming California law with the pre-emption provisions in the 1976 Copyright Act. If the legislature wanted to (i) announce the existence of a right no one in the entire entertainment business thought existed and (ii) change more than 100 years of business practice, it would have mentioned such a sweeping change in both the legislative history and the statute. If Judge Gutierrez did not ignore the legislative history, he clearly ignored the intent manifested in that history.

### *B. Judge McMahon's Decisions*

Judge Colleen McMahon of the Southern District of New York denied Sirius' motion for summary judgment against Flo & Eddie's complaint alleging that Sirius XM Radio committed common law copyright infringement by publicly performing pre-72 sound recordings of the Turtles. McMahon found that "general principles of common law copyright dictate that public performance rights in pre-72 sound

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<sup>53</sup> According the Legal Affairs department of the Governor's Office: "There is no known opposition to the bill." LEGAL AFFAIRS DEP'T OF THE GOVERNOR'S OFFICE, ENROLLED BILL REP. ON AB 3483 (KATZ) (Ca. Aug. 13, 1982). The same enrolled report confirms Sirius' contention that the bill was intended to conform California law to the federal copyright law: "This bill, sponsored by the State Bar's Patent [stet], Trademark and Copyright Section, amends California law to conform to the Federal Copyright Act of 1976." Brief for Sirius XM Radio, Inc. at 14, *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. 2:13-cv-05693, 2014 WL 4725382 (C.D. Cal. Sept. 22, 2014) No. 13-CV-5693 PSG (RZx), 2014 WL 5590867.

recordings do exist.”<sup>54</sup> McMahon based this conclusion on a series of New York court decisions that afforded public performance rights to holders of common law copyrights in works such as plays<sup>55</sup> and films.<sup>56</sup>

McMahon acknowledged that no particular case specifically upheld public performance rights in a sound recording. Indeed, she wrote that “the conspicuous lack of any jurisprudential history confirms that not paying royalties for public performances of sound recordings was an accepted fact of life in the broadcasting industry for the last century.”<sup>57</sup> But she discarded that history by going on to assert:

....acquiescence by participants in the recording industry in a status quo where recording artists and producers were not paid royalties while songwriters were does not show that they lacked an enforceable right under the common law—only that they failed to act on it.<sup>58</sup>

Judge McMahon concluded that New York common law protects public performance rights in all copyrightable works, including sound recordings. She ended her decision by writing:

New York has always protected public performance rights in works other than sound recordings that enjoy the protection of common law copyright. Sirius suggests no reason why New York—a state traditionally protective of performers and performance rights—would treat sound recordings differently.<sup>59</sup>

### *1. Sirius XM’s Motion for Reconsideration*

Following its defeat for summary judgment, Sirius XM retained O’Melveny & Myers as its new legal counsel, and filed a motion for reconsideration of the district court’s decision. O’Melveny predicated its entire motion on one case, *RCA Manufacturing Co. v. Whiteman*,<sup>60</sup> decided by the Second Circuit in 1940. Although

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<sup>54</sup> *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. 13-Civ.-5784 (CM), 2014 WL 6670201, at \*15 (S.D.N.Y. Nov. 14, 2014).

<sup>55</sup> See *Palmer v. De Witt*, 47 N.Y. 532, 535-36, 540-41 (1872); *Roberts v. Petrova*, 213 N.Y.S. 434, 434-37 (Sup. Ct. 1925); *French v. Maguire*, 55 How. Pr. 471, 472-73, 479-80 (N.Y. Sup. Ct. 1878).

<sup>56</sup> See *Brandon Films, Inc. v. Arjay Enter., Inc.*, 230 N.Y.S.2d 56, 57-58 (Sup. Ct. 1962); *Roy Exp. Co. v. Columbia Broad. Sys., Inc.*, 672 F.2d 1095, 1097-99, 1101-04 (2d Cir. 1982) (applying New York law) (recognizing a public performance right in compilations of film clips).

<sup>57</sup> *Flo & Eddie, Inc.*, 2014 WL 6670201 at \*11.

<sup>58</sup> *Id.*

<sup>59</sup> *Id.* at \*15.

<sup>60</sup> *RCA Mfg. Co. v. Whiteman*, 114 F.2d 86 (2d Cir. 1940).

*Whiteman* did concern sound recordings and New York law on common law copyrights, neither Sirius' prior attorneys nor the judge had addressed it at all in the prior proceeding. O'Melveny specifically depended on certain language written by none other than the legendary jurist, Learned Hand, who wrote the opinion for the three-man court. O'Melveny argued that the following statements from Hand's opinion stood for the proposition that New York common law does not recognize public performance rights for sound recordings:

Copyright in any form, whether statutory or at common-law, is a monopoly; it consists only in the power to prevent others from reproducing the copyrighted work. W.B.O. Broadcasting Corporation has never invaded any such right of *Whiteman*; they have never copied his performances at all; they have merely used those copies which he and the RCA Manufacturing Company, Inc. made and distributed.<sup>61</sup>

Judge McMahon, however, was far from impressed with this argument and went as far as characterizing its reliance on *Whiteman* as "clear error" in her opinion denying the motion.<sup>62</sup>

*Whiteman* concerned the public performance rights of Paul Whiteman, a well-known orchestra conductor, who made a series of sound recordings on the RCA label in the 1930s. The recordings were sold to the public, but the records each bore the legend, "Not Licensed for Radio Broadcast." Despite the legend, WNEW, which was owned by W.B.O. Broadcasting, played some of Whiteman's recordings without permission from Whiteman nor RCA.<sup>63</sup> RCA then sued W.B.O. for common law copyright infringement. Writing for a three-man court, Judge Hand found in favor of W.B.O. The basis for his decision was his determination that under New York common law the sale of the records constituted a "publication," and that since publication divested works of common law copyright, RCA lost any copyright protection it might have had.

In rejecting Sirius' motion, Judge McMahon found that the statements by Judge Hand that it relied on were irrelevant to the holding in *Whiteman*. She also observed that even if that language had been relevant to the holding, subsequent New York State court decisions disagreed with the outcome in *Whiteman* and, in

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<sup>61</sup> *Id.* at 2.

<sup>62</sup> *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. 13 CIV. 5784 CM, 2014 WL 7178134, at \*1 (S.D.N.Y. Dec. 12, 2014).

<sup>63</sup> *RCA Mfg. Co. v. Whiteman*, 28 F. Supp. 787 (S.D.N.Y. 1939).

recognizing this development, the Second Circuit itself reversed the holding in *Whiteman*.<sup>64</sup>

Judge McMahon pointed out that the holding in *Whiteman* concerned whether RCA lost its copyright in the recordings by “publishing” them by offering them for sale to the public. Although the *Whiteman* court answered in the affirmative, it did not decide exactly what rights may have been forfeited by publication, or whether the right of public performance was among them. So, the language on which Sirius relied was, at best, dicta.

Judge McMahon found that Sirius’ interpretation of Hand’s language was a “stretch,” and that Sirius had also interpreted that language entirely out of context. She observed:

Indeed had *Whiteman* been predicated on the absence of a public performance right in sound recordings, the entire discussion of whether RCA’s common law rights were divested by publication would have been superfluous; RCA could not possibly have “lost” via publication a right that never existed in the first place.<sup>65</sup>

Finally, she found that even if *Whiteman* stood for the proposition that Sirius asserted, its motion would fail because “*Whiteman* has been overruled, so it stands for nothing at all.”<sup>66</sup>

### III

#### POSSIBLE CONSEQUENCES OF THE DECISIONS IF UPHeld ON APPEAL

The decisions in both New York and California have broader implications than just whether Sirius XM or other digital services must pay to perform pre-72 sound recordings. Neither decision includes any language that would limit protection of public performances rights in sound recordings to digital transmissions. Indeed both decisions were based on cases (McMahon) or a statute (Gutierrez) that predated the digital era. So logically, there is no reason why they would not apply to all forms of public performance of sound recordings.

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<sup>64</sup> *Flo & Eddie*, No. 13 Civ. 5784(CM), 2014 WL 7178134, at \*4 (S.D.N.Y. Dec. 12, 2013) (citing *Capitol Records v. Mercury Records Corp.*, 221 F.2d 657, 663 (2d Cir. 1955)).

<sup>65</sup> *Flo & Eddie*, 2014 WL 7178134, at \*3.

<sup>66</sup> *Id.* at \*4.

The balance of this article deals with possible consequences of the decisions. But, for now, it is important to point out that if these decisions are upheld on appeal they would profoundly change the landscape of music licensing in the United States. For the first time in U.S. history, not only would radio and television stations have to pay for the performance of music recordings, but so would every bar, restaurant, nightclub, retail store, mall, amusement park, bowling alley and any other public establishment that plays music. Such a sweeping change could have dramatic consequences for the entire music industry, as set forth below.

*A. Impact on Likelihood of Success of the RESPECT Act*

On May 29, 2014, the Respecting Senior Performers as Essential Cultural Treasures Act, or the RESPECT Act,<sup>67</sup> was introduced in Congress. If passed, this legislation would require digital music services that transmit sound recordings under the statutory license provided under Section 114 of the Copyright Act, including Sirius and Pandora, to pay royalties for sound recordings fixed before February 15, 1972, in the same manner as they pay royalties for sound recordings protected by federal copyright that are fixed after such date.<sup>68</sup> As discussed above, sound recordings fixed before February 15, 1972, are currently governed by state laws and are not subject to federal copyright laws—specifically, Section 114 of the Copyright Act, which requires music services to pay a performance royalty for transmitting such recordings. The RESPECT Act would also specifically “[prohibit] an

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<sup>67</sup> RESPECT Act, H.R. 4772, 113th Cong. (2014).

<sup>68</sup> In accordance with rate-setting pursuant to Section 114, Pandora currently pays SoundExchange a “per stream” royalty of .0013 cents for its free service and .0023 for streams on its premium service. That means it must pay the applicable fraction of a penny for the stream of every song. Sirius XM in contrast pays a percentage of its “gross income.” That percentage is currently 9.5%. However, Sirius XM excludes from its gross revenue an amount of money commensurate with the amount of pre-1972 recordings that it plays on its service, which it claims is approximately 15%. In fact, in a separate lawsuit filed against Sirius, SoundExchange claims that this deduction is unjustifiable. In its lawsuit, filed in Washington, D.C. federal court in August 2013, SoundExchange argued, “[r]ather than paying a percentage of Gross Revenues as that term is defined in the federal regulations, Sirius XM devised its own definition of Gross Revenues – a definition that substantially reduced its royalty payments to SoundExchange.” Eriq Gardner, *SiriusXM Sued Over Alleged Underpayment of Royalties*, THE HOLLYWOOD REPORTER (Aug. 27, 2013, 8:13 AM), <http://www.hollywoodreporter.com/thr-esq/siriusxm-sued-alleged-underpayment-royalties-615039>.

infringement action against a transmitting entity from being brought under a state law if the appropriate royalty is paid under this Act.”<sup>69</sup>

Both Sirius and Pandora have opposed the bill. In fact, David Frear, the president of Sirius XM, testified before the U.S. House of Representatives that the proposed RESPECT Act would:

....further exacerbate the irrational disparity between digital services and terrestrial radio (which would remain exempt from paying performance royalties for any recordings), create a new payment obligation on a narrow set of licensees, and bestow a one-sided windfall on owners of recordings created 70 or 80 years ago, without advancing in the least the foundational purpose of copyright law: providing an incentive for the creation of new recordings.<sup>70</sup>

However, the cases currently being litigated against Sirius and Pandora could have a direct impact on the passage of the RESPECT Act by changing the position of Sirius and Pandora. Here’s why: The RESPECT Act, if passed, would affirm Sirius’ and Pandora’s rights to play pre-1972 sound recordings without the permission of the record companies. As long as they paid the statutory rate set up by the DMCA, neither the record companies nor any other owners of pre-1972 recordings could prohibit Sirius or Pandora from playing those records. In other words, the RESPECT Act could actually help Sirius and Pandora. Without it, the sound recording copyright owners could demand big upfront advances as well as greater royalties than Sirius and Pandora are currently paying for post-1972 recordings.

The RESPECT Act was initially referred to the Judiciary Committee, which handles any possible amendments to the Copyright Act. That Committee passed the bill on to the Subcommittee on Courts, Intellectual Property, and the Internet for consideration. That Committee held hearings on copyright law reform, including the RESPECT Act, but took no further action in the last session of Congress. Therefore, the Act would have to be re-introduced in order to move forward. As of the submission of this article for publication, the legislation has not been re-introduced

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<sup>69</sup> Congressional Research Service, *Summary: H.R.4772 — 113th Congress (2013-2014)*, CONGRESS.GOV, <https://www.congress.gov/bill/113th-congress/house-bill/4772> (last visited Feb. 1, 2015).

<sup>70</sup> *Music Licensing Under Title 17: Hearing Before the Subcomm. on Courts, Intellectual Prop., and the Internet of the H. Comm. on the Judiciary*, 113th Cong. 2 (2014) (written statement of David J. Frear, Chief Financial Officer, Sirius XM Holdings Inc.) (emphasis omitted).

in Congress. Supporters of the Act such as SoundExchange, RIAA, NARIS and others have had no official comment; however, they may be in the process of evaluating their opportunity to get even more protection for sound recordings than offered by the RESPECT Act, which is limited to digital transmission of pre-72 recordings. (See **Will Terrestrial Radio Finally Agree to Pay to Play Sound Recordings?** below).

*B. Possible Class Action Suits against Terrestrial Radio and Physical Venues That Play Pre-72 Sound Recordings*

Another consequence of the decisions reported in this article is that either could serve as the legal basis of a class action lawsuit on behalf of copyright owners of recordings by legacy artists against terrestrial broadcasters and physical venues in New York and/or California.

Judge McMahon practically invited such a suit in her opinion by writing:

...the conspicuous lack of any jurisprudential history confirms that not paying royalties for public performances of sound recordings was an accepted fact of life in the broadcasting industry for the last century. So does certain testimony cited by Sirius from record industry executives, artists and others, who argued vociferously before Congress that it was unfair for them to operate in an environment in which they were paid nothing when their sound recordings were publicly performed. That they were paid no royalties was a matter of statutory exemption under federal law; that they demanded no royalties under the common law when their product as ineligible for federal copyright protection is, in many ways, inexplicable.<sup>71</sup>

As discussed above, she went even further and specifically pointed out that the recording industry's "acquiescence . . . in the status quo," where sound recording copyright owners did not receive royalties from public performance of their works while owners of copyrights in musical compositions did, did not show "that they lacked an enforceable right under the common law—only that they failed to act on it."<sup>72</sup>

McMahon's remarks encourage, and even seem to invite, owners of pre-72 sound recordings to "act" on the public performance rights she recognized that they

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<sup>71</sup> Flo & Eddie, Inc. v. Sirius XM Radio, Inc., No. 13 CIV. 5784 CM, 2014 WL 6670201, at \*11 (S.D.N.Y. Nov. 14, 2014) (citations omitted) (emphasis added).

<sup>72</sup> *Id.*

have. A class action lawsuit representative of all owners of pre-1972 recordings would be a logical way of accepting that invitation.<sup>73</sup> Such a class action lawsuit could have a monumental impact on the landscape of music licensing by making radio and physical venues actually pay for the performance of sound recordings for the first time. But damages would be hard to prove. Since pre-1972 sound recordings are not subject to federal law, statutory damages, which provide for up to \$150,000 per work for willful infringement, are not available, so the plaintiffs would have to show that the performance of their recordings actually caused them financial harm. No doubt, the defendants would argue that the public performance of the recordings promoted record sales, thus actually benefiting the plaintiffs financially. On the other hand, if the plaintiffs could convince a court to issue an injunction against any further performances of their recordings, they may well be able to extract a large financial settlement.

Of course, such a suit may be premature until the Second Circuit has reviewed McMahon's ruling. One thing is certain: Sirius is appealing the decision.<sup>74</sup> Of course, if Judge Gutierrez's decision is upheld by the 9th Circuit, one could expect similar consequences. But, based on our analysis of the two decisions, as presented above, the authors believe McMahon's decision has the greater likelihood of being affirmed.

### *C. Will Terrestrial Radio Finally Agree to Pay to Play Sound Recordings?*

As discussed above, the recording industry has for many years lobbied Congress to make terrestrial radio stations pay the industry to play its records. The NAB has consistently thwarted those efforts. If either McMahon's or Gutierrez's decision is upheld on appeal, the recording industry, as represented by the RIAA, could use such a favorable decision as leverage to finally secure the NAB's cooperation in passing legislation that would for the first time require radio stations to pay for performing sound recordings. That leverage would flow from the RIAA's agreement to forego launching lawsuits against terrestrial radio stations in California and/or New York in return for the NAB's cooperation.

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<sup>73</sup> See Jonathan Stempel, *Sirius XM is dealt new setback in Turtles copyright lawsuit*, REUTERS (Jan. 15, 2015, 6:54 PM), <http://www.reuters.com/article/2015/01/15/us-siriusxm-turtles-idUSKBN0KO2TL20150115>.

<sup>74</sup> Lisa Shuchman, *A Bad Precedent Trips Up O'Melveny in a Big IP Case*, THE AMERICAN LAWYER (Jan. 5, 2015), <http://www.americanlawyer.com/id=1202713086677/A-Bad-Precedent-Trips-Up-OMelveny-in-a-Big-IP-Case>.

It should be noted that the nation's largest radio network, Clear Channel, has already signaled its agreement to pay for performance of sound recordings on terrestrial radio. In 2013, the network made a deal with Big Machine, the record label for Taylor Swift, Tim McGraw and Rascal Flatts. Under that deal, Clear Channel agreed to pay for the terrestrial broadcast of Swift's records in exchange for a lower royalty for the digital broadcast of her records on Clear Channel's internet radio service, iHeartradio.<sup>75</sup> This deal recognized that although terrestrial radio stations presently pay nothing to play records, internet radio stations are paying far too much. The additional leverage of a favorable decision for Flo & Eddie at the appellate level could be precisely the additional leverage required to persuade the NAB to join Clear Channel in a compromise.

### CONCLUSION

The victories of Flo & Eddie in federal courts in New York and California, if upheld on appeal, may have consequences far beyond whether Sirius and Pandora have to pay for performing pre-1972 sound recordings. In fact, they may not only directly lead to massive additional litigation on behalf of legacy artists, but also to a revolution in music licensing in the United States by resulting in terrestrial radio stations paying for the performance of any sound recording for the first time in the history of the U.S.

If owners of pre-1972 sound recordings are found to have exclusive public performances rights, such a decision would implicate many other businesses that play sound recordings publicly besides Sirius or Pandora, including not only terrestrial radio, broadcast TV and cable, but also any other physical place that plays recorded music such as bars, restaurants, nightclubs, arenas, stadiums, amusement parks, department stores and malls. Indeed, if decisions favoring the plaintiffs in these cases are upheld on appeal, they may not only change the landscape of music licensing in the states in which they are decided, but could also form the basis for changing U.S. copyright law to finally protect public performance rights for all sound recordings.

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<sup>75</sup> *Big Machine Label Group and Clear Channel Announce Groundbreaking Agreement*, IHEARTMEDIA.COM (Jun. 6, 2012), <http://www.iheartmedia.com/Pages/Big-Machine-Label-Group-and-Clear-Channel-Announce-Groundbreaking-Agreement-to-Enable-Record-Company-and-Its-Artists-to-Par.aspx>.

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BRIEF OF *AMICI CURIAE* LAW, BUSINESS, AND  
ECONOMICS SCHOLARS IN SUPPORT OF  
RESPONDENTS IN ALICE CORP. PTY. LTD., V. CLS  
BANK INTERNATIONAL, ET AL.

JASON M. SCHULTZ\* AND BRIAN J. LOVE\*\*

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### SUMMARY OF ARGUMENT<sup>1</sup>

The Federal Circuit's expansion of patentable subject matter in the 1990s led to a threefold increase in software patents, many of which contain abstract ideas merely tethered to a general-purpose computer. There is little evidence, however, to suggest this expansion has produced an increase in software innovation. The software industry was highly innovative in the decade immediately prior to this expansion, when the viability of software patentability was unclear and software patents were few. When surveyed, most software developers oppose software patenting, and, in practice, software innovators tend to rely on other tools to capture market share such as first-mover advantage, trade secrecy, copyright, goodwill, and economic network effects. If anything, the increase in software

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<sup>1</sup> To retain consistency with the filed brief citations have been verified, but not re-formatted to conform with Blue Book standards. Additionally, sections have been moved or deleted to better suit the journal format. For an unedited version of the filed brief see [http://www.americanbar.org/content/dam/aba/publications/supreme\\_court\\_preview/briefs-v3/13-298\\_resp\\_amcu\\_lbes.authcheckdam.pdf](http://www.americanbar.org/content/dam/aba/publications/supreme_court_preview/briefs-v3/13-298_resp_amcu_lbes.authcheckdam.pdf).

patenting has led to an increase in software litigation, which in turn has incentivized firms to acquire patents for strategic purposes unrelated to innovation, serving as either defensive stockpiles to deter legal threats or offensive leverage for rent-seeking patent assertion entities (PAEs).

Moreover, abstract software patents fail to function well within a property rights framework because they fail to define cognizable metes and bounds and fail to provide effective notice to third parties of when a particular practice or product might infringe. Due to their abstractness, these claims can often be construed to cover any of the particularized processes that result in the same outcome, *including those never envisioned by the inventor*. Accordingly, these metes and bounds are not concrete enough to be useful to those who wish to tread carefully around them. The mere application of the idea using general-purpose technological components, such as a general-purpose computer, does nothing to abate this problem. Similarly, abstract patents defy the attempts of software innovators, or general counsel at technology companies, to stay on notice of what is already protected. This leaves firms vulnerable to investing in software development with little to no assurance that they will be able to avoid infringing upon an abstract patent, even if they conduct diligent searches within patent databases. Again, this will be true even if there are general-purpose technological components tethered to the claims, as those components do nothing to help distinguish one abstract claim from another. Proliferation of such patents also contributes to the problem of patent thickets.

A well-defined § 101 ensures that abstract software patent claims and their attendant notice and patent thicket problems do not undermine the patent system and stymie innovation. It serves as a decisive gatekeeper that the Patent Office and trial courts can use early in administrative proceedings and litigation. Further, it avoids many of the systemic challenges prevalent with the use of §§ 102, 103, and 112 in such cases—the speed of software innovation, the difficulty locating software prior art, and lax, broad claiming standards. Accordingly, this Court should affirm the invalidity of patent claims at issue here and hold that abstract ideas in the form of software are unpatentable and that mere computer implementation of those ideas does not create patentability.

#### ARGUMENT

The Constitution empowers Congress to create a patent system granting exclusive rights to inventors, but only as a means of encouraging innovation. *See* U.S. Const. art. I, § 8, cl. 8. This Court's jurisprudence has consistently recognized that extending patent protection to abstract ideas not only fails to increase innovation overall, but threatens to impede its progress. *See Mayo Collaborative*

*Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1293 (2012) (“[M]onopolization of [abstract ideas] through the grant of a patent might tend to impede innovation more than it would tend to promote it.”); *Bilski v. Kappos*, 130 S. Ct. 3218, 3229 (2010). Nonetheless, the U.S. Court of Appeals for the Federal Circuit has gradually expanded the scope of patentable subject matter for abstract ideas over the last quarter century, culminating with its holdings in *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994) and *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998). As a result of this misguided expansion, the patent system has become increasingly imbalanced and even hostile in some respects to high technology entrepreneurs and inventors. This case presents the Court with an opportunity to expand on its efforts in *Bilski* and *Mayo* to restore balance by reaffirming the abstract idea exclusion as a robust gatekeeper that prohibits abstract patent claims, such as those asserted in this case, no matter the form in which their drafters attempt to claim them. *Amici* present this brief and the empirical evidence within it in support of such an opinion.

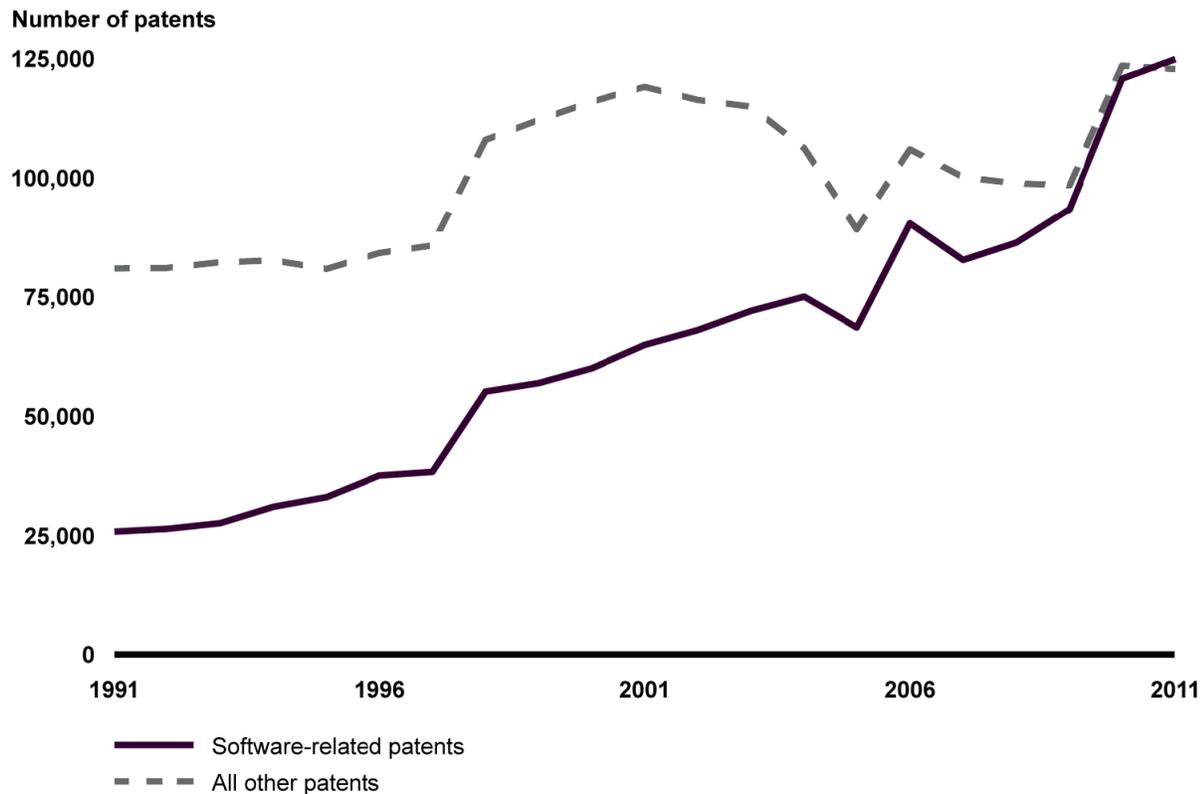
## I

### ABSTRACT SOFTWARE PATENTS DISCOURAGE INNOVATION.

In *Gottschalk v. Benson*, 409 U.S. 63 (1972) as well as *Parker v. Flook*, 437 U.S. 584 (1978) this Court recognized the risks of allowing patents on the abstract formulas and concepts contained in software even when they were tied tangentially to a physical apparatus. *Flook*, 437 U.S. at 590 (extending this principle by holding that post-solution activity does not “transform an unpatentable principle into a patentable process,” otherwise any “competent draftsman could attach some form of post-solution activity to almost any mathematical formula.”); *Benson*, 409 U.S. at 68 (invalidating claims for being “so abstract and sweeping as to cover both known and unknown uses” of a method of numerical conversion on a general-purpose computer). When this Court did find such a patent valid in *Diamond v. Diehr*, 450 U.S. 175 (1981), its holding was limited to the application of a formula in a specific industrial process. *Id.* at 192. Unfortunately the Federal Circuit misunderstood this delicate analysis and increasingly expanded the scope of patentable subject matter, culminating with its decisions in *Alappat* and *State Street*, allowing otherwise abstract patent claims to qualify under § 101 based on a mechanical “magic words” approach. *State St.*, 149 F.3d at 1375 (requiring that an abstract software claim merely produce a “useful, concrete and tangible result”); *Alappat*, 33 F.3d at 1545 (holding that a software program based on an abstract idea was patentable as long as the claim included a general-purpose computer).

This expansion has contributed to a dramatic increase in the number of patents related to software, both in absolute terms and as a percentage of issued

patents. See U.S. Gov't Accountability Office, GAO-13-465, *Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality* 13 (2013), available at <http://1.usa.gov/1gatCRr> (noting that after *Alappat* and *State Street*, there was a substantial increase in the number of patents granted with software claims). The chart below demonstrates this increase:



Source: GAO analysis of United States Patent and Trademark Office data.

*Id.* at 12. Take for example the estimated 11,000 patents covering the sale of goods online. James Bessen & Michael J. Meurer, *Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk* 213 (2008). These patents emerged, at least in part, because otherwise unpatentable abstract ideas—e.g., holding desired products in a shopping cart, checking out upon shopping completion, pressing a button to “buy it now”—became the patentable inventions of the first patent applicant to suggest implementing the idea on a computer. *Cf. Alappat*, 33 F.3d at 1545.

*A. Abstract Software Patents Should Be Limited,  
as there is Little Evidence that Software Innovators  
Rely on Patenting for Incentives to Innovate and Compete.*

Despite the expanded availability of patent protection, studies of the software industry have failed to show any corresponding increase in innovation as a result. While the number of software patents has increased, there is evidence that software entrepreneurs rely much less on patent incentives when building and maintaining competitive businesses than other factors, such as first mover advantage and trade secret, copyright, or trademark protection. *See* Stuart J.H. Graham et al., *High Technology Entrepreneurs and the Patent System: Results of the 2008 Berkeley Patent Survey*, 24 *Berkeley Tech. L.J.* 1255, 1288-1290 (2009). In fact, studies suggest that spending on stronger and broader software patents is *negatively* correlated with spending on R&D. *See* Robert Hunt & James Bessen, *The Software Patent Experiment*, 77(3) *Fed. Res. Bank Phila. Bus. Rev.* 22, 27-29 (2004) (“[T]he negative correlation between increases in firms’ focus on software patents and their R&D intensity in the 1990s suggests that firms may be substituting for R&D with software patents.”); *see also* James Bessen & Robert M. Hunt, *An Empirical Look at Software Patents* 30-33 (Fed. Reserve Bank of Phila. Working Paper No. 03-17, 2004) (reporting the results of a historical study showing that in the 1990s firms increased their patent propensity after subject matter restrictions on software patents were relaxed, and that this increase in spending on patents displaced spending on R&D to such an extent that, assuming perfect substitution, R&D would have been about 10%, or \$16 billion, higher if there had been no increase in software patenting).

History also suggests that patent incentives have had a negligible impact on software development overall. Despite the denial of software patentability in *Benson* and *Flook*, which rejected broad-based abstract claims, or after *Diehr*, which only allowed patentability involving software in a very narrow concrete context, there was a great flourishing in software innovation in the period between *Benson* and *Alappat*. *See* Martin Campbell-Kelly, *From Airline Reservations to Sonic the Hedgehog: A History of the Software Industry* 18-19 tbl.1.2 (2003) (noting that the software industry grew eightfold between 1980 and 1990, with revenues increasing from \$6.1 billion to \$51.3 billion). In addition, surveys of software developers during this period show most were, in fact, *opposed* to patents. *See, e.g.*, Effy Oz, *Acceptable Protection of Software Intellectual Property: A Survey of Software Developers and Lawyers*, 34 *Info. & Mgmt.* 161, 167-170 (1998); Pamela Samuelson et al., *Developments on the Intellectual Property Front*, 35(6) *Comms. of the ACM* 33, 35 (1992); Bessen & Meurer, *Patent Failure*,

*supra*, at 189 (“[S]uch broad opposition from *within* the affected industry and among the affected inventors seems to be unprecedented in U.S. patent history.”). And, despite the fact that software patents have been growing both in absolute terms and as a percentage of all patents granted in recent decades, most software firms still do not patent their software products. James Bessen, *A Generation of Software Patents*, 18 B.U. J. Sci. & Tech. L. 241, 255 (2012). This appears to be even more true for startup firms. *Id.* at 255-56.

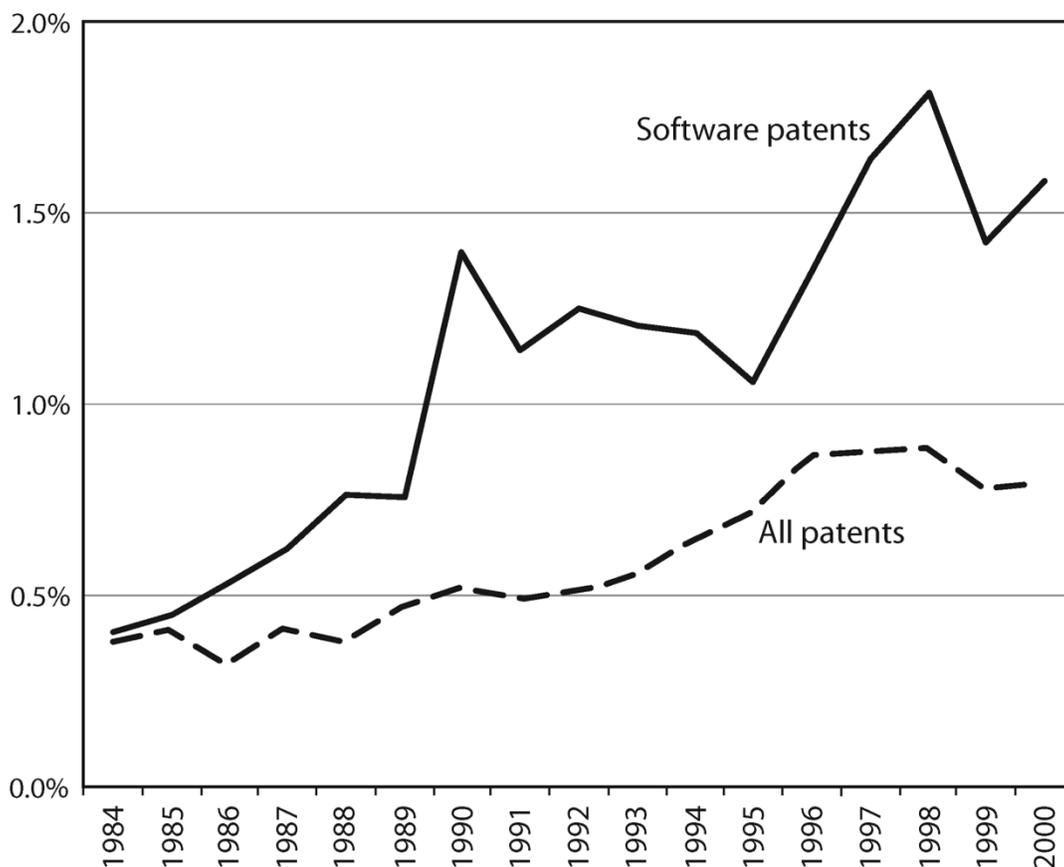
Indeed, practically speaking, it is unlikely that patent rights can spur innovation in software because:

[I]nnovation in the high-tech industry is exceedingly fast, while government bureaucracy is exceedingly slow. Computing power doubles roughly every two years, but it generally takes three to four years to receive a patent, and even longer to enforce it in court. As a result, patented inventions in the high-tech sector are invariably yesterday’s news.

Brian J. Love, *No: Software Patents Don’t Spur Innovation, but Impede It*, Wall Street Journal, May 12, 2013, at R2.

*B. The Need for Socially Wasteful Defensive Bulwarks Has Primarily Driven Software Patenting Since Alappat and State Street, Rather than the Desire to Protect Investments in R&D or to Promote Competition.*

While there is little evidence that expanded software patent eligibility has spurred innovation, it is increasingly apparent that it has spurred patent litigation. *See* Bessen, *A Generation of Software Patents*, *supra*, at 261 (“[T]he number of lawsuits involving software patents has more than tripled since 1999.”); Bessen & Meurer, *Patent Failure*, *supra*, at 193 (“Software patents issued in more recent years are much more likely to be litigated, not less.”). This increase is not merely in proportion to the growing number of software patents; the probability that any single software patent will result in litigation has also been rising over time, meaning that both defendants and software patentees face a higher risk of litigation and business uncertainty. The chart below demonstrates this:



Probability that a Patent Is in Lawsuit within Four Years of Issue

*Note:* Data adjusted for under-reporting.

Bessen & Meurer, *Patent Failure*, *supra*, at 193, fig.9.2. The increase in software patent litigation is such that the GAO reports that the increase in overall patent litigation is largely attributable to the growth of litigation over software patents. U.S. Gov’t Accountability Office, *supra*, at 14.

Ironically the increase in litigation has led many operating software companies to obtain patents to fend off suits, rather than to file them. *See* Colleen V. Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, 62 *Hastings L.J.* 297, 306-10 (2010) (describing the practice of defensive patenting by high-tech firms as growing rapidly after the late 1990s); Jonathan Masur, *Costly Screens and Patent Examination*, 2 *J. Legal Analysis* 687, 704-14 (2010) (explaining how patents with high private value—defined as the value of a patent as a tool for initiating or deterring litigation—often fail to generate socially beneficial research); Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 *U. Pa. L. Rev.* 1, 26 (2005) (discussing how patents can be more valuable to companies in aggregate as a defensive portfolio than individually as reward mechanisms). In this context, patents no longer function to reward innovation: they are merely an added cost of doing business, an insurance policy against litigation as opposed to a reward for productive R&D. For larger firms this practice of amassing stockpiles of broad patents has amounted to a Cold War-era arms race that produces costly deterrence through an implied threat of mutually assured destruction through litigation. *See generally* Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, *supra*, at 333-34; Colleen V. Chien, *Race to the Bottom*, 51 *Intell. Asset Mgmt. Mag.* 10 (2012). These costs of this practice are incurred on multiple levels: first, the cost to firm and their shareholders of acquiring the defensive patent; second, the cost of defending against a software patent lawsuit; and third, the cost to society that occurs when innovation is chilled or firms are deterred from entering a market. Some large technology companies have devoted billions of dollars to building their patent portfolios, spending more on strategic patent acquisitions than on overall R&D. *See, e.g.*, Steven Church, Tim Culpan & Devin Banerjee, *Apple Joins Microsoft, RIM in \$4.5 Billion Buy of Nortel Patents*, *Bloomberg* (July 1, 2011, 12:18 PM), <http://bloom.bg/1aLJegC>; James Kendrick, *Google Buys Motorola Mobility and Its Patent Portfolio for \$12.5 Billion*, *ZDNet* (Aug. 15, 2011 5:27 PM), <http://zd.net/1iE21KY>.

*C. The Explosion of Patent Assertion Entity Activity  
Has Aggravated the Costs of Abstract Software Claims.*

A significant contributor to the rise in software patent litigation is the rise of patent assertion entities (PAEs).<sup>2</sup> PAEs are firms that obtain patents without intent

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<sup>2</sup> Patent assertion entities are sometimes called non-practicing entities (NPEs) or patent trolls, though in the cited studies both refer to the same type of firm.

to support or develop new products; instead, their business model is based on threatening costly litigation against practicing firms to extract settlements and licensing fees. Exec. Office of the President, *Patent Assertion and U.S. Innovation* 1 (2013), <http://1.usa.gov/1oExPD1>. The fact that PAEs do not actually use the patents they own outside of litigation effectively immunizes them from counter-claiming and the defensive patent strategies discussed above. *Id.* at 4. In 2013 the White House released a report by the President's Council of Economic Advisers, the National Economic Council, and the Office of Science & Technology Policy that concluded on the basis of an extensive review of empirical studies that PAEs have had an overall negative impact on innovation and economic growth. *Id.* at 2.<sup>3</sup> A recent study further suggests that the burden imposed by PAEs is disproportionately borne by small and medium sized firms who are more likely to be threatened with litigation by PAEs than large firms. James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 Cornell L. Rev. 387, 398-99 (2014) (reporting survey results that firms with less than \$1 billion in annual revenues made up 90% of the sampled defendants in PAE lawsuits between 2005-2011, and firms with less than \$100 million in revenues made up 82% of all defendants, despite the fact that these small and medium sized firms only made up 44% of the overall survey sample).

PAEs are particularly relevant to the software industry because the bulk of PAE litigation involves software patent claims, which are particularly susceptible to abstraction problems. *See* James Bessen, Jennifer Ford & Michael J. Meurer, *The Private and Social Costs of Patent Trolls*, 34(4) Regulation Mag. 26, 29 (2011-2012) (reporting empirical study findings that 62% of patents litigated by PAEs between 1990 and 2010 were "software patents" and 75% covered "computer and communications technology"); *see also* Brian J. Love, *An Empirical Study of Patent Litigation Timing: Could a Patent Term Reduction Decimate Trolls Without Harming Innovators?*, 161 U. Pa. L. Rev. 1309, 1347 (2013) (finding that roughly 80% of PAE lawsuits were brought to enforce claims

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<sup>3</sup> As a general matter PAEs follow three different strategic approaches when extracting rents: 1) a "lottery ticket" model where PAEs acquire broad, abstract patents in the hopes of obtaining outsized jury awards, 2) a "bottom-feeder" model where the PAEs actually avoid litigation, relying instead on the general high cost of patent litigation to obtain many small settlement agreements, or 3) building massive portfolios of patents to extort licensing fees from practicing firms. *See* Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 Colum. L. Rev. 2117, 2126-28 (2013). The latter two strategies are much less likely to result in litigation than the lottery ticket model, so PAEs in such cases have little incentive to care about the quality of the patents they obtain. *Id.*

with high-tech subject matter, 65% of which were software-related claims); U.S. Gov't Accountability Office, *supra*, at 22 (“Specifically, about 84 percent of [PAE] lawsuits from 2007 to 2011 involved software-related patents, while about 35 percent of operating company lawsuits did.”). PAE activity has increased so rapidly that in 2012 over half of all patent litigation cases could be attributed to PAEs. Exec. Office of the President, *supra*, at 5. It is estimated that companies spent approximately \$29 billion annually in dealing with these lawsuits. *See* Bessen & Meurer, *The Direct Costs from NPE Disputes*, *supra*, at 389. Apple, Samsung, HP, AT&T, Dell, Google, and Amazon.com were each sued by PAEs thirty or more times in 2013 alone. *Most Pursued Companies*, PatentFreedom, <http://bit.ly/M5egUQ> (last visited Feb. 23, 2014).

*D. A Robust Application of § 101’s Abstract Idea Prohibition Restores the Balance that Alappat and State Street Disrupted.*

This Court has stated repeatedly that the prohibition on the patenting of abstract ideas is central to maintaining a proper balance in the patent system. *Mayo*, 132 S. Ct. at 1301 (“The Court has repeatedly emphasized . . . a concern that patent law not inhibit further discovery by improperly tying up the future use of laws of nature.”); *Benson*, 409 U.S. at 67 (“Phenomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work.”). The Court has an opportunity to return patent law to the course it established in *Benson*, *Flook*, and *Diehr* and further reaffirmed in *Bilski* and *Mayo* by ensuring that § 101 provides a robust gatekeeping function to prohibit abstract software claims, including those whose only tether to physical reality is the computer itself or other similar general-purpose technological devices. *Bilski*, 130 S. Ct. at 3230.

Opponents to this Court’s position in *Bilski* and *Mayo* often claim that such holdings harm companies who have spent substantial amounts of money relying on the Federal Circuit’s holdings in *Alappat* and *State Street*. Such claims, however, are misguided. Given the evidence above, the large amount of money invested in software patents has not led to more innovation and sales growth; instead, they have been a part of the costly practice of building defensive patent portfolios to stave off litigation and have even come back to penalize software firms through greater PAE activity. A robust § 101 gatekeeper would mitigate these costs and free software firms’ capital from defensive patent stockpiling, making it available for productive and innovative R&D. This would further diminish the problem of patent thickets (discussed *infra*, §II(C)), ultimately increasing competition in the software industry and lowering cost of entry for innovative new startup companies.

See Iain M. Cockburn & Megan J. MacGarvie, *Entry and Patenting in the Software Industry*, 57 *Mgmt. Sci.* 915, 926-29 (2011).

## II

### SECTION 101 ENSURES THE PATENT SYSTEM OPERATES AS AN EFFICIENT PROPERTY RIGHTS SYSTEM.

In addition to skewing incentives and increasing socially wasteful spending, abstract software patents have undermined the patent system's ability to function as an efficient property rights system because they (1) fail to define clear metes and bounds for claims, (2) fail to provide effective public notice to avoid inadvertent infringement, and (3) contribute to troublesome patent thickets.

#### A. *Abstract Software Patents Fail to Define Clear Metes and Bounds.*

Unlike the physical landscape, the “patentscape” lacks unique and recognizable geological features to serve as common points of reference when describing the shape and size of an entitlement. The metes and bounds of a patent must, therefore, be interpreted by mapping the words in a claim to a range of technologies that are sufficiently analogous to the invention actually possessed by the inventor. An abstract claim, however, fails to provide these metes and bounds, though not because it is too broad, but because it “claims technologies unknown to the inventor.” Bessen & Meurer, *Patent Failure*, *supra*, at 199. When an activity is described in an abstract manner—e.g. “the art of cutting ice by means of any power other than human power,” *Wyeth v. Stone*, 30 F. Cas. 723, 727 (C.C.D. Mass. 1840)—the limits of the claim cease to be cognizable as some range of extant technologies. Thus, although the ice-cutter's patent was granted in the 1840s, there is no sensible mode of interpreting the boundaries of the claim that wouldn't extend to ice-cutting by laser, robot, or genetically modified polar bear. As Justice Story argued, “No man can have a right to cut ice by all means or methods, or by all or any sort of apparatus, although he is not the inventor of any or all of such means, methods, or apparatus.” *Id.*

Biological or chemical inventions will, at the very least, have a unique formula or compound molecule to serve as a point of reference. Software, on the other hand, may be capable only of functional, result-oriented definitions—e.g. cutting ice—which are amenable to broad interpretations that transcend the actual technologies originally known to the inventor. See generally Mark A. Lemley, *Software Patents and the Return of Functional Claiming*, 2013 *Wis. L. Rev.* 905. Three examples, each litigated after *Alappat*, illustrate this interpretive ease. U.S. patent No. 4,528,643, commonly known as “the Freeny patent,” was granted for a vending machine that produced digital music tapes in stores, but the claim was

cunningly drafted to be extremely comprehensive: a “system for reproducing information in material objects at a point of sale location.” Freeny filed his application well before the advent of personal computers, e-commerce, and portable media players. Nonetheless, the company that came to hold the patent, E-DATA, alleged that purchasing, downloading, and transferring music from home computers onto media players or CD-ROMs were all within the patent’s scope. *See Interactive Gift Express, Inc. v. Compuserve Inc.*, 256 F. 3d 1323 (Fed. Cir. 2001). Similarly Wang Labs developed and patented an early operating system whose graphical user interface displayed information in “frames.” Wang sued Netscape and America Online because these services also displayed information inside of “frames,” a feature those programs share with almost all modern user interfaces. *Wang Labs., Inc. v. Am. Online, Inc.*, 197 F.3d 1377 (Fed. Cir. 1999). Finally, in 2003, a Patent Assertion Entity, Pinpoint, sued Amazon alleging that by recommending books to users, Amazon had infringed a patent on “systems recommending TV programs to viewers based on past choices.” *Pinpoint, Inc. v. Amazon.com, Inc.*, 369 F. Supp. 2d 995 (N.D. Ill. 2005).

Such abstract claims as “displaying data in frames,” “recommending media based on past choices,” “reproducing information in material objects at a point of sale,” or, as in the present case, using “a third party . . . to eliminate ‘counterparty’ or ‘settlement’ risk,” simply cannot be reliably construed to define a reasonable area of covered technology. *See Wang*, 197 F.3d at 1379; *Interactive Gift*, 256 F. 3d at 1323; *Pinpoint*, 369 F. Supp. 2d at 995. *Cf. CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269, 1274 (Fed. Cir. 2013). A general counsel at a technology startup would be hard-pressed to describe any concrete bounds or permissible follow-on innovations to her fellow engineers in the face of such claims. Any software that resulted in a similar functional result could be construed as infringing, and any investment in the commercialization of those technologies could inevitably carry liabilities, risks, and costs whose magnitudes are impossible to predict in advance. Thus, the property system that ostensibly exists to assure investors that long-term rents are secure does the very opposite, casting a pall of uncertainty over the viability of any commercial product that happens to be adjacent to a lurking abstract claim.

#### *B. Abstract Software Patents Fail to Provide Effective Public Notice.*

Like metes and bounds, notice is also a concept the patent system borrows from traditional property law. Bessen & Meurer, *Patent Failure*, *supra*, at 206-207. The concepts are linked in so much as uncertainty surrounding borders often makes it impossible for citizens to be *on notice* and effectively plan their behavior with regards to navigating those borders or developing the immediately adjacent

properties. Under patent law a citizen may fail to have notice of a claim not merely because the borders of the claim were difficult to discern, but because the claim as a whole was never imagined to be the stuff of patents. Such is the plight of a technology firm's general counsel who belatedly discovers that there are abstract claims that actually apply to longstanding industry conventions, "the basic tools of scientific and technological work." *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972). This was surely the rude awakening suffered by counsel at Netscape and America Online when their companies were accused of infringing a decade-old patent on "displaying information in frames," despite the ubiquitous and unlicensed use of "frames"—windows or boxes—in software design. *Wang*, 197 F.3d at 1381. When sizable investments in product design, manufacture, and marketing are made well before notice of a relevant abstract patent arrives, the inadvertently infringing manufacturer is in an extremely weak negotiating position. The patent holder can seek exorbitant royalties under credible threat of shutting down the manufacturer and rendering their prior efforts into fruitless sunk costs. See Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, in 1 *Innovation Policy and the Economy* 119, 125 (Adam B. Jaffe et al. eds., 2001).

Of course, one might argue that the job of a general counsel is to stay *on notice*, and so we may feel little pity for her failures. Perhaps she should have spent more time searching patent databases or monitoring the Patent & Trademark Office's (PTO) weekly publications for relevant claims. However these searches have costs, and if these search costs are too onerous, productive activity will quickly cease. The costs of staying on notice in the software patent system are very large because of the staggering number of patents to discover and read. See Bessen & Meurer, *Patent Failure*, *supra*, at 213 ("David M. Martin has estimated that 'if you're selling online, at the most recent count there are 4,319 patents you could be violating. If you also planned to advertise, receive payments for or plan shipments of your goods, you would need to be concerned with approximately 11,000.'). Further, the cost in work hours of running the search can be extremely high. See *id.* ("One software executive estimates that checking clearance costs about \$5,000 per patent."); Christina Mulligan & Timothy B. Lee, *Scaling the Patent System*, 68 N.Y.U. Ann. Surv. Am. L. 289, 311-12 (2012) ("The more abstract an invention is, the more different parties are likely to use it for different purposes, and the more flexibility parties will have to describe it. All of these factors mean that more abstract patents will produce particularly high discovery costs."). If 11,000 patents need be searched to engage in e-commerce while remaining on notice, and each patent will require a \$5,000 investment in time and resources, then the careful software startup will be spending fifty-five million dollars in capital before they can even begin to operate. Good news for lawyers, perhaps, though certainly not

for in-house counsel, engineers, and others who depend on notice to ensure freedom to operate and innovate in new technologies.

Strategic PAE behavior also significantly increases the costs of staying on notice. Normally, even if one could not identify patent risks from searching for relevant claim language, one might search the patent holdings of known competitors to steer clear of potential infringement. However, PAEs are by definition non-competing entities and often assign their patents to shell companies and subsidiaries making an essential component of notice—*who owns what*—difficult to ascertain. For example the PAE Intellectual Ventures distributes its 25,000-50,000-deep patent portfolio among as many as 1,100 shell companies. Avancept, *A Study of: The Intellectual Ventures Portfolio in the United States: Patents & Applications* 6 (2d ed. 2010); see also Tom Ewing & Robin Feldman, *The Giants Among Us*, 2012 Stan. Tech. L. Rev. 1, ¶¶ 21, 23, <http://stanford.io/1jMBvPn>. Similar behavior is widely reported across the PAE industry. See generally Colleen V. Chien, *The Who Owns What Problem in Patent Law* 3 (Santa Clara Univ. Legal Studies Research Paper No. 03-12, 2012). Obscured ownership allows PAEs to maintain an element of surprise, revealing the patent only after substantial investments have been made in the commercialization of an infringing technology. *Id.* While abstract patent claims are not the sole source of these strategic behaviors, they match obscure ownership with ambiguous claims yielding more effective ammunition for a patent ambush.

The strategic filing of continuation claims on pending abstract patents also undermines the patent system's notice function. Through continuation filings, patents can unfold gradually into an extended "family" of interrelated claims because patent applicants perpetually retain the right to abandon an application and restart the process, as well as the right to seek additional broader claims arising from the same application. Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuances*, 84 B.U. L. Rev. 63, 64 (2004). This allows patents to linger in the PTO, lying in wait for new companies and technologies to emerge as potential defendants. For example, patents accompanied by continuation filings average 4.16 years before issuance as compared with solitary applications, which average 1.96 years. *Id.* at 71. This behavior is quite prevalent: 23% of all patent applications contain continuances and 52% of all litigated patents had applications with continuances. *Id.* at 70. While the overall problem of continuances is beyond the scope of the question presented in this case, it is relevant to consider, given that the most litigated patents tend to be software patents owned by PAEs, see John R. Allison, Mark A. Lemley & Joshua Walker, *Extreme Value or Trolls on Top? The Characteristics of the Most-Litigated Patents*, 158 U. Pa. L. Rev. 1, 29-31 (2009),

and that these highly litigated patents take greatest advantage of continuations, *see* Michael Risch, *Patent Troll Myths*, 42 Seton Hall L. Rev. 457, 479 (2012) (finding an average of four continuations per patent in a sample of the most litigated patents). Thus, a robust § 101 gatekeeper would provide a considerable check on such practices and the notice problems they create with respect to abstract software continuation claims.

*C. Abstract Software Patents Contribute to Troublesome Patent Thickets.*

When qualitative patent problems—boundary and notice—couple with the quantitative flood of abstract software patents, the result is a patent system so extensively partitioned and overlaid with exclusive rights that it stifles the very progress it is designed to promote. As a complicating factor, software innovation regularly relies on assembling smaller complementary innovations into cumulative products. The Internet browsers challenged by the Wang patent exhibited data in “frames” as one of many components in a larger and complex way of displaying web pages. When a single product can potentially infringe thousands of patents, the expense of negotiating a license for each claim can become cost-prohibitive. Being an essential part of a whole, any single rights holder may choose to hold-out for the full value of the cumulative invention. *See* Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 1994-98 (2007). Add to this the problem of abstraction, and the task of identifying all relevant rights and negotiating all appropriate licenses for each new version of every software product one sells becomes nearly impossible.

Scholars refer to the problem of overlapping rights as a patent thicket. *See generally* Bronwyn H. Hall et al., *A Study of Patent Thickets*, Report for the UK Intellectual Property Office (Oct. 2012), *available at* <http://bit.ly/N6hAQ>; Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, *supra*. Patent thickets occur in other complex technologies and a number of public and private policies can ameliorate their effects. But patents on abstract ideas exacerbate the effects of patent thickets. Even the conscientious inventor determined to push through a software thicket is likely to miss at least some abstract patents, especially if all patentees must do to qualify under § 101 is tether the abstract idea to a general-purpose computer or some other ubiquitous physical device. *See* Christopher A. Cotropia & Mark A. Lemley, *Copying in Patent Law*, 87 N.C. L. Rev. 1421, 1424 (2009) (finding that less 3% of patent litigation in the computer and software industries allege copying—i.e. 97% of cases involve allegations of innocent infringement). Unavoidable inadvertent infringement burdens innovators with unnecessary transaction costs, subverting the rule of law and the intent of the patent system. As Thomas Hobbes urged, “the use

of laws is . . . as hedges are set, not to stop travellers, but to keep them in the way. . . . Unnecessary laws are not good laws, but traps for money.” Thomas Hobbes, *Leviathan* 252 (A. R. Waller ed. 1904).<sup>4</sup>

### III

#### SECTIONS 102, 103, AND 112 ARE NOT REPLACEMENTS FOR THE ROLE OF § 101.

Some commentators, including the Federal Circuit, have made a case for allowing “substantive conditions of patentability”—§ 102 (novelty), § 103 (nonobviousness), and § 112 (written description, enablement, and best mode)—to resolve the issue of systematically overbroad abstract software patents. *See, e.g., MySpace, Inc. v. GraphOn Corp.*, 672 F.3d 1250, 1260 (Fed. Cir. 2012). However, properly construed, § 101 serves a unique and distinct role from §§ 102, 103, and 112 and in many cases, a more appropriate one for addressing the incentive, boundary, notice, and thicket problems discussed above.

#### A. *Sections 102, 103, 112 are Uniquely Ill-Suited to Correct Notice Problems in Software Patents.*

In the context of software patents, §§ 102, 103, and 112 suffer from severe systemic challenges, including being ill-suited to reduce notice uncertainty and resulting in excessive litigation costs. *See* Brian J. Love, *Why Patentable Subject Matter Matters for Software*, 81 *Geo. Wash. L. Rev. Arguendo* 1, 6-10 (2012). For instance, in order to properly evaluate §§ 102 and 103, claims must already have sufficiently clear metes and bounds by which to compare the scope of the claims against the prior art. Thus to function properly, §§ 102 and 103 rely on a robust § 101 to filter out abstract claims as a threshold matter.

Even when the scope of the claims is manageable the PTO has historically found it challenging to search for prior art within the software arts under §§102 and 103. *See* Mark A. Lemley & Bhaven Sampat, *Examiner Characteristics and*

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<sup>4</sup> Parenthetically, it is worth noting that more than efficiency is at stake when an overabundance of law fails to generate notice. Erratic enforcement and recondite doctrine prevent ordinary citizens from reliably planning their lives over the long term. The rule of law demands that citizens be treated as autonomous agents, capable of understanding rules and modifying their behavior voluntarily. Expediently coercing human behavior without first allowing for self-correction violates underlying principles of human dignity. Rational agents, citizens, are treated as cattle to be herded or horses to be broken. *See generally* Jeremy Waldron, *How Law Protects Dignity*, 71 *Cambridge L.J.* 200 (2012). A patent law that allows abstract claims destroys notice of essential legal commands; it treats society’s brightest as valuable victims for the traps set by overzealous patentees and sophisticated, unscrupulous lawyers.

*Patent Office Outcomes*, 94 Rev. Econ. & Stat. 817, 817-18 (2012). For one thing, PTO searches for prior art are generally limited to U.S. and foreign registered patent databases and commercial databases. Sean Tu, *Luck/Unluck of the Draw: An Empirical Study of Examiner Allowance Rates*, 2012 Stan. Tech. L. Rev. 10, ¶ 14, <http://stanford.io/1h1YRjw>. There is good reason to believe that much software prior art is never formally published anywhere, let alone in a patent application, meaning software prior art would not reveal itself in any search. Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 Berkeley Tech. L.J. 577, 589 (1999); see also Iain M. Cockburn & Megan J. MacGarvie, *Patents, Thickets and the Financing of Early-Stage Firms: Evidence from the Software Industry*, 18 J. Econ. & Mgmt. Strategy 729, 731-732 (2009). Lack of publication is also due to the amount of software innovation done outside of established research communities by parties who do not ordinarily make use of the patent system. See Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 Calif. L. Rev. 1, 42 (2001). Innovations in unconventional fields are not necessarily described in published journals, but rather, exist in actual business methods or the source code of products that are available to consumers. See *id.* at 13; see also Bessen & Meurer, *Patent Failure*, *supra*, at 212-213 (“The general purpose nature of software technology—again, because the technology is abstract, similar techniques can be used in a wide range of applications—means that techniques known in one realm might be applied in another, yet the documentary evidence that the Federal Circuit requires for a demonstration of obviousness might not be published.”).

Even when software prior art *has* been published, it is difficult to search for and locate. The PTO itself lacks the resources or expertise to keep up with new prior art. See Note, *Estopping the Madness at the PTO: Improving Patent Administration Through Prosecution History Estoppel*, 116 Harv. L. Rev. 2164, 2171 (2003). Where software has been patented, the PTO’s classification system has not historically been well-equipped to handle it. Cohen & Lemley, *supra*, at 13. Software innovations are difficult to describe and there is no standardized language for describing them that is known to all interested parties. As a result, performing a search for the words “software” or “computer” could turn up thousands of existing patents but still be missing thousands more that are relevant. Evidence, thus, shows that the PTO routinely issues software patents that overlook prior art. Merges, *supra*, at 589.

Section 112 also suffers from inadequacies as applied to software because the disclosure requirements for software inventions have proven exceptionally lax

and permit extremely broad claiming. This makes it almost impossible to invalidate a software patent claim on disclosure grounds, as general functional descriptions are considered adequate. Bessen & Meurer, *Patent Failure*, *supra*, at 210. Software “inventors” can, therefore, obtain claims so broad that they effectively patent the problem, rather than the solution. *See* Lemley, *Software Patents and the Return of Functional Claiming*, *supra*, at 928-36 (discussing how software patents manage to skirt the limits imposed on functional claiming).

*B. Sections 102, 103, and 112 Generate  
Greater Litigation Costs than § 101.*

The substantive conditions of patentability in §§ 102, 103, and 112 also have much greater litigation costs than § 101. While §§ 102 and 103 *require* the court to undertake claim construction as a predicate to conducting an invalidity analysis, § 101 generally does not require time-intensive claim construction to determine abstractness. *See, e.g., Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335, 1339 (Fed. Cir. 2013) (“[C]laim construction may not always be necessary for a § 101 analysis.”); *Bancorp Servs., L.L.C. v. Sun Life Assur. Co. of Can. (U.S.)*, 687 F.3d 1266, 1273 (Fed. Cir. 2012) (“[W]e perceive no flaw in the notion that claim construction is not an inviolable prerequisite to a validity determination under § 101.”). In fact, this Court has never required claim construction as a predicate for any of its § 101 opinions. *See, e.g., Bilski v. Kappos*, 130 S. Ct. 3218, 3222 (2010) (holding the patent to be ineligible on subject-matter grounds without claim construction). Moreover, an analysis under § 101 is less likely to involve factual determinations, which would result in less discovery and a shorter timeframe for summary judgment.

District courts would also be well served by a strong, clear § 101. District courts have wide latitude in the order in which they decide issues, and providing clear guidance on deciding cases under § 101 would allow lower courts to address this issue and decide cases more quickly. *See CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269, 1284 (Fed. Cir. 2013) (“District courts are rightly entrusted with great discretion to control their dockets and the conduct of proceedings before them, including the order of issues presented during litigation”). As it stands, the perception that § 101 lacks clarity hinders the broad use of this mechanism in litigation. *See MySpace*, 672 F.3d at 1260 (holding that courts may require litigants to address a patent’s validity under §§ 102, 103, and 112 before reaching § 101, because doing so would avoid “the murky morass that is § 101 jurisprudence”); Love, *Why Patentable Subject Matter Matters for Software*, *supra*, at 4.

### CONCLUSION

Section 101 serves an essential role in our patent system. It works to ensure the proper administration of property rights by balancing incentives for innovation and providing adequate notice while maintaining public access to the ideas necessary for competition. This Court has long been familiar with the corrosive effects of poorly designed intellectual property systems that “embaras[s] the honest pursuit of business with fears and apprehensions of concealed liens and unknown liabilities to lawsuits and vexatious accountings for profits made in good faith.” *Atl. Works v. Brady*, 107 U.S. 192, 200 (1883). This case presents an opportunity to reaffirm the innovator’s faith in a patent system that grants appropriate reward without abstract encumbrance. Accordingly, this Court should affirm the invalidity of the patent claims at issue here and further hold that abstract ideas in the form of software are unpatentable and that mere computer implementation of those ideas does not create patentability.

**INTEREST OF *AMICI CURIAE***

Amici are professors and scholars who teach and write on legal and economic issues and are concerned about the role of patent law in promoting technological innovation. They are Timothy K. Armstrong, James E. Bessen, Michele Boldrin, Irene Calboli, Brian W. Carver, Ralph D. Clifford, Wesley M. Cohen, Eric Goldman, Brad A. Greenberg, Bronwyn H. Hall, Christian Helmers, Karim R. Lakhani, David K. Levine, Brian Love, Eric S. Maskin, Michael J. Meurer, Shawn P. Miller, Connie Davis Nichols, Tyler T. Ochoa, Jorge R. Roig, Matthew Sag, F. M. Scherer, Jason M. Schultz, Katherine J. Strandberg, Alexander Tabarrok, and Eric Von Hippel. Various amici have taught, researched, and published analyses on the role of patent law as an incentive to inventors and entrepreneurs. A summary of the qualifications and affiliations of the individual amici is provided at the end of this brief, though it should be noted that amici file this brief solely as individuals and not on behalf of the institutions with which they are affiliated. Amici represent neither party in this action and offer the following views on this matter.<sup>5</sup>

**APPENDIX**Amici Curiae Signatories<sup>6</sup>Timothy K. Armstrong

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<sup>5</sup> In accordance with S. Ct. R. 37.3(a), all parties have consented to the filing of this brief. The Petitioner and Respondents have filed consent letters with the Clerk. Pursuant to S. Ct. R. 37.6, counsel for Amici state that no counsel for a party authored this brief in whole or in part, and no person or entity other than Amici or their counsel made a monetary contribution to the preparation or submission of this brief.

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